

STRATEGIC PLAN

Serving the Congress and the Nation

2010-2015



United States Government Accountability Office

GAO-10-559SP

STRATEGIC PLAN
2010-2015

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This document was reissued on August 16, 2010, to correct typographical errors on pages iii, 20, 27, 104, and 110. The printed version of this document incorporates these changes.

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ABBREVIATIONS

BOP	Bureau of Prisons (federal)	FDIC	Federal Deposit Insurance Corporation
CBO	Congressional Budget Office	FEMA	Federal Emergency Management Agency
CDC	Centers for Disease Control and Prevention	FHFA	Federal Housing Finance Agency
Census	U.S. Census Bureau	FHA	Federal Housing Administration
CHIP	Children’s Health Insurance Program	GDP	gross domestic product
CMS	Centers for Medicare & Medicaid Services	GED	General Equivalency Diploma
Commerce	Department of Commerce	Ginnie Mae	Government National Mortgage Association
CPSC	Consumer Product Safety Commission	GPRA	Government Performance and Results Act of 1993
CPSIA	Consumer Product Safety Improvement Act	GSE	government-sponsored enterprise
DHS	Department of Homeland Security	HI	Medicare’s Hospital Insurance
DOD	Department of Defense	HUD	Department of Housing and Urban Development
DOE	Department of Energy	HHS	Department of Health and Human Services
DOJ	Department of Justice	HSPD-12	Homeland Security Presidential Directive-12
EPA	Environmental Protection Agency	IFPTE	International Federation of Professional and Technical Engineers
ESEA	Elementary and Secondary Education Act	IMF	International Monetary Fund
FBI	Federal Bureau of Investigation		
FDA	Food and Drug Administration		

INTOSAI	International Organization of Supreme Audit Institutions	SNAP	Supplemental Nutrition Assistance Program (formerly called the Food Stamp Program)
IRS	Internal Revenue Service	SSN	Social Security number
IT	information technology	State	Department of State
K-12	kindergarten through 12th grade	STEM	Science, Technology, Engineering, and Mathematics
Labor	Department of Labor	TARP	Troubled Asset Relief Program
NASA	National Aeronautics and Space Administration	Treasury	Department of the Treasury
NATO	North Atlantic Treaty Organization	TSA	Transportation Security Administration
NNSA	National Nuclear Security Administration	UN	United Nations
OECD	Organisation for Economic Co-operation and Development	USAID	U.S. Agency for International Development
OJJDP	Office of Juvenile Justice and Delinquency Prevention	USDA	U.S. Department of Agriculture
Recovery Act	American Recovery and Reinvestment Act of 2009	USPS	U.S. Postal Service
PBGC	Pension Benefit Guaranty Corporation	VA	Department of Veterans Affairs
pre-K	pre-Kindergarten	WIA	Workforce Investment Act
Pub. L.	Public Law		
R&D	research and development		
SBA	Small Business Administration		

LETTER FROM THE ACTING COMPTROLLER GENERAL

July 2010

I am pleased to present GAO's strategic plan for serving the Congress for fiscal years 2010 through 2015. In keeping with our commitment to update our plan every 3 years, it describes our proposed goals and strategies for supporting the Congress and the nation as the United States undergoes a period of change, daunting challenges, and promising opportunities.

We have identified eight trends that provide context for our plan:

- evolving security threats;
- urgent fiscal sustainability and debt challenges;
- economic recovery and restored job growth;
- changing dynamics of global interdependence and shifts in power;
- advances in science, technology, engineering, and mathematics;
- increasing impact of networks and virtualization;
- shifting roles in government and governance; and
- demographic and societal changes confronting the young and old.

Since we issued our last plan, significant changes have affected our nation's commitments and fiscal outlook. Our nation has multiple wartime-related commitments as it winds down one war in Iraq, increases its presence in another in Afghanistan, and re-examines commitments in Pakistan. The global financial crisis emerged as a new national security threat as it destabilized economies around the world. Our nation faced the deepest recession since the Great Depression, with unemployment exceeding 9 percent and economists forecasting that recovery could be both slow and fragile.

To meet the economic challenges over the next 6 years, the federal government must also address the nation's long-term fiscal outlook—which shows escalating debt, even after economic recovery. Our most recent long-term simulations for all federal government programs show that by 2020, absent policy changes, debt held by the public as a percentage of gross domestic product could exceed the historical high of 109 percent reached in the aftermath of World War II. The long-term fiscal outlook is unsustainable, given existing federal commitments and the challenges of caring for an aging population and increasing health care costs. Absent a change in policy, our simulations show that the interest costs on the growing debt plus spending on major entitlement programs could absorb 93 cents of every dollar of federal revenue in 2020. New federal commitments, to stabilize the financial system and to avert a prolonged recession through a massive fiscal stimulus, have added to the annual federal deficit, which totaled \$1.4 trillion for fiscal year 2009. Finding ways

to reduce spending and generate revenues will be necessary and will involve difficult choices related to social, economic, and generational equity. Our economic security will rest on our ability to acquire financing in a global market where other countries have also issued an unprecedented amount of government debt and are also seeking additional financing. Any added costs the federal government has in issuing and financing its debt will pose additional constraints on spending and the federal government's capacity to deliver programs and services. Although state and local governments have been helped by funds from the American Recovery and Reinvestment Act of 2009, the fiscal challenges of many governments will linger, in part due to health care costs, an eroded revenue base, pension commitments, and an aging population.

Many of our nation's safety and security, economic, social, and environmental challenges will require working with other countries to develop effective and sustainable solutions. Achieving global consensus on issues even where there is broad agreement is difficult. Our economic recovery will depend on building a stronger, more energy-independent economic base and increasing U.S. competitiveness. However, as the global population grows, we face issues such as the sustainability of our planet's natural resources to meet demands and keen competition for resources in global markets. This is especially true given the growth and urbanization of India and particularly China—which is projected to soon replace Japan as the world's second-largest economy. Together, China and India account for nearly 37 percent of the world's population. As national borders blur, U.S. tax policies and regulatory efforts—ranging from modernizing the outdated financial regulatory structure to protecting consumers and food and drug safety—may have potentially unintended consequences if they do not adequately consider global connections and implications. Monitoring and evaluating the U.S. position, relative to other nations, in areas such as health care, education, and infrastructure are important, as multinational corporations have a growing influence in the global economy and seek locations and talent that will maximize their profits and best position them to gain access to emerging markets.

Scientific and technological advances will continue to offer revolutionary possibilities for improving our nation's quality of life, including the potential for renewable and sustainable resources, improved national security, and productivity gains and economic growth. Yet these opportunities come with challenges, such as ensuring cybersecurity and citizens' privacy, providing a proper ethical framework for our use of biotech and biomedical advances, and ensuring that materials made by new technologies are safe. Aided by technological advances in computing, digital communications, and virtualization, the world is linked in new and rapidly evolving ways. These advances are transforming industries and organizations and are radically changing how we work, learn, communicate, and collaborate. Organizations must be able to do more with less, deliver programs and services in radically different ways, and reach out to target groups and larger audiences at minimal cost.

Citizens expect government to be more responsive, timely, coordinated, transparent, and accountable. The nature of governance is changing as lines between the public, private, and nonprofit sectors shift. The U.S. government now holds ownership stakes in banks, financial

firms, the insurance firm AIG, and automobile manufacturers. The federal government relies on the states and nongovernmental organizations to deliver programs and services. Similarly, the lines between military and civilian entities are shifting as the military is being called upon to assist in emergency response domestically and nation building abroad. Increased outsourcing to contractors and grants to states and localities for program and service delivery have given rise to concern about outsourcing important governmental functions and diminishing the government's ability to effectively oversee program and service delivery and to prevent fraud, waste, and abuse. Facing constraints on capacity and budgets, the federal government will need to identify innovative ways to partner with the private sector and other governmental and nongovernmental organizations.

Over the period of this strategic plan, GAO seeks not only to help position the government to better manage risks that could compromise the nation's security, health, and solvency, but also to identify opportunities for managing resources wisely for a more sustainable future. The world still looks to the United States for leadership, security, economic growth, and innovation. The window to avert a major fiscal crisis is still open, and it will be critical that serious and sustained attention is focused on doing so. Although our nation's workforce is aging—as is the workforce in other developed countries—the number of workers available to support retirees is projected to be greater than other developed countries, in part because of a combination of higher U.S. fertility rates and net immigration. The U.S. economy, fortunately, is dynamic and remains able to adapt rapidly to changing conditions and new opportunities. Our nation's increasingly diverse population can help us compete in a globally interdependent world.

GAO stands ready to serve the Congress and the American people at this historically critical juncture. GAO is uniquely positioned to help address our nation's challenges and identify opportunities. Pressures to reduce the federal deficit following an economic recovery will mean a greater need for analyses of programs and their effectiveness, as well as a reduction in improper federal payments and closing the gap between taxes owed and paid. Further, legislation was recently enacted that requires GAO to annually report on its assessment of overlap and duplication among government programs and activities, both within and across federal agencies, as well as opportunities to reduce or eliminate redundancies in order to improve government operations. As this plan goes to print, the Congress is deliberating legislation that would reform the financial regulatory structure and change GAO's current authority to audit the Federal Reserve. If enacted into law, we will make adjustments in our plan where appropriate.

Our long-standing focus on high-risk programs and activities also identifies for policymakers the agencies and programs that require priority attention. Our dedicated and multidisciplinary staff has substantive agency and program expertise, as well as expertise in conducting financial and performance audits, program evaluations, policy analyses, and technology assessments. The greater audit and accountability community looks to us for leadership, and our networks with the domestic and international community are more valuable than ever.

To make sure this plan accurately reflects the needs of the Congress and the nation as a whole, we invited comments on a draft from Members of Congress and their staff; our Comptroller General's Advisory Board as well as other GAO advisory entities, which include representatives from the federal Inspector General, state and local government audit communities, and academia; and GAO's sister agencies, the Congressional Budget Office and the Congressional Research Service. We incorporated comments in the plan as appropriate.

The detailed plan that follows provides more information about the specific areas of GAO's work we anticipate—including a description of our strategic goals and objectives, related performance goals, and key efforts. While the vast majority of our engagements are the result of congressional mandates or requests, this planning effort helps ensure GAO is in tune with the Congress' priorities and is able to respond appropriately. See the appendix for other GAO-related information called for in the Government Performance and Results Act of 1993. Visit the strategic plan portion of our Web site at <http://www.gao.gov/sp.html> to find our annual performance plans and performance and accountability reports. Respectively, these documents tie our strategic plan to our resources and actual results.

If you have any questions about our strategic plan, please contact me at (202) 512-5500 or dodarog@gao.gov or contact Helen Hsing, Managing Director for Strategic Planning and External Liaison, at (202) 512-2639 or hsing@gao.gov.

Sincerely yours,



Gene L. Dodaro
Acting Comptroller General
of the United States

GAO AT A GLANCE

ABOUT GAO

GAO is an independent, nonpartisan professional services agency in the legislative branch of the federal government. Commonly known as the audit and investigative arm of the Congress or the “congressional watchdog,” we examine how taxpayer dollars are spent and advise lawmakers and agency heads on ways to make government work better.

ABOUT THIS PLAN

As a legislative branch agency, we are exempt from many laws that apply to the executive branch agencies. However, we generally hold ourselves to the spirit of many of these laws, including the Government Performance and Results Act of 1993 (GPRA). This strategic plan provides what we consider to be information equivalent to that supplied by executive branch agencies in their GPRA-required strategic plans.

GAO HISTORY

The Budget and Accounting Act of 1921 required the President to issue an annual federal budget and established GAO as an independent agency to investigate how federal dollars are spent. In the early years, we mainly audited vouchers, but after World War II we started to perform more comprehensive financial audits that examined the economy and efficiency of government operations. By the 1960s, GAO had begun to perform the type of work we are noted for today—program evaluation—which examines whether government programs are meeting their objectives.

AGENCY HEAD

Gene L. Dodaro, Acting Comptroller General of the United States

CORE VALUES

Our **core values** of accountability, integrity, and reliability are reflected in all of the work we do.

Accountability describes the nature of GAO’s work. GAO helps oversee federal programs and operations to enhance the economy, efficiency, effectiveness, and credibility of the federal government.

Integrity describes the high standards GAO sets for conducting its work. The agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all of its activities.

Reliability describes GAO’s goal for how its work is viewed. The agency produces high-quality reports, testimony, legal opinions, and other services that are timely, accurate, useful, clear, and candid.

EMPLOYEES

About 3,300, with academic degrees in accounting, law, engineering, public and business administration, economics, and the social and physical sciences, among other fields.

PRODUCTS ISSUED

Over 1,000 products annually, in addition to about 300 to 400 legal decisions and opinions.

FINANCIAL BENEFITS

In fiscal year 2009, GAO documented about \$43 billion in financial benefits—a return of \$80 for every dollar we spent. Over the last 4 fiscal years, our return on the Congress’ investment in GAO has ranged from \$83 in fiscal year 2005 to \$114 in fiscal year 2008, a record for us.

NONFINANCIAL BENEFITS

In fiscal year 2009, GAO documented over 1,300 nonfinancial benefits resulting from our recommendations, and 620 of these nonfinancial benefits helped to promote sound agency and governmentwide management.

OFFICES

Washington, D.C. (headquarters), plus 11 field offices.

GAO’s Office Locations



Source: Map Resources.

TRENDS SHAPING THE UNITED STATES AND ITS PLACE IN THE WORLD

For nearly 90 years, GAO has stood at the vanguard of the U.S. government's efforts to ensure government effectiveness and prepare for the future with foresight. This agency continues to pursue and address the nation's most pressing challenges. In November 2008, GAO launched a Web site to facilitate the transition of the federal government to both a new Congress and a new President. This site drew from the agency's past work on a full range of federal programs to single out time-critical issues, major cost-saving opportunities, management challenges across government, and agency-by-agency issues. This in-depth, one-stop resource now has evolved into a permanent service that is regularly refreshed, named High Risk and Other Major Government Challenges portal (<http://www.gao.gov/highrisk/>). Earlier, GAO had also undertaken an effort to identify 21st century challenges, an exercise to revisit and rethink the base of government programs in light of today's needs.¹

Accordingly, in framing GAO's own work over the next several years, GAO's strategic plan takes into account trends that are likely to shape American society, as well as determine the United States' place in the world and the business of the federal government. More broadly, each trend will affect the well-being and security of the American people.

¹GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

Based on a review of external literature, discussions with outside advisors and selected experts, and input from our mission teams, GAO has identified eight key trends to watch:

National security: Threats are evolving, presenting both challenges and opportunities for the federal government to balance and integrate the elements of national power: military, diplomatic, intelligence, development assistance, economic, and law enforcement support. Such balance also necessitates a more strategic approach across a wide range of actors.

Fiscal sustainability: The nation remains on an unsustainable long-term debt and deficit path. While the drivers of the long-term fiscal outlook have not changed, the sense of urgency has increased.

Economic recovery and restored growth: As the nation seeks to sustain a recovery from its worst downturn since the Great Depression, high joblessness and weak real estate markets pose risks.

Global interdependence: Financial and commodity markets are more interconnected, leaving the United States vulnerable to shocks and competition from fast-growing powers such as China.

Scientific and technological advances: Scientific breakthroughs in areas such as nanotechnology, biology, and information technology show considerable promise, but managing them well requires impartial scrutiny.

Virtualization: The growing capacity to connect people and information at any time, anywhere, has taken networking to a new level. The change presents government with some challenges but also with opportunities to break down barriers to collaboration.

Governance: Demands on government are growing and lines of responsibility within the federal government—and across state and private partners—are blurring, highlighting the need for effective coordination.

Demography: Rising poverty and pressing issues among children and young adults join aging and increasing diversity as key societal trends affecting demand for government services.

With each trend, we discuss what we know, as well as what is less certain but will be important to watch. Our strategic goals and objectives reflect how we plan to respond to shifting realities. Further, given the uncertainties associated with these trends, the overall 2010–2015 strategic plan is based on the premise that GAO will need to be more agile to meet demands arising from the inevitable changes that lie ahead. All of these efforts should better enable us

to tackle the complex and interconnected challenges our nation faces—today and tomorrow.

THREATS CONFRONTING U.S. NATIONAL SECURITY INTERESTS

The United States faces a complex domestic and international security environment. In addition to the wars in Afghanistan and Iraq and persistent threats against the homeland, the United States will be required to address pressing security concerns that will necessitate a delicate balancing of military power, international relationships, and foreign policy. Long-standing threats like those posed by extremism; terrorist attacks against U.S. interests at home and abroad; cybersecurity; and the proliferation of chemical, biological, and nuclear weapons will continue to jeopardize the safety of the American people and national interests. These security challenges stand against a backdrop of economic uncertainties exacerbated by the global financial crisis and economic downturn. Further, issues such as energy security and climate change will affect existing national security concerns.

“The inability of many states to police themselves effectively or to work with their neighbors to ensure regional security represents a challenge to the international system. ... If left unchecked, such instability can spread and threaten regions of interest to the United States, our allies, and friends. Insurgent groups and other non-state actors frequently exploit local geographical, political, or social conditions to establish safe havens from which they can operate with impunity.”

—National Defense Strategy, Department of Defense, June 2008²

²Department of Defense, *National Defense Strategy* (Washington, D.C.: June 2008), 2–3, [http://www.defenselink.mil/news/2008 National Defense Strategy.pdf](http://www.defenselink.mil/news/2008%20National%20Defense%20Strategy.pdf).

Instability in Various Regions Compromises U.S. National Security Interests

Instability and lack of security in areas of the Middle East, Central Asia, and Africa provide a fertile environment for terrorists to establish safe havens, leaving U.S. national security interests vulnerable to attack. Although overall incidences of violence in Iraq remain at their lowest levels since 2003, the intelligence community has warned that Iraq's progress will depend on:

- How Arab-Kurd tensions are managed.
- How Sunni Arabs are integrated into the political process.
- How much ability Iraqi Security Forces develop to combat threats against the state.

Other states in the Middle East continue to face challenges, including the activity of Yemen-based al Qaeda in the Arabian Peninsula, which could be a source of regional instability:

- In **Afghanistan**, the security situation has become more dangerous and unstable as the Taliban-dominated insurgency has expanded its scope of operations

and power. Lack of security, along with minimal government involvement, has hindered efforts to improve governance and broaden development in several areas of Afghanistan.

- Compounding the fragile situation in Afghanistan is **Pakistan's** inability to counter safe havens where al Qaeda, Afghan Taliban, and Pakistani militant groups are known to plan operations, direct propaganda, recruit and train terrorists, and raise funds with relative impunity.
- Africa's political and economic conditions continue to erode, and, in some countries, democracy has stalled. In **East Africa**, the intelligence community has assessed that U.S. and local interests will continue to be threatened by al Qaeda and affiliated extremist groups.

Security Issues Stemming from the Global Recession

The global recession and the potentially protracted length of time for full worldwide economic recovery raise the probability of serious damage to U.S. strategic interests. According to the February 2010 *U.S. Intelligence Community Annual Threat*

"... it would not be surprising to see a range of states react to their straitened conditions by reducing their military budgets, withdrawing from some of their overseas commitments, and scaling back their investments of time and energy in multilateral diplomacy. Overcoming this new reticence and the resentment against the United States engendered by the crisis will be critical"

—*Global Strategic Assessment 2009: America's Security Role in a Changing World*, Institute for National Strategic Studies, September 2009³

³Patrick M. Cronin, ed., Institute for National Strategic Studies, *Global Strategic Assessment 2009: America's Security Role in a Changing World* (Washington, D.C.: National Defense University Press, September 2009), 13, http://www.ndu.edu/inss/docUploaded/05-GSA2009_Chpt%201.pdf.



Assessment, although unprecedented policy responses to the global recession by governments and central banks laid the foundation for global recovery, any missteps in stimulus-withdrawal strategies could hinder recovery efforts. In areas such as Europe, recovery efforts have already shown signs of weakening. Although the International Monetary Fund (IMF) and others see signs of stabilization and growth, the World Bank reports many people worldwide still face a difficult future. In Africa, for example, the slowed economic growth resulting from the global recession and the daunting array of challenges facing many nations in the region will cause new political, economic, and humanitarian crises, further adding to demands for U.S. response in the area. The World Bank and the IMF jointly reported in April 2010 that 53 million more people will remain in extreme poverty in 2015 than otherwise as a result of the global economic crisis. Due to it and the 2008 food price crisis, they said, hunger has been exacerbated in the developing world, leaving a billion people worldwide still struggling to meet basic needs.⁴

The recent *Global Strategic Assessment* by the Institute for National Strategic Studies observed that the downturn in

⁴World Bank and International Monetary Fund, *Global Monitoring Report 2010: The Millennium Development Goals after the Crisis* (Washington, D.C.: Apr. 23, 2010).

global growth has seriously undermined U.S. prestige and influence, a development that could complicate diplomacy and security relationships in the coming years. In addition, the financial crisis increased budget deficits not only for the United States, but also for other industrialized countries, such as Japan, deficits that will likely constrain spending on foreign commitments—like supporting stabilization efforts in Afghanistan or attending to humanitarian disasters—to concentrate on reducing deficits. The near- and long-term U.S. fiscal outlook will put added pressure on the Department of Defense (DOD), which faces growing demands such as:

- the substantial amounts of resources required for continuing operations,
- the toll on readiness and the rebuilding of forces while extending military operations,
- the increasing costs associated with personnel and health care, and
- the growing costs attributed to weapon systems programs.

Security Implications of Climate Change and Energy Security

Concerns about the reliability of energy supplies, price volatility, and the effects of energy use on the environment and climate are, collectively, among the pressing emerging concerns in national security.

“Climate change and energy will play significant roles in shaping the future security environment.”

—*Quadrennial Defense Review Report*, Department of Defense, February 2010⁵

⁵Department of Defense, *Quadrennial Defense Review Report* (Washington, D.C.: February 2010), XV, <http://www.defense.gov/qdr/>.

Recent trends suggest that the world is on an unsustainable and undesirable course with regard to energy. Because the population of the world is estimated to grow to more than 9 billion people over the next 40 years, society will require greater amounts of energy to sustain development. In addition, global energy demand is expected to increase approximately 55 percent by 2030, with nearly 74 percent of growth coming from developing countries. If energy demand growth leads to greater scarcity of energy, competition for these scarce resources and rising energy prices could enter more prominently into regional or national conflicts. In addition, perceptions of energy scarcity will compel states to secure their future access to energy supplies, which could lead to interstate conflicts over access to energy resources. Already, energy security concerns are prompting countries such as India and China to purchase equity stakes in the energy sector.

Climate change could produce secondary effects that have wide-ranging implications for U.S. national security interests. Although the intelligence community estimates that climate change is unlikely to cause any state to fail through 2030, it has asserted that the effects from climate change will worsen existing problems such as poverty, social tensions, environmental degradation, and weak political institutions in states pivotal to regional stability. The Food and Agriculture Organization of the United Nations emphasizes that one of the greatest challenges to be faced in this century is world food security in light of the impact of climate change. In areas already prone to climate-related disasters, climate change could threaten agricultural production—through rising temperatures,

variations in rainfall patterns, and increases of droughts and floods—with the potential to adversely affect some of the poorest regions already exhibiting the highest levels of chronic hunger. Areas in Africa and other parts of the world are projected to encounter higher levels of instability, including clashes over land ownership as a result of food shortages and affordability.

Long-standing Security Issues Confronting the United States

Established security issues will continue to pose a threat to U.S. national security interests. Efforts by states to develop or acquire dangerous weapons and delivery systems represent a significant threat to the United States and its allies. The nuclear ambitions and proliferation behavior of Iran and North Korea threaten to cause destabilization in areas of the Middle East and Asia. In addition, assessments by the intelligence community state that countries and nonstate actors will continue to obtain materials and technologies that could contribute to biological and chemical weapons programs or attacks against the homeland or U.S. interests abroad. Further, the United States will continue to face persistent and evolving homeland security threats from terrorist groups like al Qaeda that may try to smuggle or use radioactive, chemical, or biological agents to carry out an attack inside the country.

Terrorist groups and other state and nonstate actors are also increasingly targeting the U.S. information technology infrastructure for attack, including telecommunications networks and computer systems. This infrastructure, which is largely owned and operated by the private sector, is part of the global

digital communications and networks infrastructure that includes the Internet and is commonly called cyberspace. Currently, criminals, state, and nonstate actors are compromising, disrupting, and destroying systems and networks to illegally acquire valuable information, such as proprietary corporate information, intellectual property, and military secrets. Securing cyberspace, an essential component of U.S. economic and national security, poses serious and growing challenges for the federal government and private industry.

Infectious diseases and other health issues, such as the emergence of a pandemic, would have serious implications for U.S. homeland security. A pandemic, for example, would threaten the operation of the nation's critical systems by potentially removing for weeks or months essential personnel needed to operate them from the workplace.

Notwithstanding the seriousness of those challenges, they also provide a compelling opportunity for the federal government to re-examine national security agencies, missions, programs, and approaches to develop more effective, integrated, and strategic solutions for the nation. For example, DOD and the Department of State have developed an integrated civilian-

military campaign plan for Afghanistan, and these and other agencies are now in the process of implementing the plan.

Implications of Today's Security Environment for the Federal Government and GAO

Today's complex and rapidly evolving security environment will require the federal government to continue to concentrate on enduring challenges and identifying strategic opportunities, while adapting to emerging threats. Coordination and cooperation on many fronts (within the federal, private, and international sectors) will be required to:

- rebuild the global economy;
- impede broader geopolitical tensions;
- prepare for the stresses and strategic environment that climate change and dwindling energy resources may trigger;
- counter terrorist threats against U.S. homeland security and national security interests abroad;
- adapt the military to effectively combat irregular warfare; and
- continue sustained pressure against the proliferation of nuclear, biological, and chemical technologies, weapons, or materials.

"Sustaining existing alliances and creating new partnerships are central elements of U.S. security strategy. The United States cannot sustain a stable international system alone. In an increasingly interdependent world, challenges to common interests are best addressed in concert with likeminded allies and partners who share responsibility for fostering peace and security."

—*Quadrennial Defense Review Report*, Department of Defense, February 2010⁶

⁶Department of Defense, *Quadrennial Defense Review Report* (Washington, D.C.: February 2010), 57, <http://www.defense.gov/qdr/>.

The United States will have to call on long-standing alliances, such as that with the North Atlantic Treaty Organization, and perhaps identify opportunities for new alliances to successfully address the range of security challenges on the horizon. Greater cross-coordination will be needed among the U.S. government agencies—including the Departments of Defense, Justice, Homeland Security, State, and the Treasury, as well as the intelligence community—that are tasked with securing the country from a wide range of national security threats. At the same time, an increasingly constrained fiscal outlook may require a greater emphasis on taking a risk-based approach to allocating resources. Specifically, the nation cannot afford to protect everything against all possible threats, and must take the opportunity to look across threats, vulnerabilities, and resources to prioritize homeland security investments and leverage the resources and expertise of federal, state, local, private, and international partners with homeland security responsibilities.

GAO will be called upon to conduct oversight work and evaluations of how the U.S. government responds to both new and established security trends. Through the High-Risk List, GAO will continue to highlight areas of weakness within the government’s national security framework that could have serious consequences for the United States at home and abroad if left unchecked. As the government works to foster comprehensive partnerships and explores effective and integrated strategies to manage more complex geopolitical environments and potential global security threats, GAO may be asked to provide insight into the negotiation, implementation, and

verification of partnerships and agreements related to security issues. Varying and sophisticated security trends will require government agencies to foster better coordination and integration of efforts to create a more effective national security framework—these trends will also call for GAO to evaluate government processes and systems in a more integrated and crosscutting manner. To adequately manage the rising demands caused by emerging and established security threats in the coming years, the government will need to develop new capabilities while pressure to reduce most federal agencies’ budgets is intense. GAO can play a useful role in evaluating long-term costs and trade-offs for restructuring U.S. capabilities by identifying ways to reduce duplication and overlap among DOD’s, State’s, and other federal agencies’ programs.

Specifically, as elaborated under Goal 2, GAO plans related work to:

- Review U.S. efforts to secure, stabilize, and develop **Afghanistan, Pakistan, Iraq**, and other regions in conflict.
- Review U.S. efforts to **combat terrorism** at home and abroad.
- Review the government’s efforts to identify and act on credible threats to the **homeland, border, and transportation security**, as well as those involving biological, chemical, radiological, and nuclear dimensions.
- Analyze the **funding and costs of military operations and investment in future capabilities**, given the fiscal pressures facing the nation.
- Evaluate efforts to ensure the reliability, security, and affordability of **energy**, as well as the implications of **climate change** for the federal government.

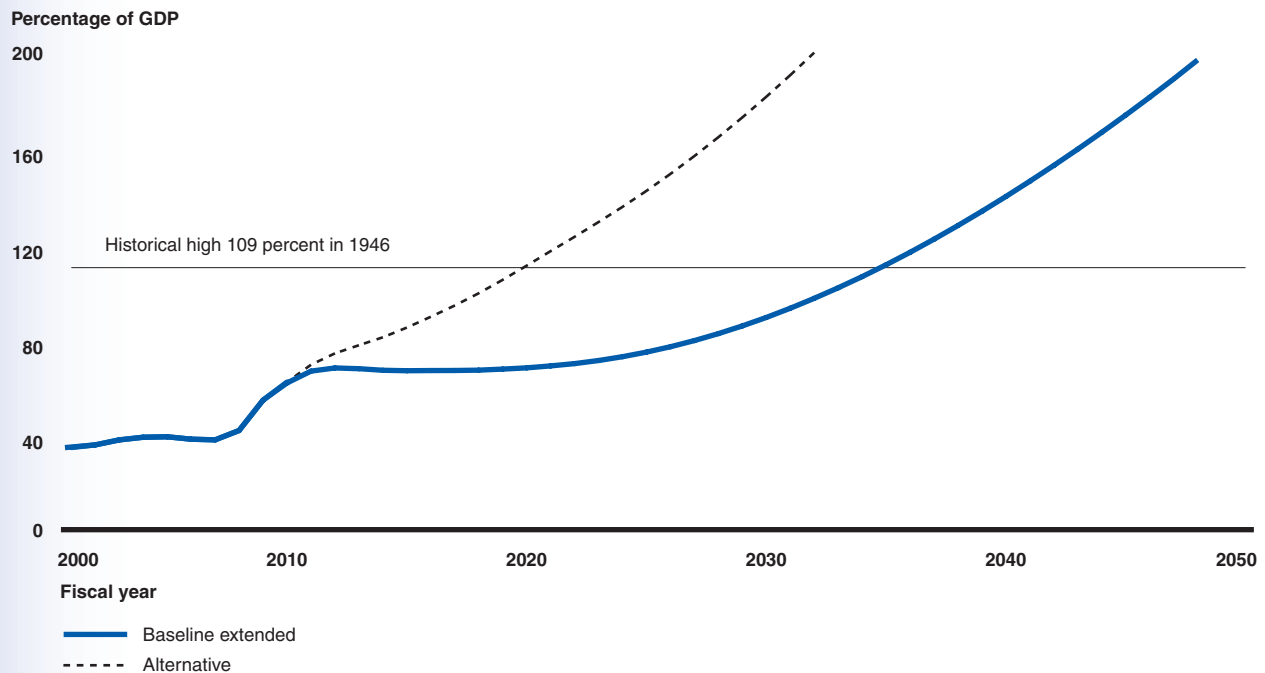
FISCAL SUSTAINABILITY AND DEBT CHALLENGES

For more than a decade, each of GAO’s long-term fiscal simulations has shown the federal government to be on an unsustainable deficit and debt path due to spending pressures caused by growth in health care costs and an aging population. Since the recession and financial crisis began in late 2007, policymakers have been understandably focused on addressing problems with financial markets and responding to the economic downturn. However, this is the same window of time when attention has been needed to address the long-term fiscal outlook. While the drivers of the long-term fiscal outlook have not changed, the sense of urgency has. GAO’s simulations show that, absent

policy changes, the federal government faces an unsustainable growth in debt; under our Alternative simulation⁷—which is based on historical trends and policy preferences—debt held by the public as a share of national income or gross domestic product (GDP) could exceed the historical high reached in the aftermath of World War II by 2020 (see fig. 1)—10 years sooner than our simulation showed just 2 years ago.

⁷The “Alternative” simulation is based on historical trends and policy preferences. Discretionary spending grows with GDP rather than inflation during the first 10 years, Medicare physician payment rates are not reduced as in the Congressional Budget Office’s baseline, all tax provisions are extended to 2020, and the alternative minimum tax exemption amount is indexed to inflation through 2020; revenues are then brought back to their historical level. See GAO, *The Federal Government’s Long-Term Fiscal Outlook: January 2010 Update*, GAO-10-468SP (Washington, D.C.: Mar. 2, 2010) for additional information about the long-term fiscal outlook.

Figure 1: Debt Held by the Public under Two Fiscal Policy Simulations



Source: GAO analysis of Social Security and Medicare Trustees’ 2009 data.

Notes: Data are from GAO’s January 2010 analysis based on the Trustees’ assumptions for Social Security and Medicare.

Some of the increase in debt has been used to purchase financial assets as part of programs to stabilize financial markets and stimulate the economy. The value of these financial assets has not been subtracted from the total debt held by the public in our simulations.

Although the economy is still fragile, there is wide agreement on the need to begin to change the long-term fiscal path as soon as possible without slowing the recovery because the magnitude of the changes needed grows with time. The longer action to deal with the nation's long-term fiscal outlook is delayed, the greater the risk that the eventual changes will be disruptive and destabilizing.

Health care cost growth and demographic trends—once thought of as long-term challenges—have already begun to affect the federal budget—in some cases sooner than previously estimated (see [table 1](#)). The oldest members of the baby-boom generation are now eligible for Social Security retirement benefits and will be eligible for Medicare benefits in 2011. Medicare's Hospital Insurance Trust Fund began running cash deficits in 2008. Social Security cash surpluses in the past have served to reduce the unified budget deficit; however, the Congressional Budget Office (CBO) recently estimated that

current economic conditions will result in the program's running small temporary cash deficits for the next 4 years and then running persistent cash deficits beginning in 2016. This will put additional pressure on the rest of the federal budget. The Patient Protection and Affordable Care Act (Pub. L. No. 111-148) includes some provisions designed to address health care cost increases, as well as those designed to expand health insurance coverage. However, the federal government will need to do more in the coming years to slow the increase in health care costs in Medicare and Medicaid.

Without programmatic changes, spending on Social Security, Medicare, Medicaid, and interest on the federal debt will account for an ever-growing share of the economy. Under our Alternative simulation, as [figure 2](#) shows, absent policy changes, the interest costs on the growing debt plus spending on Social Security, Medicare, and Medicaid could absorb 93 cents of every dollar of federal

Table 1: Challenges Affecting the Federal Budget in the Near Term

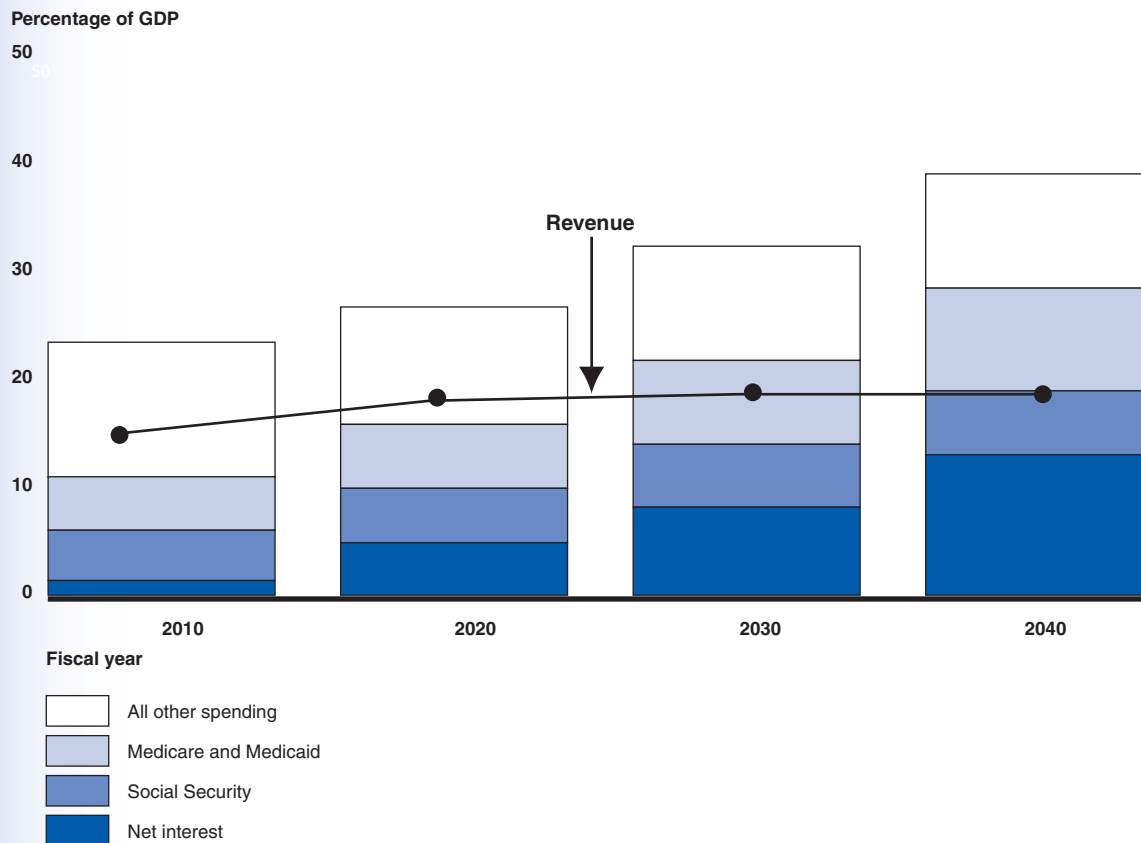
2008	Oldest members of the baby-boom generation became eligible for early Social Security retirement benefits.
2008	Medicare's Hospital Insurance (HI) Trust Fund outlays exceeded cash income.
2010	Social Security runs first cash deficit since 1984. ^a
2011	Oldest members of the baby-boom generation become eligible for Medicare.
2014	45 percent of Medicare outlays funded by general revenue. ^b
2016	Social Security begins running consistent annual cash deficits.
2017	Medicare's HI Trust Fund exhausted. Income sufficient to pay about 81 percent of benefits. ^b
2020	Debt held by the public under GAO's Alternative simulation exceeds the historical high reached in the aftermath of World War II.

Source: GAO.

^aBased on Congressional Budget Office's January 2010 baseline projections.

^bBased on *2009 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (May 12, 2009). Projections showing the percentage of funding from general revenue reaching 45 percent by law trigger a "Medicare funding warning," requiring a proposal from the President in response.

Figure 2: GAO’s Alternative Simulation Shows Interest, Social Security, Medicare, and Medicaid Costs Consume Nearly All Federal Revenue by 2020



Source: GAO.

Note: Data are from GAO’s January 2010 analysis based on the Trustees’ assumptions for Social Security and Medicare.

revenue in 2020, leaving little room for “all other spending”—or what many think of as “government,” including national defense, homeland security, highways and mass transit, alternative energy sources, and smaller entitlement programs. Having total federal government expenditures exceed federal revenues every year results in persistent annual deficits. As the deficits grow, in general, so does the need for more borrowing from the public. By 2030, net interest payments on the federal government’s accumulating federal debt would exceed 8 percent of GDP—making interest payments the largest single expenditure in the federal budget.

Although relatively low interest rates have reduced Treasury’s borrowing costs to

date, the amount of debt that must be rolled over in the short-term presents challenges. Between the onset of the economic recession in December 2007 and June 2009, the largest increase in outstanding marketable Treasury securities was in short-term debt. Market experts believe that the large amount of the debt that must be rolled over in the next few years is cause for concern and agree with Treasury that it needs to increase the average maturity of its debt portfolio and diversify its funding sources.

Weaknesses in the U.S. economy and financial markets—and the government’s response to them—continue to shape the near-term budget and debt outlook. The budget deficit in fiscal year 2009 hit

an all-time high in absolute terms and is the largest as a share of GDP in nearly 65 years. As of September 30, 2009, debt held by the public increased to 53 percent of GDP. These increases are primarily the result of the effects of the recession and the costs of the federal government's actions to stabilize the financial markets and to promote economic recovery. Federal tax revenues automatically decline when GDP and incomes fall, and, at the same time, spending on unemployment benefits and other income-support programs automatically increases. CBO has estimated that the American Recovery and Reinvestment Act of 2009's (the Recovery Act) combined spending and tax provisions will cost \$862 billion over 10 years, of which more than \$600 billion will be in additional federal spending, and the Department of the Treasury (Treasury) has disbursed more than \$360 billion to support participating institutions under the Troubled Asset Relief Program (TARP).

Beyond their effects on the budget deficit, the economic downturn and financial crisis—and the government's response to them—could result in greater long-term fiscal exposure for the federal government.

This stems from, among other things, federal support for Fannie Mae and Freddie Mac and expansion of federal housing, insurance, and guarantee programs—such as the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA), the Federal Deposit Insurance Corporation (FDIC), and the Pension Benefit Guarantee Corporation (PBGC). The possibility of substantial increases in fiscal exposure associated with these programs and others will make oversight critical in the coming years to ensure that the government effectively understands and manages its risks. Recent trends illustrate how these programs have grown or have the potential to grow in magnitude:

- Treasury provided more than \$100 billion in equity injections to Fannie Mae and Freddie Mac since September 2008, when the Federal Housing Finance Agency (FHFA) placed into conservatorship these two government-sponsored enterprises, which together own or guarantee nearly half of the \$11.9 trillion in U.S. residential mortgage debt. Recently, Treasury lifted its combined \$400 billion cap on government assistance to Fannie Mae

“Under current law, federal health care costs are likely to keep growing faster than GDP—as they have for the past 40 years. In addition, the share of the population age 65 or older will continue to expand rapidly. As a consequence, the growth of spending for Medicare, Medicaid, and Social Security will speed up from its already rapid rate. To keep annual deficits and total federal debt from reaching levels that would substantially harm the economy, lawmakers would have to increase revenues significantly as a percentage of GDP, decrease projected spending sharply, or enact some combination of the two.”

—*The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, Congressional Budget Office

and Freddie Mac to allow its funding commitment to increase as necessary to cover their net-worth losses through 2012.

- In fiscal year 2009, FHA had \$757.2 billion of mortgage insurance in force, 42.4 percent more than the previous fiscal year. Most of the mortgages FHA insures are packaged into mortgage-backed securities guaranteed by the Government National Mortgage Association (Ginnie Mae); hence, the federal government is ultimately responsible for paying investors that own Ginnie Mae bonds if FHA-backed mortgages become troubled. At the end of fiscal year 2009, the total amount of mortgage securities guaranteed by Ginnie Mae jumped 43 percent to \$826 billion, with some observers saying it could soon top \$1 trillion.
- In 2008, FDIC's ratio of reserves to insured deposits fell well below the minimum statutory level, and, in 2009, 140 FDIC-insured institutions failed, more than five times the 25 failures in the previous year. At the end of 2009, FDIC reported a negative ratio of reserves to insured deposits. FDIC has implemented a restoration plan to replenish its Deposit Insurance Fund reserves to the statutory minimum. However, further losses could occur if potentially vulnerable insured institutions ultimately fail, guarantees result in greater than anticipated losses, or economic and market conditions further deteriorate.
- The PBGC continues to face the ongoing threat of losses from the termination of underfunded pension plans. It reported that its single- and multi-employer programs had a \$22 billion deficit as of September 30, 2009, nearly double its \$11.2 billion deficit reported a year earlier. Further, pension plans of financially weak firms are estimated to be underfunded

by about \$161 billion—a figure that may worsen if economic recovery is slow or if financial markets weaken.

Strains on the budget are not being felt solely at the federal level. State and local governments also face near-term challenges in funding current programs, as well as long-term challenges driven by health-related costs. Medicaid will continue to be a key component of the sector's health-related costs. State and local budgets are also under stress because of decreased tax revenue. The reliance of state and local budgets on income, sales, and property tax receipts means that if unemployment remains high, consumer spending is sluggish, or property values are slow to recover, state and local budgets will likely experience prolonged strain. Recent declines in pension asset values could also affect the sector's long-term fiscal position. In addition to declines in pension asset values and the challenge of fully funding pension benefits, state and local governments also face challenges funding their liabilities for other public employee benefits (which are primarily retiree health benefits). State and federal policymakers will need to work closely in the coming years to close state budget gaps in a sustainable way.

Implications for Government and GAO

In the coming years, the audit and accountability demands for government in such a strained fiscal environment are likely to be significant. Concerns about debt levels—as well as revenue that cannot keep pace with increased spending obligations—could seriously affect agency budgets and operations. Many government agencies will need to be prepared to confront the capacity issues that may arise

if there are continuing demands for more government services alongside smaller budgets and more limited operational resources. Agencies will have to become more efficient and effective at delivering services, achieving productivity gains, and taking a risk-based approach to managing and allocating scarce resources.

Helping the Congress and the federal government better understand and manage these challenges will require that GAO take a crosscutting approach in its work that incorporates the full and complex array of economic and social factors involved. GAO stands ready to continue assisting the Congress by identifying opportunities to reduce spending and narrow the gap between taxes owed and taxes collected. Ultimately, addressing the fiscal challenges of the future will require looking at the entire range of federal activities. All types of federal spending—that is, for both discretionary and entitlement programs—and tax expenditures will need to be re-examined. In the future, the federal government will need to make tough choices in setting priorities and linking resources to results.

Specifically, the Goal 3 narrative details GAO plans to:

- Identify elements to **help address the nation's fiscal challenges**, including Social Security; tax reform; retirement, health, and disability programs; opportunities to reduce spending; and reducing the gap between taxes owed and collected. This is done in part by analyzing the effectiveness of programs (spending, credit, and tax expenditures).
- Perform **financial statement audits**, including of the Internal Revenue Service, FDIC, the Securities and Exchange Commission, and FHA.

- Conduct **long-term fiscal simulations** and analyses of federal deficits, federal debt levels, and the state and local sectors.
- Recommend solutions to reduce the risk of **waste, fraud, and abuse** and **improper payments**.
- Assess **overlap and duplication** among federal programs and agencies.

ECONOMIC RECOVERY AND RESTORED JOB GROWTH

Since GAO issued its last strategic plan, the U.S. economy has suffered from shocks that collectively precipitated a global downturn some feared would lead to a second Great Depression. Sharply rising food and energy prices, a bursting of the housing bubble, and a full-scale financial crisis of worldwide proportions have resulted in the United States' most severe economic recession since World War II. From the fourth quarter of 2007 to the second quarter of 2009, real GDP fell by about 3.7 percent. U.S. joblessness has doubled and remains just below 10 percent, surpassing levels not seen since 1983. [Figure 3](#) illustrates the loss of 8.8 million jobs from the peak of the last business cycle in December 2007 until December 2009; this is second only to the nearly 9 million jobs lost from 1929-1930 and is the largest on record in the postwar period.

Recession's Toll and Signs of Recovery

U.S. household wealth is down \$11.9 trillion, or 18 percent, from its 2007 peak. Bank failures continue, near-record levels of bankruptcies and home foreclosures persist, and problems in commercial property markets loom. A decade's worth of job growth has all but vanished, and middle-class families arguably entered 2010 worse off in real terms than they were at the start of the 21st century. Notably, U.S.

Figure 3: U.S. Nonfarm Employment Has Plummeted, Erasing All Gains since 2000

Source: U.S. Department of Labor.

household net worth is below its 1999 level, as are median household incomes. The overall rate of real U.S. economic growth registered in the first decade of the new millennium was the lowest of any decade since the 1930s.

The deep recession that began in December 2007, nonetheless, appears to have given way to signs of an economic stabilization and recovery. CBO and the International Monetary Fund (IMF) are among those, such as the World Bank and the Organization for Economic Cooperation and Development (OECD), expecting economic progress to continue. In April 2010, for example, the IMF's *World Economic Outlook* stated that "the global economic recovery is proceeding at a better-than-expected rate" and, as this recovery has gained traction, certain risks have eased. Yet, the IMF report said the outlook remains "unusually uncertain" with new downside risks—notably, worries over

sovereign debt in Greece and elsewhere in Europe—coming to the fore. A key uncertainty is whether the recovery will be strong enough to be self-sustaining, as well as how many years it will take to return to historical growth rates and reverse the loss in U.S. employment and output. CBO's January 2010 budget and economic outlook projects little progress in 2010–2011 because of weak economic growth; however, it projects that higher growth in 2012–2014 will close the gap between actual and potential U.S. output by 2014. A full recovery of the labor market is not expected until 2 years later: CBO says unemployment likely will not drop to 5 percent, its "natural rate," until 2016. U.S. policymakers must oversee this evolving economic environment with skill and sufficient information, as well as draw the right lessons about what went wrong to better manage it in the future. GAO's planned work will complement and support that effort.

Causes and Responses

GAO staff have joined with their colleagues at other national audit institutions around the world to examine the causes of the crisis and devise means to protect taxpayers and ensure program integrity in the future. In addition, the Congress appointed a special commission in 2009 to investigate the causes of the crisis. A vigorous debate among economists and others continues, but there seems to be some agreement that a confluence of structural, cyclical, and speculative forces contributed to the debilitating U.S. economic situation.

The past decade's consumption and debt-driven, asset-leveraged growth proved unsustainable and largely illusory. In general, market participants—encouraged by a period of economic stability, cheap and available credit, and strong financial market performance—became complacent about risk-taking and leverage, pushing asset prices in a wide range of markets—most notably, real estate—to unjustifiably high levels. When housing prices began declining, a number of poor decisions were exposed. Falling home prices nationwide destabilized a real estate market that was supported by complex and risky financial instruments. These risks were unchecked due to failures in risk management at private financial institutions, insufficient government oversight of risk management and housing policy, lapses in the regulatory and oversight apparatus, and a breakdown in market discipline. The subprime mortgage market provided the first shock to the fragile economic system, but similar excesses existed across a variety of markets, such as commercial real estate, leveraged loans, and credit cards. GAO has concluded that various weaknesses in the structure of the

U.S. financial regulatory system were also important contributors to the recent crisis. Notably, this system failed to keep pace with major developments in financial markets.⁸

Yet an even more severe economic downturn was averted through concerted government action in the United States and elsewhere.⁹ Confronted with unprecedented weakness in the financial sector and the overall economy, the U.S. government, including the Federal Reserve, acted to moderate the downturn and restore economic growth. Among other things, the Congress agreed to the President's request for some \$700 billion under the TARP¹⁰ to stabilize teetering financial and credit markets and a currently estimated \$862 billion in fiscal stimulus provided through the Recovery Act.¹¹ The Recovery Act involves higher federal spending and lower taxes, as well as transfers to states and local governments to fund certain activities, such as Medicaid assistance. The stimulus represents approximately 2 percent of U.S. national income in each of the next 2 years, divided

⁸See, for example, GAO, *Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System*, GAO-09-216 (Washington, D.C.: Jan. 8, 2009); *Financial Markets Regulation: Financial Crisis Highlights Need to Improve Oversight of Leverage at Financial Institutions and Across System*, GAO-09-739 (Washington, D.C.: July 22, 2009); and *Financial Regulation: Recent Crisis Reaffirms the Need to Overhaul the U.S. Regulatory System*, GAO-09-1049T (Washington, D.C.: Sept. 29, 2009).

⁹For example, extraordinary meetings of the finance ministers and leaders of the Group of 20 Leading Economic Nations resulted in joint commitments and domestic actions, such as taking strong stimulus measures, repairing the financial system to restore lending, strengthening financial regulation, funding and reforming international financial institutions, and promoting trade and sustainable recovery.

¹⁰The TARP was authorized under the Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, Div. A., 122 Stat. 3765 (2008) (codified at 12 U.S.C. §§ 5201 et seq.).

¹¹Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

roughly equally among tax cuts, direct government spending, and aid to states and people hurt by the recession—notably, the unemployed. The Federal Reserve’s monetary moves injected trillions of dollars into the banking system; the Federal Reserve and Treasury continue to take steps to stabilize and restart financial markets that had nearly seized up in September 2008. GAO’s oversight of certain aspects of these programs, which is slated to continue, has helped improve transparency and accountability.

Prospects

The way forward over the next 5 years is uncertain. Three scenarios are most often predicted:

- the most hopeful scenario, a rapid and robust recovery that quickly becomes self-sustaining due to a revival of consumer and business demand and innovation at home and growing foreign demand for U.S. exports that enables gradual restoration of structural balance among nations;
- a middle, yet optimistic, scenario of weak but continued recovery that nevertheless features ongoing high rates of joblessness in this period;¹² and
- the last scenario predicts a stalling of the nascent recovery and a resumed recession.

Which path the economy takes will have profound implications for U.S. government programs, fiscal deficits, and the focus of GAO’s work. Yet, the macroeconomic effects of federal policy choices, in terms of overall

¹²CBO’s January 2010 projections show U.S. unemployment staying above 8 percent until 2012 and not reaching its pre-recession level of 4.6 percent in 2007 until the 2014-2016 period; IHS Global Insight’s most likely scenario in its June 2010 U.S. forecast shows U.S. unemployment remaining above 8 percent until 2013 and above its pre-recession level of 4.7 percent through 2020.

spending, monetary stimulus, and long-term national savings, will drive outcomes.

CBO currently predicts a continuation of the modest recovery that began in mid-2009 but doubts that U.S. growth will be sufficiently robust to reduce unemployment appreciably, to below 8 percent, before 2012.¹³ In particular, CBO notes that past financial crises have been especially difficult to recover from, and that it took a year or more for U.S. job growth to start after the two most recent recessions ended. The Chairman of the Board of Governors of the Federal Reserve System concurs that continued growth is likely but warns that strong headwinds, such as a weak job market and the poor fiscal condition of many state and local governments, will constrain prospects. CBO projects U.S. growth to average 2.1 percent from 2010 to 2014, well below its average in the past 60 years.

In January 2010, CBO downgraded its labor market outlook. Specifically, CBO said that the unemployment rate will be higher from 2010 to 2014 than it estimated in August 2009, in part because of the forecast for slower growth of real GDP but also because “the dislocations in labor markets caused by the recession now appear to be more pervasive than previously estimated.” CBO also revised upward its estimate of the natural rate of unemployment for 2015–2020, from 4.8 percent to 5 percent. This revision was based on both econometric evidence and analysis of the recent trends in labor markets, especially the increase in the number of displaced workers and the rise in the number of workers unemployed for more

¹³Specifically, CBO forecasts real GDP will grow 2.2 percent in 2010 and 1.9 percent in 2011, and will average 4.4 percent annually in the 2012–2014 period, while unemployment will stay at 10.1 percent in 2010, before dropping to 9.5 percent in 2011, 6.4 percent in 2012–2014, and 5.0 percent in 2014–2020.

than 27 weeks. Because CBO's projection methods basically assume labor and capital are fully employed starting in 2015, a private forecast for unemployment that goes through year-end 2020 (and GAO's strategic plan period) is presented in figure 4. The picture it paints shows unemployment will remain above its pre-recession levels for a full decade, but seems consistent with the CBO Director's statement,

"More of the pain of unemployment from this downturn lies ahead of us than behind us."

—Douglas W. Elmendorf, Director,
Congressional Budget Office,
February 2010¹⁴

Nevertheless recent reports by the Federal Reserve, the IMF, World Bank, and OECD

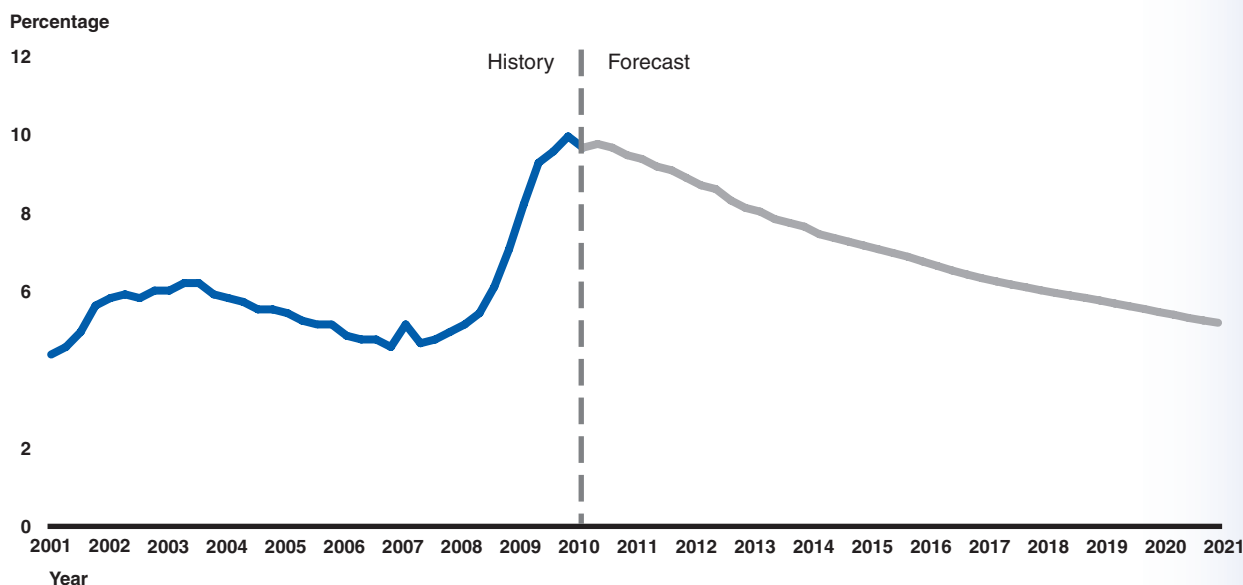
¹⁴CBO Director Douglas W. Elmendorf's Blog entry, titled CBO Testifies before the Joint Economic Committee on Policies for Increasing Economic Growth and Employment in the Short Term, accompanying prepared remarks before the Joint Economic Committee, U.S. Congress, February 23, 2010, <http://cboblog.cbo.gov/?p=475>.

see the U.S. and global recovery broadening as of late April 2010. Some have raised economic growth projections or raised their evaluation of the probability of recovery versus recession, for the United States and the world overall. Yet unevenness across countries and a high degree of uncertainty remains.

As a result, the federal government must monitor several economic conditions and effects:

- **Lost jobs may be hard to replace.** Unemployment typically lags in the initial stages of recovery: Job losses continued through February 2010. Job gains were recorded in March and April 2010 but the unemployment rate rose slightly as discouraged workers resumed active pursuit of jobs. Many of the job cuts were permanent jobs, CBO notes. More workers will suffer long-term unemployment or separation from the workforce. This makes re-entry into the workforce more challenging. Some older workers appear to be forgoing retirement

Figure 4: Unemployment Is Privately Projected to Be above Its Pre-Crisis Rate through 2020



Source: IHS Global Insight, June 2010.

and working longer. Some of those who lose jobs are claiming Social Security and fully retiring. Younger workers are among those who have been hit especially hard. Young adults shut out of jobs now may suffer long-term losses in lifetime earnings and employment opportunities. CBO says gains in employment in this recession will rely more than usual on the creation of new jobs, possibly by new firms. Workers may need to relocate or retrain to qualify for these jobs.

- **Hiring may be slow to resume**, particularly if, as the Federal Reserve expects, businesses choose to convert existing workers from part time to full time or to increase their hours. Small businesses have historically accounted for a large share of employment gains in past recoveries but are facing tighter credit conditions that could constrain their job-creating potential. Bank credit outstanding to consumers and businesses continued to fall through mid-April 2010. Many of the jobs lost are in the construction, manufacturing, and finance industries. Should these losses be structural (meaning that they are permanently gone), rather than cyclical, some assert that a “jobless recovery” is a possibility.¹⁵ It appears that states and regions contributing most to the downturn are in the Southeast and Far West, which benefited from the housing boom.¹⁶

¹⁵See Riccardo DiCecio and Charles S. Gascon, “Vacancies and Unemployment,” in *National Economic Trends*, Federal Reserve Bank of St. Louis (Nov. 12, 2009). CBO’s August 2009 *Budget and Economic Outlook* says that many of the jobs lost in the construction, financial services, and auto-related manufacturing and distribution industries are “unlikely to return.”

¹⁶See Richard G. Anderson, “The Financial Services Sector: Boom and Recession,” *National Economic Trends*, Federal Reserve Bank of St. Louis (Sept. 14, 2009).

- **Because consumers play a key role** in the U.S. economy, whether and how they change their behavior in response to tighter economic circumstances is pivotal. Indeed, as the initial boost to U.S. growth from federal spending and business inventory restocking wanes, growth in private demand by consumers and businesses will be key to further U.S. economic expansion, the Fed Chairman notes.¹⁷ Though consumer spending has shown signs of life and consumer confidence is improving, consumer sentiment remains subdued. CBO forecasts moderate improvements in real income, household wealth, and the cost of consumer credit that will fuel a modest rise in consumer spending.
- Yet, recent signs also suggest that a fundamental change away from borrowing and spending and toward **savings** may be occurring, reversing a decades-long decline. The U.S. personal savings rate has climbed fitfully from its 2007 low, reaching 5.4 percent by the second quarter of 2009, before dropping back to 3.9 percent in third and fourth quarters and 3.1 percent in the first quarter of 2010. Consumer credit outstanding—particularly revolving credit—continued to shrink through February 2010, falling at an annual rate of 5.5 percent. While higher savings are associated with higher rates of long-term growth, some worry that a higher personal saving rate could dampen U.S. economic growth in the near term; others say that a 5 percent savings rate

¹⁷See *Statement by Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System, before the Joint Economic Committee, U.S. Congress* (Apr. 14, 2010), 1.

is consistent with 3 percent to 4 percent GDP growth.¹⁸

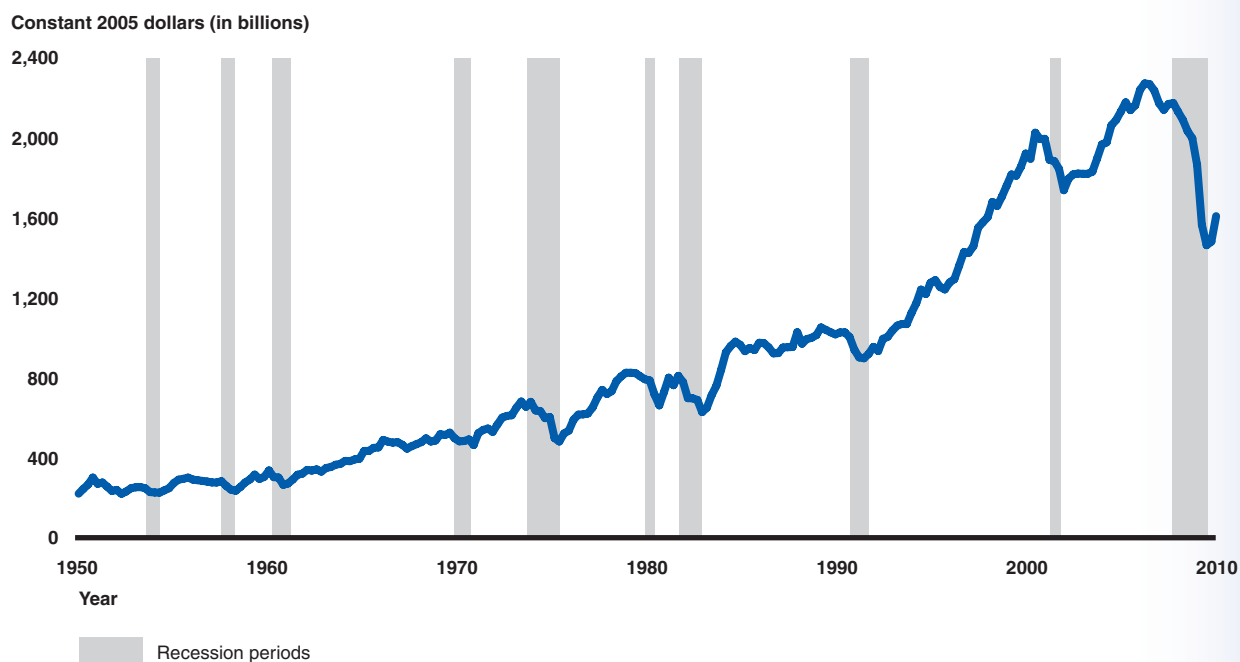
- Moreover, the IMF says reversing the fundamental **imbalances among nations** that fueled the crisis is desirable. But it will require the United States and other countries whose consumption has outstripped their savings to save and export more, while countries such as China that have relied on foreign markets must build up their own domestic demand.
- Other sources of growth, such as **business investment**, government spending, and net exports could make up the slack. However, it is unclear whether the federal government has the wherewithal to sustain a U.S. recovery.

¹⁸A recent, though somewhat rudimentary, effort by Federal Reserve economists to analyze the near-term effects of past savings finds that higher saving is correlated with faster (not slower) growth in the ensuing 2 years. See Daniel L. Thornton, "Personal Saving and Economic Growth," *National Economic Trends*, Federal Reserve Bank of St. Louis (Dec. 17, 2009).

As partially illustrated in [figure 5](#), business capital spending has fallen more steeply than at any time since World War II, dropping by 24 percent in 2009 alone. In the second quarter of 2009, net private investment fell to its lowest percentage of GDP since World War II. Capacity utilization remains lower than its 1972–2009 average, but has risen somewhat as inventories have been depleted. Nonresidential fixed investment and industrial production have been growing and outlays for equipment and software are increasing at a solid pace. Profits are up, productivity has risen, and many companies' capacity to use in-house or external funds to finance investment has improved.

- In August 2009, CBO said it expects investment to begin rebounding soon and to provide a large share of real growth from 2010 to 2013, though its January 2010 *Budget and Economic Outlook* takes a more cautious tone. CBO's

Figure 5: Private Investment Fell Sharply but Is Starting to Recover



Source: U.S. Department of Commerce.

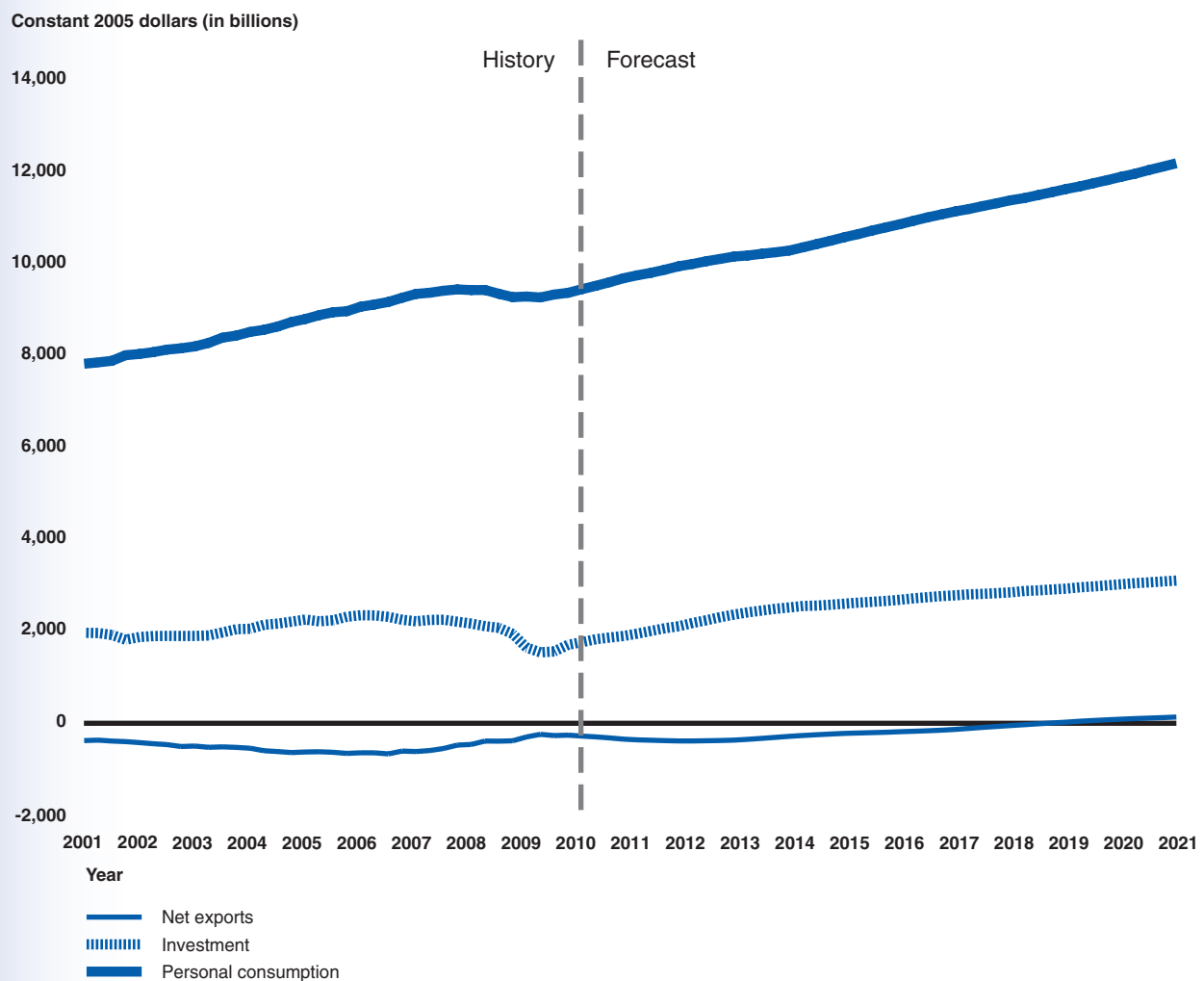
public projections do not break out GDP components in detail, but IHS Global Insight's June 2010 forecast (partially shown here) appears consistent with CBO's assessment and shows private demand, including business investment, as an important source of U.S. growth going forward (see [fig. 6](#)).

- **Exports:** With foreign markets showing more promise, enabling exports and avoiding protectionist policies that risk trade wars are also crucial. World trade and investment registered sharp declines in 2009 but have begun to rebound, in part due to strong growth in Asia and developing country markets. The World

Bank recently projected world trade volume will rise by 4.3 percent and 6.2 percent in 2010 and 2011, respectively, driven by relatively robust recovery in developing country growth. CBO predicts net U.S. exports will rise beginning in 2011. Europe's recovery and currency stability will remain important to this growth, since that region accounts for nearly a fourth of U.S. exports.

- **Housing remains fragile**, and signs suggest more foreclosures are looming. As of the fourth quarter of 2009, about one in seven mortgage loans was 30 or more days delinquent or in the

Figure 6: Most U.S. Growth Is Projected to Come from Private or Foreign Demand



Source: IHS Global Insight, June 2010.

foreclosure process already.¹⁹ Almost a quarter (24 percent) of mortgaged residential properties—some 11.3 million—were estimated to be “underwater” or to involve borrowers owing more than the value of the properties.²⁰ The number of vacant housing units was near historic highs, putting downward pressure on prices. As a result, forecasters predict that millions more will lose their homes to foreclosure over the next few years.

- **Commercial real estate markets**—with about \$3.5 trillion in outstanding debt—are also under greater strain, with commercial real estate prices having peaked in October 2007 and falling since early 2008. Delinquencies in commercial mortgage-backed securities have increased sharply—to 8 percent in 2009, or double the rate recorded in 2008. The Federal Reserve noted that demand for commercial property has dropped as the economy has weakened, leading to significant declines in property values, increased vacancy rates, and falling rents. By January 2010, prices had dropped approximately 41 percent since the peak. Because of these poor fundamentals, the credit quality of commercial real estate loans on banks’ books and of the loans that back commercial mortgage-backed securities has deteriorated sharply. As a result, obtaining financing for new mortgages is difficult and refinancing the \$500 billion in such securities maturing in 2010 and 2011 may prove problematic. Banks and thrifts hold about half, or \$1.7 trillion, of the commercial real

estate debt outstanding. Smaller regional and community banks, which entered the crisis with high concentrations of commercial real estate loans, may be particularly vulnerable.

- **In terms of government support**, sizable fiscal stimulus is in the pipeline. Yet, much of the planned fiscal stimulus was expected to be withdrawn (spent) by 2012, and the employment creating or supporting effects of the Recovery Act were expected to all but disappear by 2013.²¹ CBO recently said that the Recovery Act will have larger effects in the 2011–2019 period and raised its estimate of Recovery Act-related outlays by \$75 billion. The President and some in the Congress are calling for further job creation and public investment efforts but face calls to rein in spending and tackle the ballooning U.S. budget deficit.²²
- **Managing the significant monetary support** in the pipeline also matters. The Federal Reserve has largely wound down the extraordinary liquidity programs it created to assist U.S. financial institutions and markets during the financial crisis. The only remaining program is scheduled to close on June 30, 2010. However, the U.S. central bank continues to provide

²¹See CBO Director Douglas W. Elmendorf’s Blog entry to accompany remarks before the American Association for Budget and Program Analysis, *The Economic and Budget Outlook* (Nov. 24, 2009) at <http://cboblog.cbo.gov>.

²²In January 2010, CBO issued an assessment of various options that concluded that “properly designed measures could help increase U.S. growth and employment in 2010 and 2011.” Nevertheless, CBO said the resulting worsening of the U.S. deficit, if unaddressed, could reduce longer-term U.S. growth. Options giving the greatest “bang for the buck” included increasing aid to the unemployed, reducing payroll taxes for employers, and allowing full or partial expensing of investment costs. See CBO, *Policies for Increasing Economic Growth and Employment in 2010 and 2011* (January 2010) and CBO Director’s Blog, Jan. 14, 2010, <http://cboblog.cbo.gov/?p=454>.

¹⁹Mortgage Bankers Association National Delinquency Survey.

²⁰Core Logic Estimates of negative equity as of the third quarter of 2009.

substantial liquidity to the markets as a result of holding over \$1 trillion in mortgage-backed securities and in other debt instruments on its balance sheet. As growth resumes, the Fed's success in absorbing excess liquidity is imperative to avoid inflation, keep interest costs affordable, and maintain orderly exchange rates for the dollar and other major currencies. This is especially important because price increases for food, commodities such as oil, and imports are predicted by CBO. OECD recently reported that inflation expectations in the United States are trending upwards.²³ At the same time, a premature withdrawal of stimulus could abort the nascent recovery.²⁴ Adopting a more integrated and robust approach to financial market regulation is also critical.

- **Tighter laws, oversight, and regulation of financial markets** by such regulators as the Securities and Exchange Commission are being considered. The Federal Reserve says it has already strengthened some requirements and will take a more systemic approach to risk that relies on a range of experts to evaluate developments. At the same time, the Fed and other regulators are taking steps to ensure bank supervision is not impeding sound lending and thus slowing the

²³Pier Carlo Padoan, OECD Chief Economist, *What is the Economic Outlook for OECD Countries: An Interim Assessment* (Paris, France: Organization for Economic Cooperation and Development, Apr. 7, 2010), 19.

²⁴For example, Council of Economic Advisors Chairman Christina Romer has asserted that a tightening of fiscal and monetary policy in 1936–1937 added 2 years to the Depression and caused unemployment to rise dramatically, to 19 percent, in 1938. See Christina Romer, *Lessons from the Great Depression for Economic Recovery in 2009*, prepared remarks for presentation at The Brookings Institution (Mar. 9, 2009), 8.

recovery. In jointly issued guidance, the federal regulators noted that they are working with industry and supervisory staff to ensure policies and actions do not inadvertently curtail credit to sound small business borrowers. Looking ahead, the federal government will need to determine the most expeditious manner in which to bring closure to its financial stabilization initiatives while optimizing its investment returns. This will be a formidable challenge, as unequivocal financial stabilization and sustained economic recovery will likely be difficult to ascertain with any degree of certainty in the near future.

The Bottom Line

The American economy has periodically been proclaimed dead in the past but has always proved resilient, thanks to, for example, scientific and technical advances that have spurred U.S. growth by generating innovation or boosting productivity. A recovery is becoming more firmly established but remains fragile. Given the economic shock the United States has suffered, a shift toward a different path—one with less robust growth—has likely begun.

Implications for Government and GAO

The severe economic deterioration has major implications for the federal government's finances and programs. Certainly, concerted and capable federal efforts to manage the macroeconomy through wise monetary and fiscal policy stances will be crucial.

GAO's efforts are essential complements to such efforts by the Fed, **the Congress**, and the executive branch. GAO has

statutory responsibilities for TARP under the Emergency Economic Stability Act and the Recovery Act that include bimonthly reports. GAO also plans work on:

- financial market oversight and reform;
- efforts to ensure the **stability of the overall banking, housing, and financial markets**;
- federal programs to promote home ownership;
- the functioning of the **mortgage market** and ultimate disposition of **Fannie Mae and Freddie Mac**;
- monitoring services to **assist job seekers and low-income families** via social safety net programs, such as Medicaid, child health and nutrition support, unemployment insurance, trade adjustment assistance, worker retraining, and homeless assistance;
- plans to boost the economy, including **investments in energy-efficiency and infrastructure** and job expansion;
- the world financial system and trade promotion; and
- state fiscal conditions.

For example, GAO will seek to look at social safety nets in a more holistic manner, taking the perspective of how they work together to affect households, as well as their incentives and behavior.

CHANGING DYNAMICS OF GLOBAL INTERDEPENDENCE AND SHIFTS IN POWER

The recent financial crisis, above all, illustrated the extent to which economies, trade, and information flows have become linked. How countries respond to restoring their economies—whether they adopt protectionist measures or continue on the

path of open markets—could determine the extent to which economies and markets remain interdependent. Associated with U.S. future economic security is the shift of economic influence to other parts of the world, especially Asia; this shift has implications on our nation’s ability to restore the economy and promote job growth. Interdependence also means the United States will compete with a growing global population for food and natural resources, such as water, energy, and critical minerals, and face issues relating to the safety and reliability of supplies at affordable prices. In addition, U.S. security is threatened by failed nation states that are unable to meet the basic needs of their people. Budget constraints may affect how and the extent to which the United States responds to international peacekeeping and humanitarian assistance efforts. Over the next 5 years, all of these trends and issues will likely affect our nation’s future and the well-being of the American people.

Effects of the Financial Crisis and Recovery

To stabilize financial markets and institutions and stimulate economies—the United States and other countries collectively injected trillions of dollars into the world’s financial systems. As a case in point, the aggressive fiscal policy response of China—which is projected to overtake Japan before 2015 as the world’s second-largest economy—helped China’s economy rebound strongly and has helped boost the recovery of other countries, especially in Asia. However, there is concern that the global effort to stimulate economies through government activities may have increased the risk of inflation. In turn, any significant increase in inflation and other potential

financial repercussions could weaken the fragile recovery that so far has taken hold in the United States and around the world.

In the aftermath of the financial crisis, certain indicators of global interdependence became more muted:

- Global growth for 2009 dropped to negative 0.8 percent after achieving a growth of 3 percent in 2008.
- Growth in developing countries skidded from 6 percent in 2008 to 2.1 percent in 2009.
- Trade volumes plummeted more than 12 percent in 2009 after an increase of almost 3 percent in 2008. (Some of this decrease was due to the decline in economic output in both developed and developing nations, and some was due to the collapse in commodity prices that make up a large share of some nations' trade.)
- Given a sharp decrease in imports into the United States, the U.S. current account deficit dropped from nearly 5 percent of GDP in 2008 to 2.6 percent in 2009, meaning that the United States required less borrowing relative to income to cover the deficit. Similarly, oil exporting nations that were running large current account surpluses saw their numbers drop sharply. Saudi Arabia's current account surplus, for example, shifted from a surplus of 28.6 percent of GDP in 2008 to 4.1 percent of GDP in 2009.

The good news is that thus far in 2010 many of these losses are being reversed.

Shifts in economic power and interdependence: The phenomenal economic growth of China, India, and other emerging countries over the last decade, along with the blossoming of international

trade and the broad movement of goods and services, has intensified the interdependence of the world's economies. As U.S. dollars flowed to overseas producers of goods and services, other countries—especially China and Japan—used their reserves to purchase vast amounts of U.S. government debt; they thereby became major stakeholders in the U.S. economy. Given its substantial borrowing needs, the United States is now more economically dependent on others because it requires financing in a global market where other developed countries have also issued an unprecedented amount of debt and are seeking additional financing. Any reluctance to purchase U.S. debt—whether for political, economic, or other reasons—could drive up the interest costs the U.S. government will need to pay on its securities and compromise the government's ability to fund other priorities.

Just as the United States will look globally to fund its debt, American companies will continue to look for opportunities to grow their business. China and India, for example, together account for about 37 percent of the world's population, and their middle class is estimated to exceed the entire U.S. population—demographics that appeal to virtually every company in the world. Indonesia and Brazil also boast emerging economies, bolstered by populations that are the fourth and fifth largest in the world, respectively.

Competition for Resources

The United Nations (UN) projects global population to grow by more than 2 billion to about 9 billion from 2010 to 2050, and with that growth will come major shifts in the movement of people looking for economic opportunity, as well as keen competition

for the resources upon which they depend. Following are snapshots of several key aspects of this trend to watch.

Urbanization: According to the UN, a majority of the global population will live in cities by 2030. Most noteworthy is China's urbanization strategy and the size and speed with which it is being implemented. Within a decade, 60 percent of China's estimated 1.5 billion people are expected to be living in urban centers. The population of India, which has 43 cities with a population of more than 1 million, is also becoming increasingly urban. In the next 20 years, India's urban population is expected to grow from its current 28 percent of the population to 41 percent. This rise in urbanization has implications not only for the world but also for the United States because it will be competing with other countries for such construction-related commodities as cement, steel, aluminum, coal, and timber.

Global energy supply and demand: Global energy demand is expected to increase approximately 55 percent by 2030, with nearly 74 percent of that growth coming from the developing world—including China and India. That potentially presents a challenge for the United States, which has long depended on plentiful, inexpensive natural resources—primarily from fossil fuels—to maintain its global competitiveness and way of life. However, our reliance on oil—particularly foreign oil—will continue to expose us to volatile prices. As a result, the United States is generally pursuing a policy of greater energy independence and seeking to develop multiple and nontraditional sources of energy, such as natural gas, biofuels, solar, and liquefied natural gas and coal.

Food security and safety: In recent years, consumers in the United States and other countries experienced dramatic increases in the prices of food. In some countries, the increases not only caused food shortages and destabilized governments, but also led to bans on grain exports to protect domestic supplies. U.S. biofuel policies that encouraged the use of corn for ethanol faced criticism for potentially contributing to global food price increases. Although U.S. consumers were not as profoundly affected as consumers in poorer nations that heavily rely on food imports, no country is immune to these types of shocks, as higher prices for grains translate into higher food prices and a higher cost of living. Further, with a substantial portion of the U.S. food supply imported (15 percent of the total U.S. supply, 60 percent of our fresh fruit, and 80 percent of our seafood), the safety of the supply is an issue GAO has designated as high risk. GAO will continue to monitor this issue in the coming years.

Freshwater: Over the next 20 years, global demand for freshwater is expected to increase by 30 percent. Moreover, the world might be close to hitting a peak in terms of freshwater supplies. Conflicts over water could become especially acute in Asia and Africa—regions with large populations and diminishing supplies. In the United States, the Environmental Protection Agency has identified potential freshwater supply problems in various regions, including California—a major agricultural producer.

Critical minerals: According to a 2008 report commissioned by the National Research Council of the National Academies, the advent of the Information Age has demanded an ever-wider range of metallic and nonmetallic minerals to perform

essential functions for such technologies as computers, cellular telephones, and transportation equipment. As with many other commodities, the nonfuel minerals market has become increasingly globalized, with the extraction and production of many minerals shifting away from the United States. Further, mineral commodity prices have been at a relative high recently, driven primarily by demand from China, India, and other countries. The concern, according to the 2008 report, is the reliability of nonfuel mineral supplies and whether the necessary resources would be available in time, and at an acceptable cost, to meet the future needs of producers of emerging products and technologies.

The World Bank's January 2010 review and price forecast—*Global Commodity Markets*—notes that most commodity prices reached historical highs in mid-2008. While it concludes demand-side pressures eased with the September 2008 onset of the global financial crisis and subsequent downturn, the World Bank predicts energy prices will firm to a steady range of between two and three times their 2000 levels in the 2010–2020 period. Metals and minerals prices will fall, and the World Bank predicts that food prices will be flat over the 2010–2020 period, although fluctuations in energy prices could place pressure on food prices.²⁵

Failed Nation States and Other Global Challenges

The world community has been unable to effectively address the failures of governance and the need for sustainable

²⁵World Bank, *Global Commodity Markets*, (Washington, D.C.: The World Bank Group, January 2010), 6-9.

development in the poorest countries of the world. Indeed, the Fund for Peace in 2009 published an index of failed nation states that includes 38 states in the “Alert” category—indicating the presence of humanitarian emergencies, sharp economic decline, and violation of human rights, among other conditions. Failed states take an enormous toll on their own citizens and on neighboring countries because of, for example, mass migrations, civil unrest, and even genocide. Failed nation states also affect the world as a whole, as many are sources of piracy or operate as terrorist safe havens.

Some failed states that have an abundance of natural resources—particularly nations in Africa—have not been able to translate their resources into benefits for their people or economies. As a result, some of these nations fail to provide basic protections to their citizens, contribute to greater instability in world markets for natural resources, and ultimately place greater demands on other nations for assistance.

This global challenge and many of our nation's security, economic, social, and environmental challenges—such as international peacekeeping, disaster relief, drug interdiction, and pandemic preparedness and prevention—cannot be addressed by the United States alone. For example, the United States is heavily involved in helping stabilize conflicts and nations around the world and has provided over \$1 trillion for efforts in Iraq, Afghanistan, and Pakistan since 2001. In addition, the United States participates with numerous countries in UN peacekeeping operations to bring sustainable peace to locations such as Sudan's Darfur region, the Democratic Republic of the Congo, Lebanon,

and Sierra Leone. By participating in these operations, the United States leverages its resources and maintains important global ties to help achieve international security. Also, the United States and other countries participate in international disaster relief efforts in Haiti, Indonesia, and Sri Lanka. In the face of fiscal constraints, a key issue will be how the United States can and should contribute to international peacekeeping operations and disaster relief efforts and the extent to which they serve U.S. interests.

Implications for Government and GAO

As national borders blur, policy initiatives, such as protecting the security of U.S. citizens; reforming our nation's tax laws; modernizing the outdated U.S. financial regulatory system; and protecting public safety in the areas of medical products, food, and consumer goods, may have unintended consequences if these initiatives do not adequately consider global connections and implications. Protecting the United States from bioterrorism and public health threats requires integrated international strategies. Notably, federal agencies' efforts to ensure the safety and efficacy of pharmaceuticals and medical devices, consumer products, food, and chemicals must be revamped and updated across regulatory jurisdictions to reflect increasingly global supply chains and production.

GAO proposes to build on past work that allows it to flexibly respond to the issues and subject areas affected by these trends. For example, our work on reforming financial markets and institutions should help to inform the Congress and policymakers on the complexities of regulating these entities in a globally

interconnected and competitive world, as well as to assist in congressional oversight of regulatory reform initiatives. Similarly, we plan cross-border work on regulating the safety of medical products, food, and consumer products to help the Congress monitor and oversee regulatory efforts in these areas. Building on our work on recent global health-related events and their implications for preparedness, we seek to provide additional lessons for federal, state, and local governments to enhance their preparedness for future global health-related events. Our planned work places new emphasis on monitoring the adequacy of supply and causes of price volatility of commodities, including energy and food. Further, our past and planned work in international peacekeeping, disaster assistance, and public diplomacy will prepare us to advise policymakers on what works and the challenges of tracking and ensuring accountability of funds that flow through governmental and nongovernmental organizations and across international borders.

Specifically, GAO anticipates undertaking related work to:

- understand the effects of a **global U.S. supplier base** on U.S. national security interests;
- evaluate the effectiveness of programs to protect **critical technologies**, ensure a **safe supply of food and medical products**, and respond to **public health emergencies**;
- assess programs to improve the **U.S. image abroad** and **promote exports**; and
- analyze **energy market** regulation, competition, and information.

ADVANCES IN SCIENCE, TECHNOLOGY, ENGINEERING, AND MATHEMATICS (STEM)

Science, technology, engineering, and mathematics (STEM) together offer revolutionary possibilities for improving the nation's quality of life, national security, and economic growth. Yet, with these opportunities come numerous challenges for the U.S. government. In addition to the global challenges identified in Strategic Objective 1.8, such as food, water, energy scarcity, and climate change, other key challenges include ensuring cybersecurity while preserving privacy, providing a proper ethical framework for the use of biomedical devices, and ensuring that newly developed materials are safe for people and the environment.

For the federal government, keeping pace with technology developments and advances in scientific disciplines will require investments in research and development (R&D), higher education (i.e., STEM human-capital), and other STEM-related infrastructure (e.g., laboratories and facilities). To assist the Congress over the next 5 years, GAO will continue to build its capacity to delve more deeply into emerging areas that will affect everything from climate change to renewable energy, from natural resources to transportation, and from space exploration to national and homeland security.

Among the STEM fields likely to affect the federal government substantially are the “three Os”: nano, bio, and info—also known as nanotechnology, biomedical technology, and information technology.

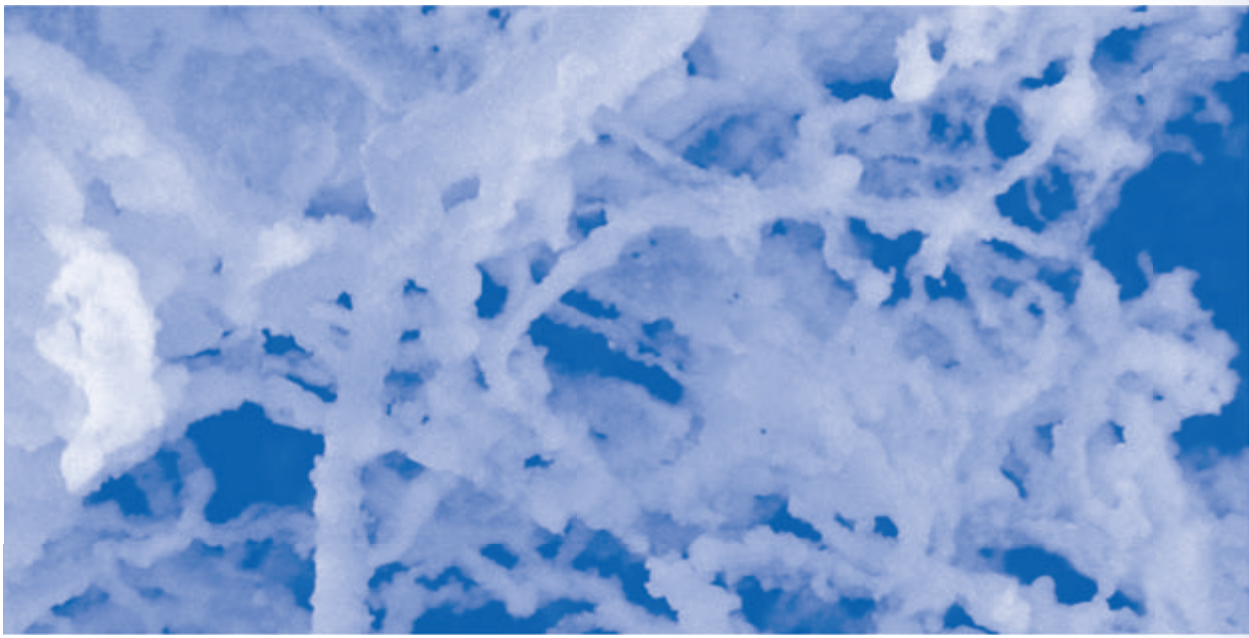
Nanotechnology

Today, the properties and behaviors of materials are being discovered at nanoscale—units equal to 1 billionth of a meter. The growth of the nanotechnology sector, however, is anything but small. Some \$12 billion was invested in nanotechnology research from 2001 to 2010, and the National Science Foundation estimates that U.S. expenditures on nanotechnology-related goods and services will rise to more than \$1 trillion by 2015. The societal impacts of nanotechnology are expected to be prodigious since they will have an effect on almost all materials. (See [fig. 7](#).)

The federal government, through the National Nanotechnology Initiative, has supported the science with investments into an array of current and future technologies. The funding supports basic research, infrastructure development, and technology transfer, with the aim of helping make important contributions to national priorities. Current and expected applications of government-funded research cut across industries, including aeronautics, agriculture, biotechnology, electronics, energy, health care, homeland security, information technology, and transportation.

Over time, nanotechnology is expected not only to reshape some economic sectors but also to give birth to new industries that, in turn, will create jobs in science and manufacturing. Nanotechnology is found today in things as mundane as toothpaste and woven fiber, as well as in cutting-edge computational or biomedical sensing systems. Still expected to come are:

- “never-wash” nanofiber clothes that do not get wet and can help prevent the spread of disease,

Figure 7: U.S. Agencies Are Exploring Nanotechnology's Promise and Potential Risks

Source: National Institute of Standards and Technology.

Note: A research team at the National Institute of Standards and Technology has quantified the interaction of gold nanoparticles with important proteins (like insulin, pictured here) found in human blood. Such research could provide insights that are useful to the development of nanoparticle-based medical therapies and to understanding the reasons why certain nanoparticles are toxic.

- ultralight and super-strong composite body armor and airframes, and
- nanoengineered gels able to regrow lost or damaged spinal cord and brain cells.

Among the challenges for the government inherent in the technology is that nanoparticles have health and safety risks—the particles are so small they may simply pass through the natural skin barrier or can be easily inhaled.

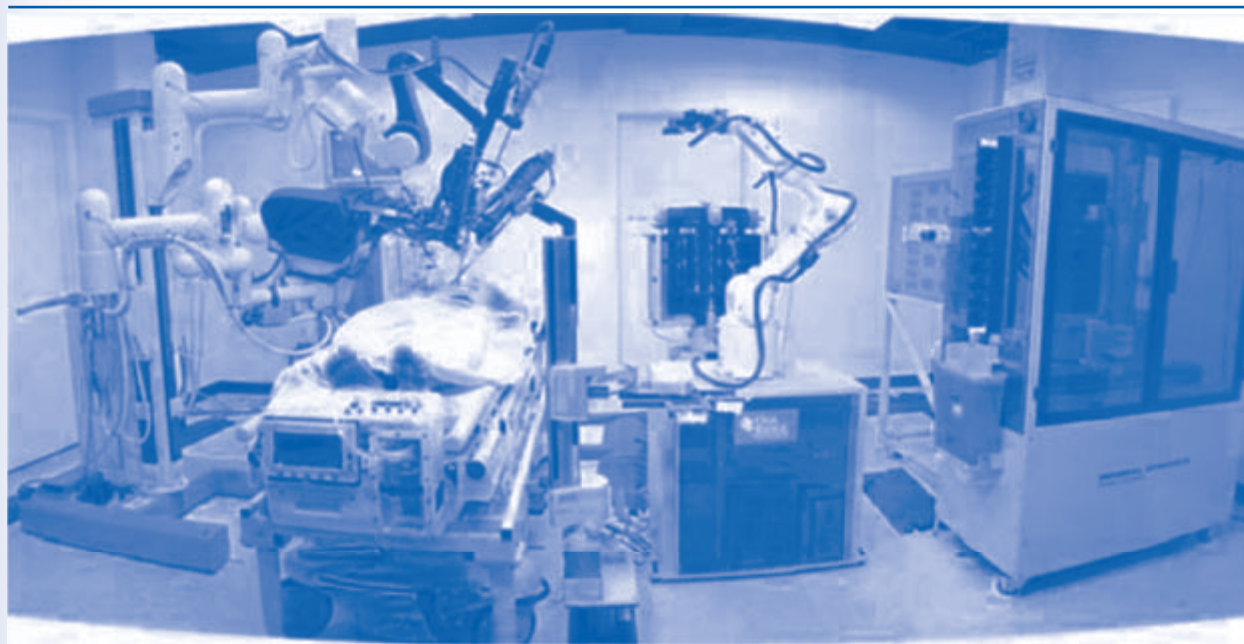
Biomedical Technology

Two areas of biotechnology in particular bear watching: gene and stem cell research. In 2003, the Human Genome Project successfully mapped some 25,000 genes found in the human genome. The result is a vast repository of human genetic information available to the biomedical community for researching solutions to a broad array of diseases. Because stem cells

have the potential to develop into almost all types of human cells—including heart, muscle, nerve, and blood cells—they could dramatically improve patient outcomes from diseases or injuries, such as cancer, heart disease, Parkinson's, birth defects, burns, and diabetes.

In the larger medical sector, telepresence technology is poised to become a standard practice in conducting globalized medical treatment (see [fig. 8](#)). For example, one day, a doctor in Boston may be able to monitor surgery on a heart patient in a hospital in Milan. Moreover, when the Defense Advanced Research Projects Agency's trauma pod project is fully completed, U.S. Army staff could pull a wounded soldier from the battlefield into an unmanned surgical suite, where injuries would be diagnosed and life-saving surgery performed robotically. In addition to

Figure 8: Surgical Area of a Robotic Trauma Pod, Which Can Be Controlled Remotely by Doctors Who “Teleoperate” on Patients



Sources: SRI International and Dr. Jacob Rosen.

military applications, the trauma pod could help save lives during natural disasters, which often demand urgent medical care for people with life-threatening injuries in remote locations.

Although the biomedical frontier holds tremendous promise, it also will generate discussions about the ethics of using the technologies, the role and extent of government regulation in the field, and the management and ownership of genetic information.

Information Technology (IT)

The speed of change in this field makes it one of the most dynamic of all. Following are just four snapshots of numerous key developments in IT:

- **Quantum computing**—in which bits of digital data are manipulated by using the behavior of individual atoms or

molecules—has the potential to carry out extremely complicated calculations at speeds far beyond those of today’s best supercomputers. No quantum computer yet exists in commercial production, and there are still fundamental technical barriers to overcome. Nevertheless, small-scale experimental systems have been built and demonstrated. The implications of quantum computing are profound. It is extremely difficult to break certain types of encryption by using today’s computers, but it could theoretically take just minutes to do so on a fully developed quantum computer. Current systems of encryption, including those used for bank transactions, secure military communications, and electronic commerce, would potentially be highly vulnerable to a quantum computer. Yet, quantum computing holds promise in fields such as digital communications, pharmaceuticals, and materials science.

- **Cloud computing**—an arrangement in which an organization pays a service provider to deliver IT applications, computing power, and storage via the Internet—enables organizations or individuals to access and share computer resources and potentially gain significant cost savings. Users with heavy demands for computing power, such as banks, could achieve tens of trillions of computations per second by processing data across large groups of servers. Questions remain, however, as to how to manage security policies and protect sensitive data in such an environment. Users of data and applications “in the cloud” might face a new layer of complexity for data management.
- **Virtualization technology**—which essentially is software that replicates a physical computer and its operating system—has the potential to enable more efficient use of computing resources, save time and labor, and trim hardware costs. But to realize such benefits, organizations may need to make investments in software, hardware, and expertise.
- **Health IT**—the use of information technology to electronically collect, store, retrieve, and transfer health information—has great potential to help improve the quality and efficiency of health care. The successful implementation of health IT offers promise for improving patient safety and reducing inefficiencies and has been shown to support cost-savings and other benefits. In April 2004, an executive order called for widespread adoption of interoperable electronic health records by 2014, and the Department of Health and Human Services (HHS), in turn, initiated activities to advance the nationwide

implementation of interoperable health IT. In addition, for the past decade, DOD and the Department of Veterans Affairs (VA) have been pursuing initiatives to share data between their health information systems.

The Recovery Act provided direct funding and incentives to support the development of health IT infrastructure and also called for recommendations on standards to promote the safe and secure exchange of health care information. The Recovery Act established a Health IT Policy Committee to act as an advisory panel and directed GAO’s Comptroller General to appoint 13 members to the committee. The committee will make recommendations on creating a policy framework for the development and adoption of a nationwide health IT infrastructure, including standards for the exchange of patient medical information. Further, HHS is currently working to accelerate the adoption of health IT standards.

Achieving the transition to a nationwide health IT capability will be complex and will require consideration of many important issues. These include mechanisms to establish clearly defined health IT standards that are agreed upon by all important stakeholders, comprehensive planning grounded in results-oriented milestones and measures, and an approach to privacy protection that encourages the acceptance and adoption of electronic health records.

STEM Investment in Education and Economic Competitiveness

In a world without technological boundaries, many governments are recognizing that if they are to keep pace with advancing

economies elsewhere, they need to increase their R&D investments in high-technology industries. Significant R&D now takes place outside of the United States, which means that the United States will increasingly need to engage globally to acquire STEM knowledge and services in order to maintain economic competitiveness. Within the United States, the National Science Board has observed, with concern, a decline in support for some areas of R&D, especially basic research. Similarly, federal government support for academic R&D began falling in 2005 for the first time in a quarter century, while federal and industry support for their own basic research has stagnated over the last several years.

While the United States has maintained its leadership in most broad aspects of STEM activities, the National Science Board recently reported via its *Science and Engineering Indicators 2010* that this position is being eroded not only by a rapid increase in STEM capabilities in Asia but also by a rise in the European Union's competitiveness in R&D, innovation, and high technology. China, for example, and several other Asian economies have all been actively seeking to develop their own world-class R&D infrastructures. (See [fig. 9](#).) U.S. competitiveness would likely be enhanced by shifting from single-discipline, investigator-driven R&D projects in favor of multidisciplinary R&D activities such as synthetic biology and biomaterials, bioinformatics, and bioenergy—all expected to be major sources of innovation. Regardless of the type of emerging technology, these innovations will need to be more efficiently and effectively commercialized in order to enable additional economic growth.

Additional competition is coming from many less-developed nations, which have begun to incorporate STEM considerations into their government policies. Such nations are, more than ever:

- investing long term in expanding higher education,
- developing infrastructure to support R&D,
- attracting foreign investors and technologically advanced multinational firms, and
- developing their own high-technology capabilities.

Pointing to the role of science and technology in economic growth, job creation, and national security, the President has planned to double funding over 10 years for federal agency STEM programs. The President's budget plans also increase support for exploratory and high-risk research related to:

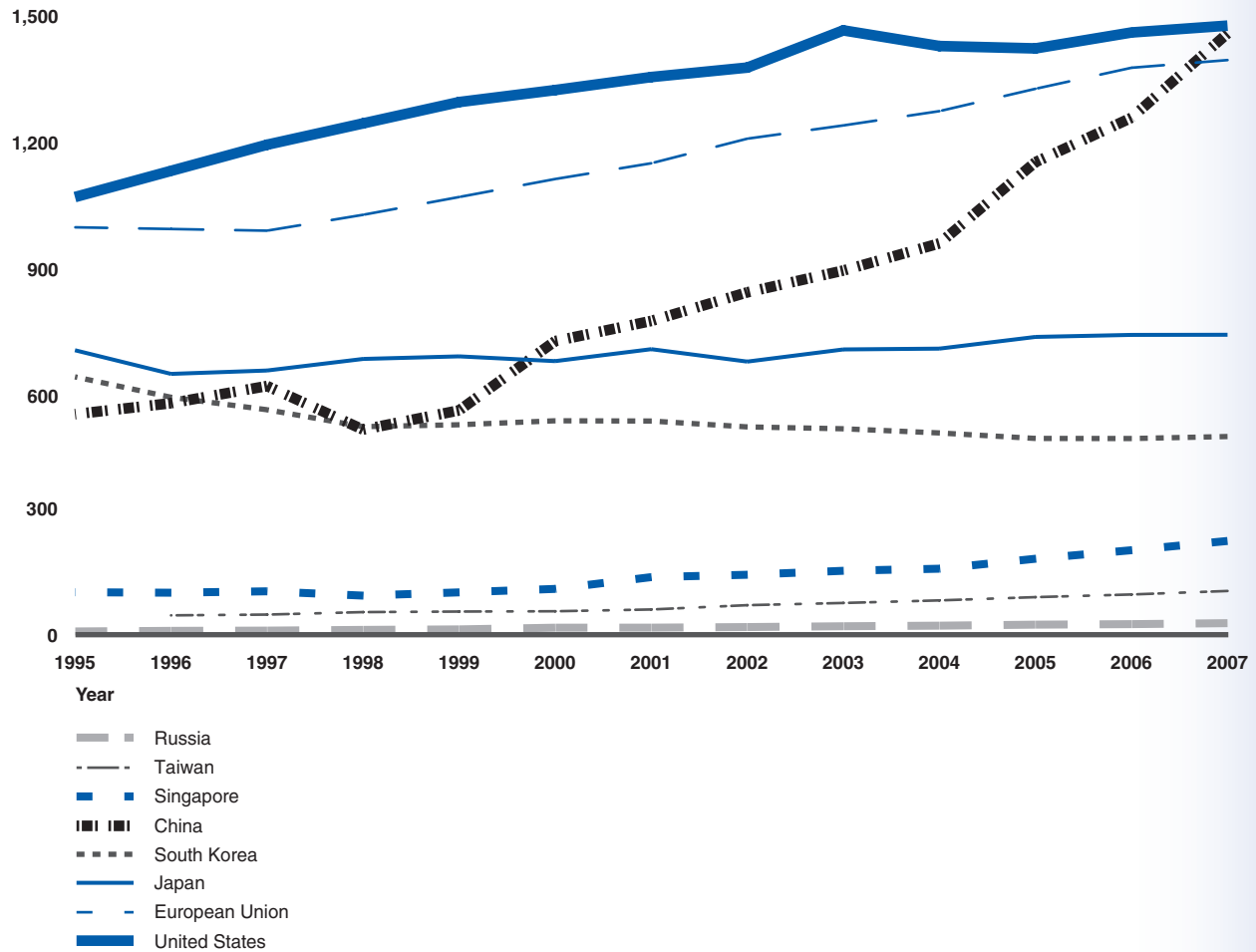
- the understanding of climate through geoengineering and
- new technologies intended to help transform the nation's transportation systems.

Implications for Government and GAO

GAO has found that the United States has historically promoted advances in STEM through public- and private-sector investments of about \$284 billion annually. With all of STEM's potential, the federal government and the nation's other key centers of research will need to work together to ensure that the STEM workforce is sufficiently skilled, that there are enough well-equipped R&D facilities, and that STEM-related information can be appropriately transferred while protecting intellectual property rights. Education is

Figure 9: China Has Caught Up to the United States in Terms of the Number of Scientific Researchers in Selected Regions/Countries/Economies: 1995 to 2007

Full-time equivalents (in thousands)



Source: National Science Board.

Note: 2007 data for the United States are estimated based on annual growth rate between 1995 and 2006.

a crucial enabler for each of these points. Economists from across the spectrum have noted that in this digital age, a highly educated and skilled workforce is critical not only to individual opportunity, but also to the overall success of the nation's economy.

To assist the Congress, GAO intends to expand its knowledge of and expertise in STEM trends, including the complex and controversial issues that will inevitably arise. To support the increasing number and sophistication of congressional requests with STEM dimensions, GAO

has grown its science, engineering, and mathematical staff and has created a Center for Science, Technology, and Engineering. In addition, GAO will need to:

- strengthen its networks in the scientific community;
- support and participate in advisory boards, Comptroller General forums, and panels or workshops convened by the National Academies; and
- collaborate with other national and international institutions dedicated to science and technology development.

For 2010 through 2015, GAO's portfolio of assessments in the science and technology field will encompass a wide range of topics, including:

- nanomaterials,
- climate remediation technologies (such as carbon capture and sequestration),
- biotechnology,
- counterterrorism technologies (such as advanced radiation detection systems),
- next-generation space systems,
- virtualization of information,
- technology-related social and behavioral norms, and
- advances in computational processing and information transmission and storage.

As developments in STEM continue to provide new opportunities and challenges to the nation and the Congress, GAO will continuously adapt its capabilities to help meet those challenges.

Among the specific work GAO envisages are:

- conducting specialized studies and **technology assessments** of a wide range of science and technology issues, such as **climate change**, the challenges of developing **sophisticated space and defense systems**, and **green energy**;

- reviewing the effectiveness of **computer and network security** at federal agencies to better ensure the protection of government and personal information;
- assessing the government's planning, implementation, and use of **information technology**;
- assessing the management and results of the **federal investment in science and technology** and the effectiveness of efforts to protect **intellectual property**; and
- reviewing federal efforts to turn around **low-performing schools**, enhance oversight of charter schools, and establish effective **teacher evaluation and compensation** programs.

INCREASING IMPACT OF NETWORKS AND VIRTUALIZATION

Society, business, and government are rapidly entering a technological age where traditional processes and systems are giving way to ones that are more collaborative, dynamic, networked, and virtual. Numerous trends—including the increasing use of wireless devices, decreasing costs of and more powerful computers, and growing penetration and affordability of high-speed Internet access—have converged to create more numerous and more sophisticated

"The U.S. may be uniquely able to adapt its higher education and research system to rising global demand and position itself as a world education hub for the growing number of students that will enter the education market out to 2025. Although further opening of U.S. classrooms and laboratories could mean greater competition for U.S. students, the U.S. economy would likely benefit because companies tend to base their operations near available human-capital."

—*Global Trends 2025: A Transformed World*, National Intelligence Council

systems of networks across different areas of society. Silos are breaking down, and information is moving outside of traditional stovepipes. In the trend of “virtualization,” we see that physical presence is no longer required: virtual classrooms, virtual work spaces, virtual worlds, virtual media content, and virtual software are increasingly commonplace in schools, homes, and the workplace. As digital systems add ever more capabilities and as wireless systems become more ubiquitous, the ability of governments, the private sector, and individuals to form networks that increase their efficiency and effectiveness will only grow.

Technology Is Increasingly Less Expensive

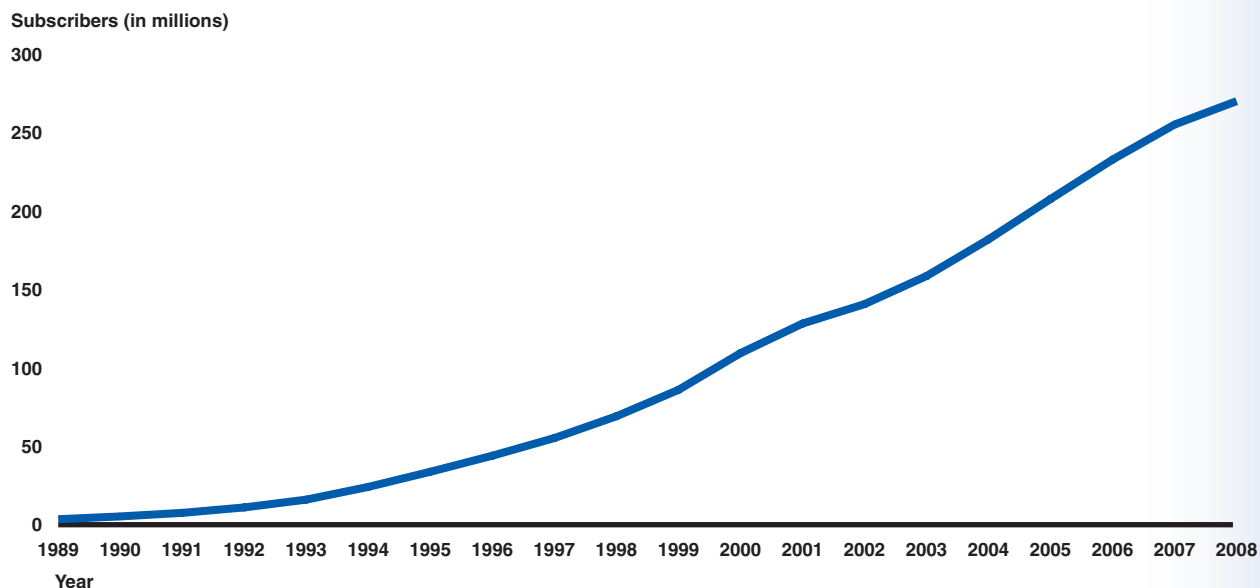
Advances in technology continue to radically change the economics of information sharing and networking. According to data in Deloitte’s 2009 *Shift Index*:

- The cost of one gigabyte of storage has been decreasing at an exponential rate; in 1992, one gigabyte of storage cost \$569. In 2008, it cost 13 cents.
- The cost of transferring 1,000 megabits of data per second dropped nearly 10 times, from \$1,197 in 1999 to \$130 in 2008.
- Wireless activity continues to grow rapidly (see [fig. 10](#)). Wireless subscriptions grew from 340,000 in 1985 to approximately 270 million by the end of 2008.
- Text messaging has shown similar growth. In the last 5 years, cell phone users on average increased their rate of sending text messages from about 1 message per month to 25 per month.

Networks and Virtualization

The falling costs, increasing performance, and wider availability of computers and bandwidth, combined with increasing availability of wireless networks and more powerful portable devices, have enabled

Figure 10: U.S. Wireless Service Subscriptions Have Surged



Source: CTIA—The Wireless Association, data are used by permission.

Note: Industry data count a subscriber as any person using a wireless phone under a paid subscription. Because an individual could have more than one wireless phone, such as separate phones for personal and professional use, the number of wireless phone service users is smaller than the number of subscribers.

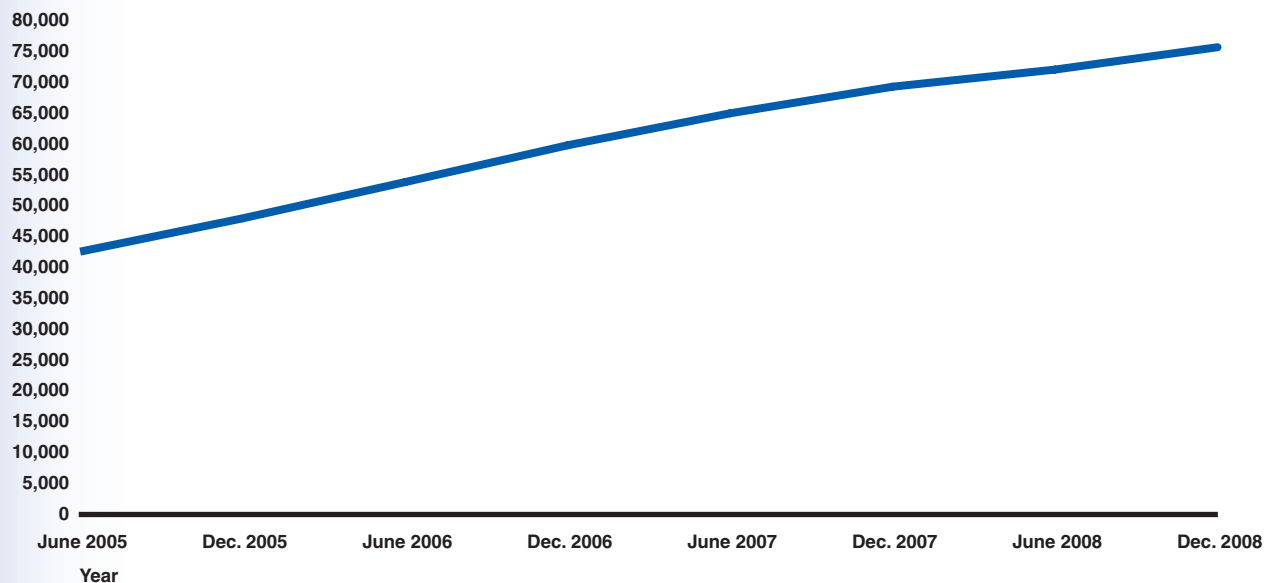
users to work together and communicate with one another more than ever before. According to filings with the Federal Communications Commission, fixed high-speed Internet connections have been steadily increasing in recent years (see [fig. 11](#)). Further, wireless and remote-access tools are significantly increasing the number of networked connections in schools, offices, homes, and beyond—on the road, in the air, or at sea. Moreover, the accelerating use of social media platforms provides faster and more numerous ways to share information and build relationships that support learning, collaboration, and knowledge transfer, regardless of location. At the same time, if such advances are unevenly distributed, it could result in a widening gap between countries and groups that have access to these technologies and those that do not, including some of the most vulnerable populations.

Changing Nature of Information

As networks grow and virtualization increases, the way information is created and shared is rapidly changing. Less than a generation ago, the main sources of information available to the public were largely limited to libraries, a local newspaper, and a handful of radio and television stations. Now it is possible—and increasingly common—for individuals to receive information in “real time” from a growing array of global sources, at any time, in almost any location, and in any format—including video and audio. The traditional broadcast model of distributing information is giving way to “on demand” consumption of content, from news and entertainment to educational material. Moreover, individuals and entities that in the past were simply consumers of information are now able not only to create their own content, but also to distribute that content across the world.

Figure 11: Total Fixed High-Speed Connections Have Grown During 2005-2008

Total fixed high-speed connections 2005-2008
(connections over 200 kbps in at least one direction, in thousands)



Source: U.S. Federal Communications Commission.

Even the way in which data and media are stored is rapidly changing. Individuals—and institutions—are no longer limited to storing their own permanent copies of software, databases, books, music, or video programming; instead, these media are increasingly available through “cloud computing” solutions, whereby information resides in servers accessible through the Internet and is downloaded temporarily onto various hardware devices, such as desktop and notebook computers, entertainment centers, and handheld telephones.

Implications for Government and GAO

The growth in technology has the potential to affect not only how people work and learn, but also how they think and what they expect from their government. Understanding and managing the implications of this rapidly changing landscape will be crucial for government in the coming years as it works to adapt to interconnected global financial systems, improve public access to government data, evaluate and deploy cloud computing, solicit public participation in problem solving, offer telecommuting to its employees, or deploy “matrixed” (interdisciplinary) and decentralized work teams. Trends in networks and virtualization will require that government respond to a host of new opportunities and challenges, including the following:

- Government will face increasingly complex, international, and multidisciplinary challenges stemming from decentralized and technology-enabled networks and groups. This will be especially relevant when dealing with key national security threats arising from, for example, nonstate actors or electronic warfare.
- As the federal workforce becomes more mobile, geographically distributed, and time- and location-independent, it may need to acquire technologies to enable work groups to better collaborate within and across agencies. Whether as part of virtual meetings, virtual classrooms, or virtual teams spread across the country or the world, employees will require and expect technologies to support these virtual applications to help them work more efficiently and effectively.

The government, therefore, will need to focus on more systemwide perspectives and solutions. The performance and accountability of the federal government will require viewing government processes and systems in a more holistic way that fully accounts for trends related to networks and virtualization. As the services that government provides—and the technologies that support them—become more complex and cut across traditional boundaries, approaches to accountability will have to move beyond the traditional “stovepipes” and silo-like entities that these trends are rupturing.

Related GAO work includes:

- assessing federal efforts to promote affordable access to **telephone and broadband Internet** services;
- reviewing the management of **government telecommunications** and **interconnected systems** and federal agencies’ effectiveness in providing secure, reliable, and fast Internet and Web connections;
- assessing the Department of Homeland Security’s efforts to enhance the resiliency of **critical national assets, networks, and systems**; and
- analyzing and supporting efforts to improve the **federal workforce** infrastructure.

SHIFTING ROLES IN GOVERNMENT AND GOVERNANCE

As government agencies increasingly rely on collaboration with—and, in permissible circumstances, delegation of duties and responsibilities to—private and nongovernmental entities, the line between the governmental and the nongovernmental sectors continues to blur. Private firms continue to play ever-larger roles in providing support services in areas some regard as more central or core governmental functions. At the same time, government has taken on additional roles, responsibilities, and even financial stakes in the private sector. These changing circumstances and trends potentially have implications for governance, transparency, and access to data that can affect the accountability of, although not ultimate responsibility for, program effectiveness and government spending. Further, as the problems facing government become more complex and interconnected, roles and responsibilities are also shifting within the federal government and among different levels of government.

Evolving Roles for the Federal Government

The military, for example, is playing larger roles in international and domestic disaster response, international development, and public diplomacy. At the same time, many civilian federal programs and agencies increasingly have missions that are integral to national security. Debate continues about the proper balance of different levels of government in areas such as regulation related to financial services, insurance, and the environment.

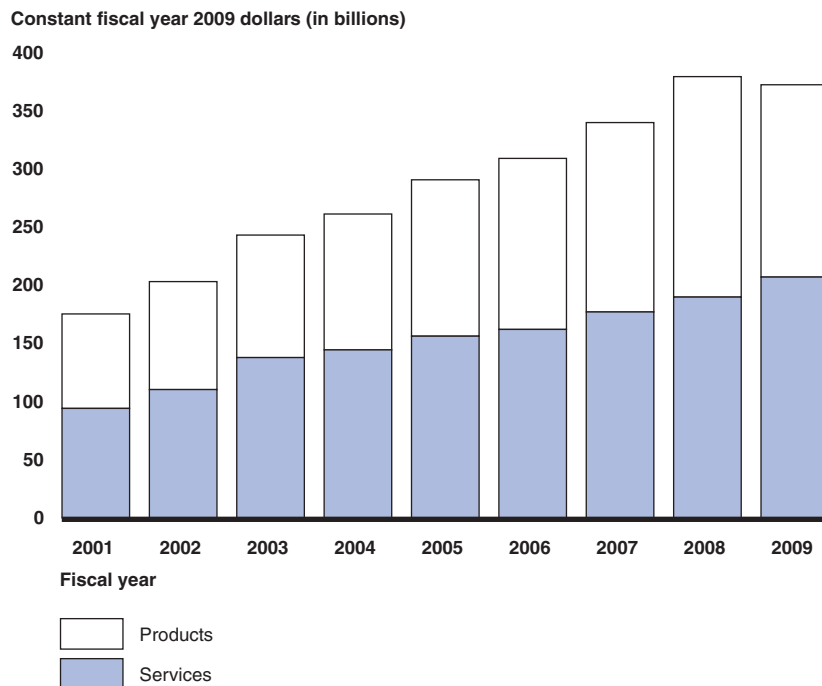
Contractors' Role in Government

The federal government relies increasingly on contractors to carry out its missions, as the following examples illustrate:

- Governmentwide spending on contractor services has more than doubled in the last 10 years. In fiscal year 2009, procurement spending totaled more than \$500 billion per year, of which more than \$350 billion was spent by DOD—the federal government's largest purchaser of contractor-provided services. The government is increasingly reliant on contractors to perform tasks such as procurement and contracting support, intelligence analysis, security services, program management, and engineering and technical support for program offices.
- DOD's product and service contract obligations have been steadily increasing over recent years (see [fig. 12](#)). DOD purchases services that include professional and management support, IT support, weapon system and base operations support, and intelligence support.
- The U.S. military has long used contractors to provide supplies and services to deployed forces, but the scale of contractor support DOD relies on in deployed locations today has increased considerably. Contractors in Iraq and Afghanistan, the majority of whom are third-country or local nationals, have outnumbered troops; however, as we have previously reported,²⁶ it is difficult to obtain an exact count of contractors due to limitations and incompleteness of

²⁶GAO, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan*, [GAO-10-1](#) (Washington, D.C.: Oct. 1, 2009).

Figure 12: Changes in DOD's Product and Service Contract Obligations, Fiscal Years 2001–2009



Source: GAO analysis of the Federal Procurement Data System-Next Generation data.

contractor data maintained by DOD, the Department of State, and United States Agency for International Development.

While contractors have an important role to play—and, in some cases, the use of contractors can result in improved efficiency and effectiveness—this trend raises concerns about what the proper balance is between public and private employees in performing federal agency missions.

The use of contractors potentially can place greater distance between contractors that assist in conducting the business of government and the oversight of contractors that is crucial to the transparent and effective operation of government—in particular, in areas such as ethics rules, legal jurisdiction, conflicts of interest, privacy and data security, and records retention and management. If the

use of contractors causes financial, human-capital, performance, or other program data to be scattered across multiple contracting entities, then oversight of government spending and performance can—in practice, if not in law—become more time-consuming or difficult.²⁷ More broadly, agencies that use contractors extensively, particularly over the long term, face the risk of losing or failing to develop in-house expertise in their core capabilities or functions because they have relied too heavily on contractors to perform those core functions.

²⁷ Agencies and GAO have legal access to significant federal contractor and grantee data.

Government's Role in the Private Sector

The U.S. government's spending today accounts for a bigger share of the nation's economy—nearly 25 percent—than at any time since 1946. The government is becoming more directly active in the private sector, as well. The financial crisis and economic downturn have resulted in a wide-ranging federal response that included infusing capital into financial institutions and major corporations and guaranteeing their assets. The 2008 legislation that created the Troubled Asset Relief Program—the primary vehicle for these actions—resulted in the federal government's becoming a significant shareholder in many different companies and financial institutions. The federal government is also involved in mortgage finance through its conservatorship and financial support of Fannie Mae and Freddie Mac. In 2009, the U.S. government helped finance or guarantee approximately 90 percent of all newly made home loans and owned stock in private-sector firms, including Citigroup, Chrysler, and GMAC; 60 percent of General Motors; and more than 75 percent of AIG. The structures and oversight of such arrangements will be important to avoid conflicts of interest and to ensure accountability for the government's investment. This area will require close attention for many years to come to ensure accountability when creating, managing, regulating, or unwinding such arrangements.

State and Local Government and Other Entities

As the problems facing government become more complex and interconnected, federal actions and nongovernmental entities

are having an impact on state and local governments. For example, through Title I of the Elementary and Secondary Education Act (ESEA) and the Recovery Act, the federal government has encouraged states to increase school accountability and implement other education reform policies. Specifically, through ESEA, the federal government required that each state have an accountability system that measures whether schools are helping students meet goals for academic achievement. Through the Recovery Act, the federal government has urged states and districts to take steps to increase teacher effectiveness, establish data systems to track progress and foster continuous improvement, implement rigorous standards and high-quality assessments, and help improve struggling schools. The rise of charter schools—public schools that are sometimes run by for-profit or non-profit entities—is an example of how governmental and nongovernmental sectors are working together, especially at the local level.

Further, because of the strained fiscal condition of many state and local governments, the federal government is increasingly in the position to partner or intervene at the state and local level to provide relief. For example, with the Recovery Act, the federal government is helping to reduce state budget gaps with funding for education, road construction, and Medicaid. In other areas, the converse holds true, such as proposals by the current administration to allow states to set state greenhouse gas standards that are stricter than federal standards.

Federal policymakers are increasingly faced with the challenge of addressing complex socioeconomic problems that cut across multiple geographic jurisdictions

within a metropolitan area or a region. Rethinking the delivery of public services by states and localities offers some hopes of generating program efficiencies and benefits to communities. For example, the Department of Housing and Urban Development has promoted efforts to create sustainable communities that span metropolitan areas or regions by connecting housing to jobs through housing and transportation investments. Such efforts include encouraging local governments to integrate their regional housing, transportation, and land use planning and offer many potential benefits to communities. A particular challenge is the need to better integrate transportation decisions, which are made at the state and regional level, with land use decisions, which are made at the local level. Federal law has required urban areas to carry out, through their metropolitan planning organizations, comprehensive regional planning as a condition of receiving federal transportation funds since 1973, but these planning organizations differ considerably in terms of capacity, responsibilities, and range of activities.

Implications for Government and GAO

The scope and nature of the federal government's work will continue to evolve. The government has made changes in major policy areas such as financial regulation and health care. Further, the public sector's reliance on assistance from nonprofit organizations and the private sector to help achieve policy objectives may need to be addressed if nonprofit and private-sector organizations falter due to financial constraints. As the line between the public, private, and nonprofit sectors continues to blur and as those sectors

become more interdependent, partnerships and collaborations among various federal organizations and sectors will be paramount to ensure accountability and transparency.

These trends on the shifting roles of government are already having an impact on the types of audits GAO does and the access that GAO has when conducting those audits. Entities that receive funds from or perform work on behalf of the government may not have the same record-keeping policies that their contracting or granting federal agencies do. Unusual or unique circumstances surrounding the way data are maintained or stored can also present challenges. For example, government agency data can be more difficult to process as the number of software applications and variety of electronic storage methods proliferate. Finally, complex ownership and investment structures that involve private-sector companies and multiple federal entities—for example, the Department of the Treasury and the Federal Reserve—will create new challenges for auditing in the aftermath of the financial crisis in the coming years. As the budgets, functions, and points of service of many government programs devolve to state and local governments, private entities and nonprofit organizations, and other third parties, tailored approaches may be required to ensure effective oversight and accountability.

Related GAO work under Goal 3 includes:

- focusing on major areas that are at **high risk**, including the **U.S. Postal Service's financial condition**, oversight of **food and drug safety**, and **cybersecurity** efforts;

- assessing the government’s strategy for managing its **reliance on contractors** to ensure that agencies determine the right mix of, as well as proper roles and responsibilities for, government and contractor employees;
- identifying ways to **improve the acquisition of goods and services** by federal agencies; and
- identifying opportunities to improve the coordination, collaboration, and governance of **networks of governmental and nongovernmental organizations** to address complex national issues.

DEMOGRAPHIC AND SOCIETAL CHANGES CONFRONTING THE YOUNG AND OLD

Recent decades have witnessed tremendous global demographic changes that are influencing national economies and societies around the world. In its own way, the United States is also experiencing many of these profound demographic changes; the United States has an aging population, a rising life expectancy, and a slower growing and more diverse workforce. The next 5 years will see a large number of retirements and a growing proportion of the baby-boom generation exiting the workforce. These trends will also have important implications for our nation’s future economic performance and the basic fabric of American society and will pose challenges to a range of federal government programs, such as Social Security, and public policies in areas such as health care, education, and income support. In addition, these demographic trends will have a major impact on the federal budget.

Global Demographic Trends

The world continues to experience demographic changes that will pose challenges to ensuring continued economic growth and rising living standards, as well as societal harmony.

- **Population growth and migration:** According to the UN, the world’s population is projected to grow by over a third (33.8 percent) over the next 40 years, reaching about 9 billion in 2050. Meanwhile, people will become more mobile, as populations move in search of work and economic opportunity, political sanctuary, and societal stability. According to the 2009 United Nations Development Programme’s *Human Development Report*, nearly 1 billion—or one of seven—people worldwide are currently migrants. While most do not cross borders, some 214 million were projected to do so in 2010 alone. Migrants have been a major source of remittance flows (repatriated funds) to developing countries. According to the World Bank, these flows have been more resilient during the global recession than other forms of external financing, such as private equity and foreign direct investment.²⁸
- **Aging:** Meanwhile, the average age in many parts of the world has been rising dramatically and is projected to continue to rise between now and 2050. The 2009 UN population projection notes that the number of people in the main working ages “...is at an all time high: 603 million [in developed countries] and 2.4 billion [in developing countries].” Restoring and creating jobs across the globe remains imperative for this and other reasons.

²⁸World Bank Development Prospects Group, “Outlook for Remittance Flows 2010-11,” *Migration and Development Brief*, No. 12 (Apr. 23, 2010).

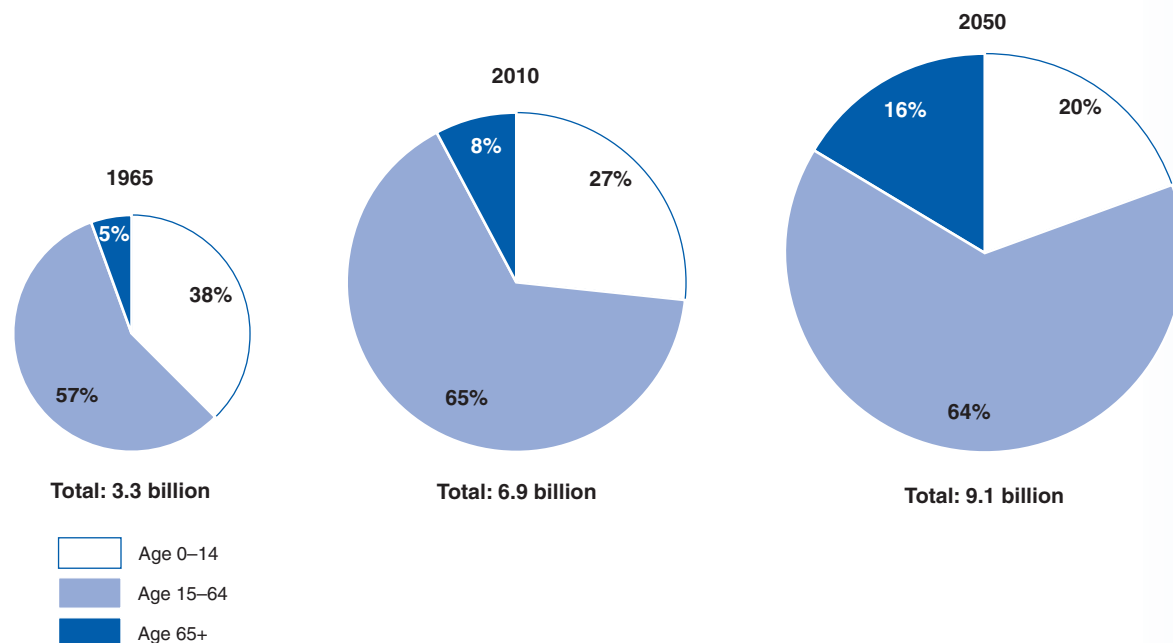
Population Growth and Migration

World population is projected to continue to grow significantly in the years ahead (see [fig. 13](#)). According to the UN, world population is projected to grow from about 6.9 billion in 2009 to more than 9.1 billion by 2050. Developing countries will add most of the 2.2 billion people. Developed regions as a whole, in contrast, only grow as a result of net international migration from developing countries.

The United States is an exception among developed countries and is expected to experience continued population growth. This is in part because of its higher-than-average fertility rate and because it is expected to be the largest net receiver of international migrants, attracting 1.1 million or more annually. Indeed, at 308 million, the United States is the

third most populous country (behind China and India, with 1.3 and 1.2 billion people, respectively) and is projected to remain third in the coming decades. The United States is also projected to be one of the nine most populous countries that together will account for half of the world’s population growth between 2010 and 2050. The remaining nine countries (in order of the size of their contribution to global population growth) are all developing countries—India, Pakistan, Nigeria, Ethiopia, the Democratic Republic of the Congo, Tanzania, China, and Bangladesh. The population growth in the developing world will increase the global labor force significantly. But, as [figure 13](#) shows, the share of persons age 65 or over will double between 2010 and 2050.

Figure 13: World Population Is Projected to Grow by Nearly a Third by 2050



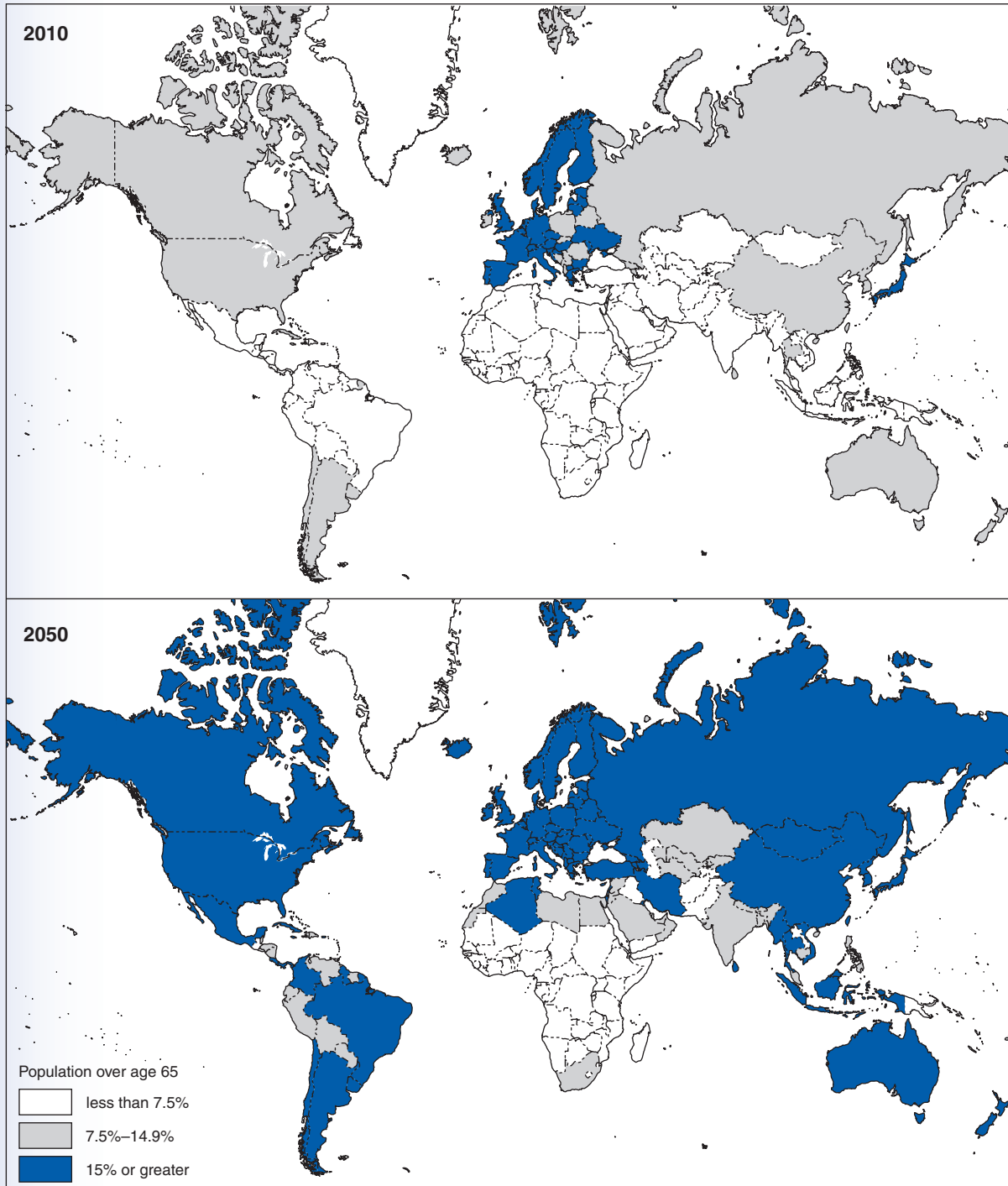
Source: GAO presentation of United Nations data.

Aging

Indeed, as [figure 14](#) illustrates, aging is a global phenomenon. Rising living standards, life expectancy, and declining

fertility have led to a sustained increase in the average age of the population in much of the advanced industrialized world and nations like China and South Korea.

Figure 14: Aging of the World's Population Is Projected to Become More Acute as Percentages of Population over Age 65 Increase, by Country, 2010 and 2050



Source: GAO presentation of United Nations data.

U.S. Demographic Trends

Aging: While the U.S. population's aging is not new, the urgency of understanding its impacts is upon us. The baby boomers—born between 1946 and 1964, inclusive—began to retire in 2008, signaling a profound change for American society. Over the last several decades, the United States was fortunate to have a baby-boom generation of some 75 million swelling the U.S. working-age population and fueling labor force and economic growth. America's population more than doubled in the generation now reaching retirement. But in 2008, the oldest members of the baby-boom generation hit age 62, causing a reversal in this young/old dynamic. Meanwhile, rising living standards over the last 60 years have led to a considerable increase in longevity, from about age 73 for men and age 79 for women in 1950 to nearly age 82 for men and age 86 for women in 2010. Social Security projects that U.S. life expectancy will continue to increase—by about 2 years from 2010 to 2030 and by another year from 2030 to 2050. The U.S. fertility rate, in contrast, is expected to remain flat, though above replacement levels. As a result, Census says, about one in five U.S. residents will be age 65 or older by 2030.

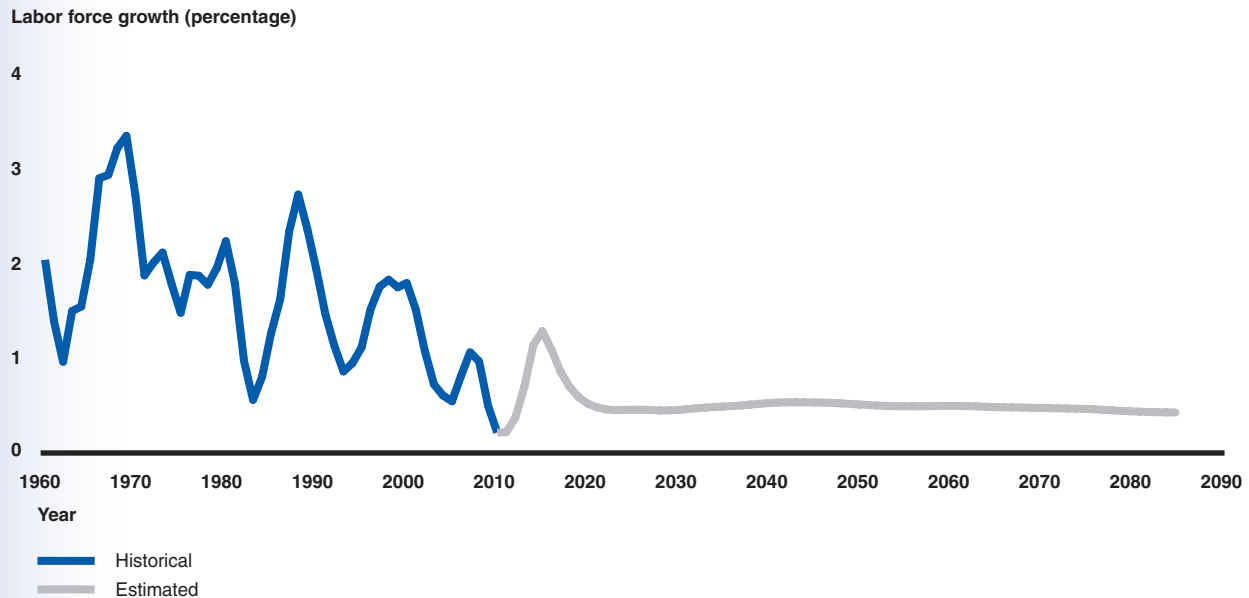
Although the aging of the American population will doubtless create many challenges, compared with other developed nations such as Western Europe and Japan, the economic effects of our aging population may be less severe. Our country is expected to have more youth in the population than these other countries do and, therefore, potentially more workers to support those not in the labor force. And many workers born during the baby-boom years are expected to remain at work. The Bureau of Labor Statistics expects that 95 percent of

the growth of the U.S. labor force over the coming decade will be by those age 55 or older.

Population and economic growth: Census projects that the overall U.S. population will increase by 42 percent by 2050, to 439 million, whereas there will be a doubling of people age 65 or older. As the retirement of baby boomers accelerates, the slightly more than 1 percent growth in the civilian labor force experienced lately is expected to fall to around 0.5 percent. (See [fig. 15](#).) By 2030, the share of the working-age population in the total U.S. population will drop to 55 percent (from 60 percent in 2010). Meanwhile, the dependency ratio—the ratio of those age 20 or younger and age 65 or older to those of working age—will reach 83 percent, versus 67 percent today.

In general, a rising labor force is a key contributor to economic growth, and improved labor productivity is correlated with increased income. To compensate for a slower growing labor force, the productivity of U.S. workers will need to increase. However, to the extent that older workers remain in the labor force, they will contribute to economic growth and increase federal revenues, helping to defray some of the anticipated costs associated with increased claims on Social Security and Medicare.

Diversity: America continues to become more diverse. According to Census's latest population projections, present-day minorities, as a total group, will become the majority of the U.S. population by 2042. Census projects that the U.S. Hispanic population will nearly triple by midcentury and that the share of Hispanics in the overall U.S. population will double, to 30 percent. Census also projects that the

Figure 15: Growth in the U.S. Civilian Labor Force Is Projected to Slow

Sources: Social Security and Medicare Boards of Trustees.

U.S. working-age population will be about 55 percent minority in 2039—more than 30 percent Hispanic (up from 15 percent in 2008), 15 percent black (up from 13 percent in 2008), and 9.6 percent Asian (up from 5.3 percent in 2008). Separately, Census reports that the proportion of the U.S. labor force that is foreign-born has also been rising steadily, doubling from 7.1 percent in 1980 to 15.6 percent in 2007—a level not seen since 1930.

Implications of Demographic Trends on Key Federal Programs

U.S. demographic developments will have important implications for economic growth and, in particular, our ability both to ensure the necessary income maintenance and care of the elderly while investing in the well-being, education, and training of our youths and prime-age workforce.

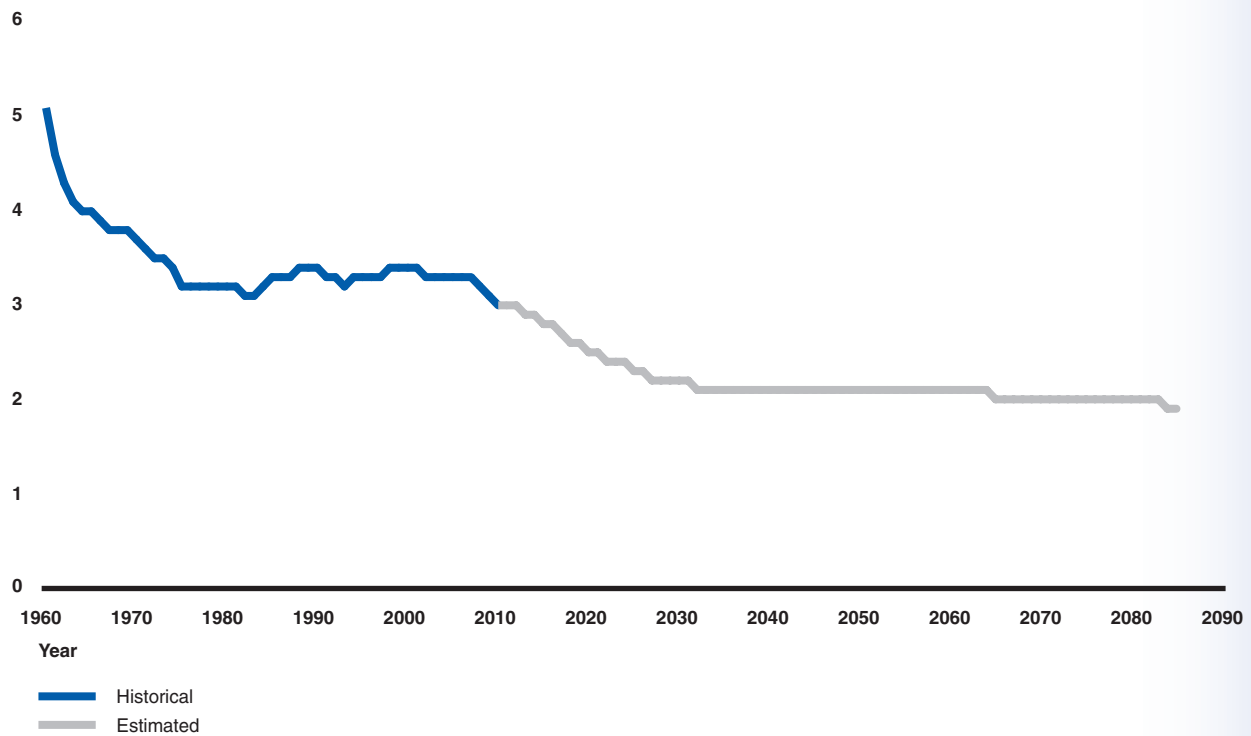
Cost and capacity pressures on old-age programs: Declining labor force growth will leave fewer workers available to support the growing number of retirees.

The change in the ratio of workers to Social Security beneficiaries—measuring the number of people available to support each retiree—will drop rapidly, from 3.2 in 2008 to 2.5 in 2020 and to 2.2 by 2030. (See [fig. 16](#).)

Programs that largely serve the older population, like Social Security and Medicare, will face increased fiscal challenges. Increased life spans and the impending retirement of the baby-boom generation have resulted in major long-term solvency challenges for the Social Security trust funds. If no action is taken, by 2037, Social Security will be unable to pay full benefits promised to retirees. Medicare faces even tougher challenges. Only Part A (hospital benefits) is funded through payroll taxes. Part B (which covers physician and other outpatient services) and Part D (which covers prescription drugs) are funded through a combination of general revenues and beneficiary premiums. However, Part B premiums are set by statute at just 25 percent of projected per capita program costs.

Figure 16: Change in the Ratio of Workers to Social Security Beneficiaries Indicates That Fewer Workers Will Support Each Retiree

Covered workers per OASDI beneficiary (percentage)



Sources: Social Security and Medicare Boards of Trustees.

Capacity constraints at federal and local agencies may also worsen. In addition to Medicare and Social Security, the aging population will increasingly turn to other federal programs, such as Medicaid and the VA health care system, and long-term-care settings, such as nursing homes and home health care arrangements, which generally involve federal oversight to ensure quality of care.

Economic growth and education:

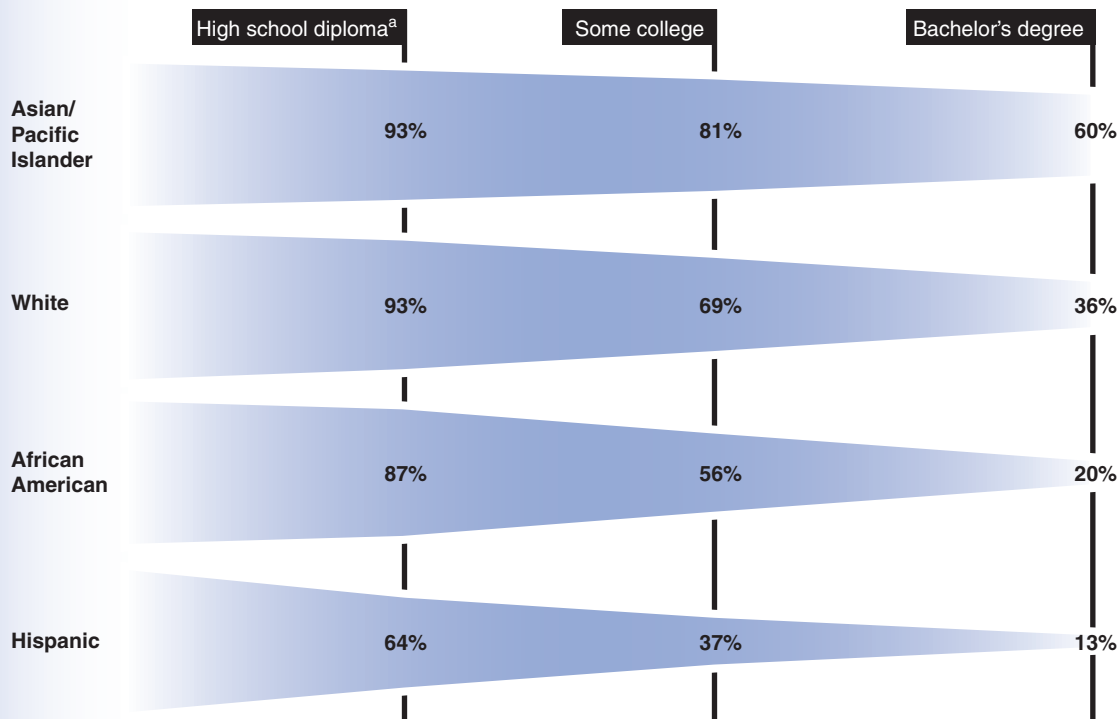
A key strategy to increasing economic growth is to raise worker productivity by, for example, providing a quality education to the school-age population and ensuring workers have opportunities to maintain or enhance their skills. Yet educational performance and outcomes for the U.S. school-age population, including minorities and immigrants,

have also been a long-standing concern that remains to be addressed. Hispanic children—particularly immigrants and first-generation Americans—and black children have tended to lag behind other major demographic groups in educational attainment through high school, as illustrated in figure 17. Recent private analyses show Hispanic and black youths are also more likely to drop out of school, become teenage parents, or live in poverty than white and Asian youths.

The 2008 *National Assessment of Educational Progress Long-term Trend Report* showed improved reading skills, critical to learning, for 9-, 13-, and 17-year-olds overall. Furthermore, the average reading score for 9-year-olds was higher in 2008 than in all previous assessment years. Blacks and Hispanics showed greater

Figure 17: Educational Attainment of Key U.S. Demographic Groups Differs, 2008

Percentage of total number of people ages 25 to 40 having attained a given level of education as of survey date



Source: GAO analysis of Census 2008 American Community Survey data.

^aIncludes those with General Equivalency Diplomas (GED).

improvement in reading scores in the 1971 period than their white counterparts. Nevertheless, the achievement gap between white students and black and Hispanic students remains large and persistent.

Census expects more than half of all children to be minorities by 2023. Such data and projections suggest that policymakers will want to focus on the quality and availability of education and employment opportunities for this large component of the next generation of workers. Otherwise, the problems resulting from a declining worker-to-retiree ratio could be compounded by lower worker productivity and wages.

The challenges to ensuring a well-skilled labor force are not only at the elementary and secondary school levels. For example, increases in costs for higher education have raised concerns about discouraging pursuit or completion of 4-year college degrees, particularly for minority and low-income students. This ability of the United States to ensure the numbers of skilled workers necessary for a high-productivity economy could be adversely affected.

Poverty and family well-being challenges: Rising poverty rates exacerbated by the current recession compound the challenges facing key federal programs. In September 2009, Census reported that the official U.S. poverty rate had risen in 2008 to 13.2 percent, the first

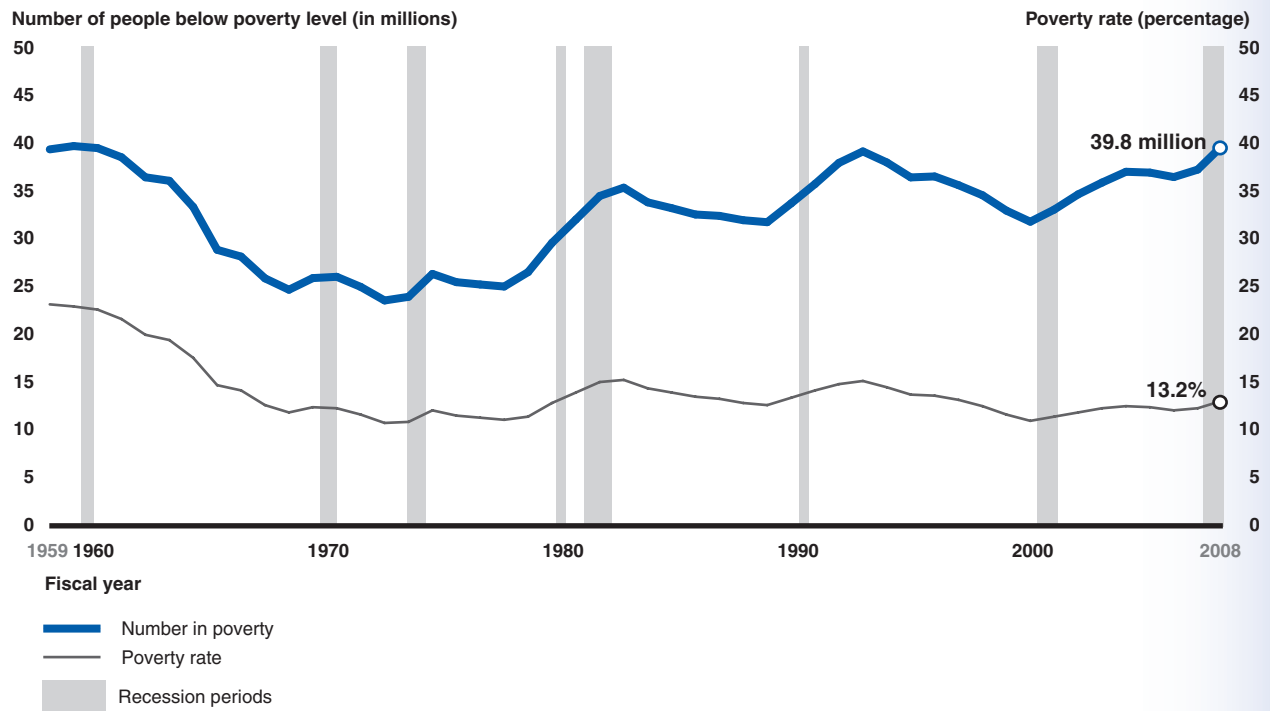
statistically significant increase in the poverty rate since 2004 and the highest rate of poverty since 1997. Children and working-age people (18- to 64-year-olds) both had higher poverty rates, while the poverty rate for those age 65 or older remained steady. All told, 39.8 million Americans lived in poverty, more than at any time since 1960. (See [fig. 18.](#)) Data for 2009 are not available, but in the past the poverty rate and the number of people in poverty have gone up during recessions and even up slightly after recessions.

Economic research suggests that individuals living in poverty face an increased risk of adverse outcomes, such as poor health and criminal activity. When poverty affects a significant portion of the population, negative effects—notably, slower economic growth—can spread to society as a whole. The relationship between poverty and adverse outcomes for individuals is complex, in part because

most variables, like health status, can be both a cause and a result of poverty.

For example, the U.S. Department of Agriculture (USDA) recently reported that about 17 million households in the United States (or 14.6 percent of all U.S. households) were “food insecure” in 2008—that is, household members were, at times, uncertain of having or unable to acquire enough food. Food insecurity was the highest recorded since 1995, even though more than half (55 percent) of all food insecure households were participating in the largest federal food assistance programs. Undernourishment can lead to poor physical and psychological outcomes, such as low birth weights, chronic illnesses, and depression. At the same time, adverse health outcomes associated with poor nutrition and health can limit the development of an individual’s knowledge, skills, abilities, and habits necessary to fully participate in the labor force.

Figure 18: Official U.S. Poverty Has Been Rising



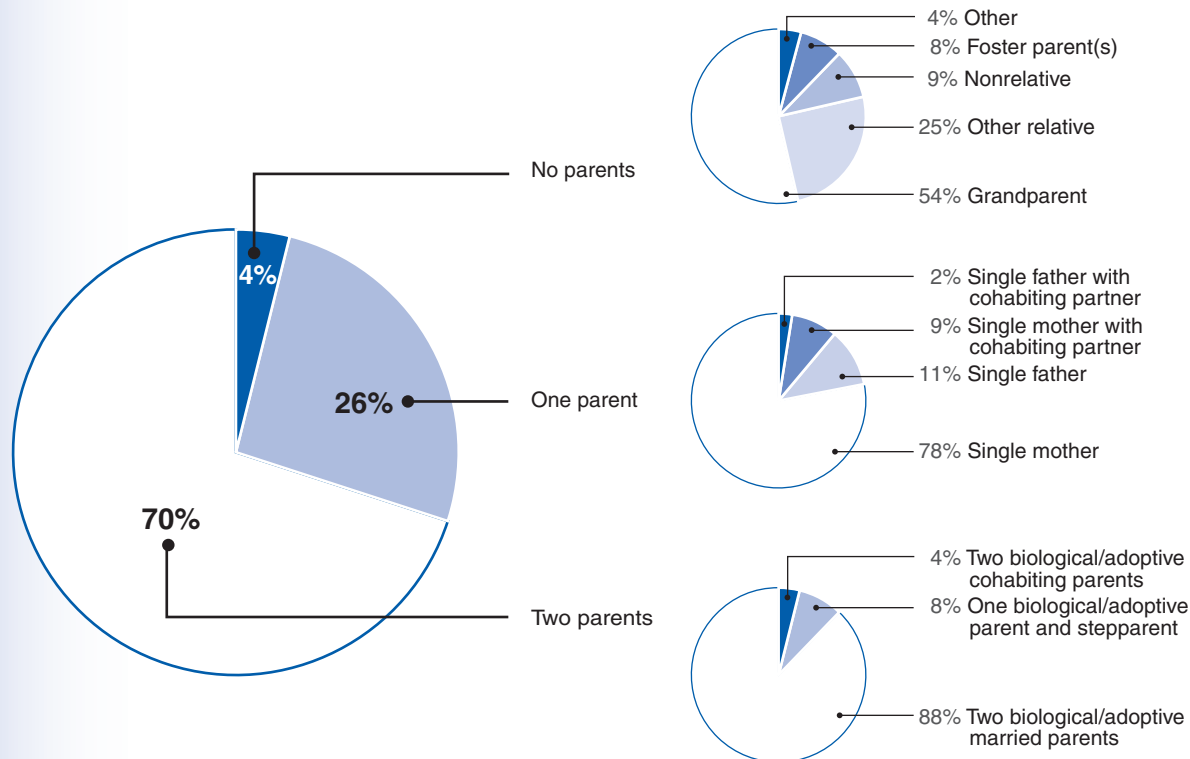
Source: U.S. Census Bureau.

Our nation's youths face other challenges. A federal interagency effort to gauge the well-being of America's children—*America's Children: Key National Indicators of Well-Being*—shows a mixed picture. In 2009, progress was reported in several of the 40 statistical indicators, for example, the number of children who were vaccinated and covered by health insurance. Other indicators, such as those on teenage pregnancy and child poverty, regressed. The report notes that the structure of children's families is associated with the economic, parental, and community resources available to children and their well-being. For example, children of single parents (from divorced or never-married parents) more frequently participate in government assistance programs than do children from two-parent families, and the report found 43 percent of children in female-household families lived in poverty, versus 9 percent of children in married

families. (See [fig. 19](#) for a breakdown of children's family living arrangements.)

The Centers for Disease Control and Prevention (CDC) reports that nearly three-fourths (72 percent) of all deaths among 10- to 24-year-olds result from motor vehicle crashes, other unintentional injuries, homicide, and suicide. CDC's latest *Youth Risk Behavior Survey* found that despite a decrease in the prevalence of many health-risk behaviors since 1991, many high school students continue to engage in behaviors that increase their likelihood of death from these four causes. Young males have particularly higher rates of drug abuse than females. They are also likely to have lower rates of school enrollment and employment. Young men, compared with young women, are less likely to have a college or advanced degree and, if they are ages 20 to 24, are more likely to be incarcerated.

Figure 19: Children's Family Living Arrangements in the United States, 2008



Source: U.S. Census Bureau.

Significantly, more Americans are turning to federal social safety net programs for assistance, and this trend of rising enrollments and outlays is expected to continue. In fact, the U.S. Department of Commerce (Commerce) recently reported that government social benefit transfers to people increased \$232 billion in 2009, while private-sector wages in the United States fell \$303 billion (see [fig. 20](#)). Social security, VA benefits, unemployment insurance, and family assistance programs appear to have played a major “safety net” role. According to Commerce, personal income would have fallen by \$421 billion in real (inflation-adjusted) terms without these government transfers—or by \$441 billion in nominal terms, according to GAO’s calculations.

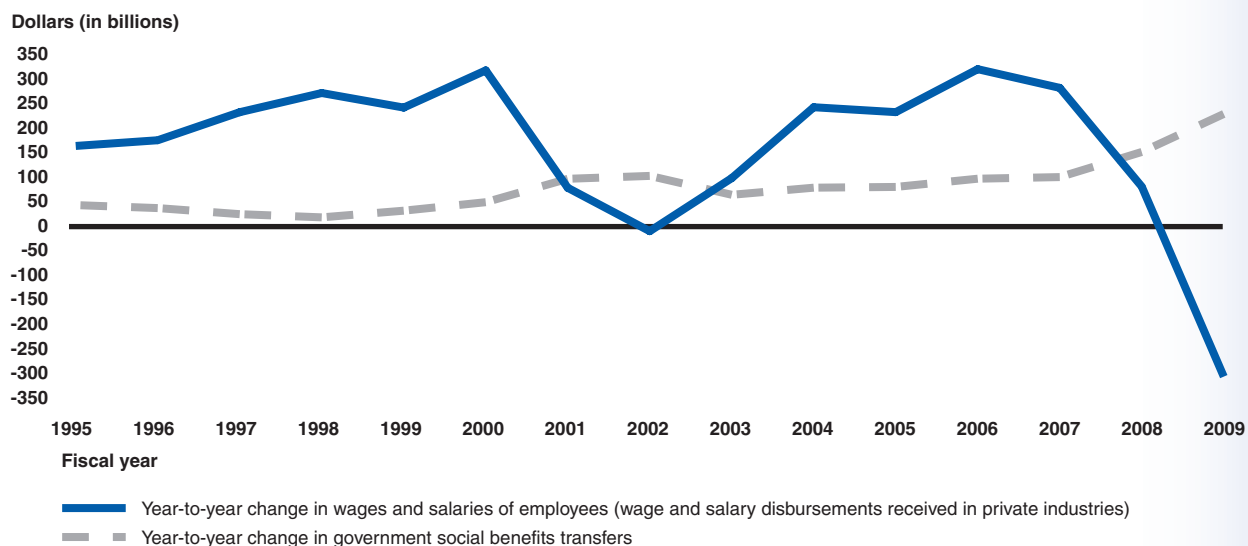
Implications for GAO

These trends will have particular effects on our work in many areas, as well as budgetary and long-run fiscal implications. Given the important influences demographic developments have on a range of federal programs, from Medicare to

nutrition assistance, our work under Goal 1 will:

- **Support health care financing and reform** efforts through analyses of Medicare, Medicaid, and other health programs.
- Assess policy and administrative challenges to the federal government in providing for Americans’ financial security in retirement, as well as **options and strategies to help individuals ensure retirement security** for themselves and their families.
- Examine whether social, economic, and nutrition **programs for low-income workers, families, and children** target resources appropriately, achieve their goals, and provide cost-effective service.
- Assess financial and administrative challenges to providing employer-sponsored pensions and **retaining older Americans in the workforce**.
- Evaluate the federal government’s efforts to assist communities with **combating crime** and to safely and effectively **manage a growing federal prison population**.

Figure 20: Government Transfer Payments Partly Offset Private-Sector Wage Declines in 2009



Source: U.S. Department of Commerce.

Policymakers will also need more timely and relevant information and analysis to react to changing trends. As the federal statistical system is a major contributor of such data and analyses, our work will help identify gaps in information from these sources and identify approaches that the agencies could use to enhance the value of their information products. At the same time, we will be addressing issues such as the growing cost and difficulty of collecting information from the public and the need to ensure its confidentiality.

GOAL 1

Address Current and Emerging Challenges to the Well-being and Financial Security of the American People

In keeping with GAO's mission to support the Congress in carrying out its constitutional responsibilities, GAO's first strategic goal focuses on the need to, as the founding fathers put it, "promote the general welfare and secure the blessings of liberty" for U.S. citizens. Balancing these goals with their associated costs has always had major policy and budget implications for the federal government. Given that the federal government is on an unsustainable long-term fiscal path, it faces one of its biggest balancing acts of all in the coming years:

How does the federal government reconcile Americans' desire to improve the quality of life today with the need to address federal deficits and position the country for sustainable growth?

In light of the circumstances, it is more essential than ever for the Congress and the federal government to accurately identify the nation's greatest needs and ensure that resources are targeted accordingly and are achieving their intended outcomes. This is particularly important as Americans increasingly turn to their government for help at a time when budgets are tightening. GAO's work can help the Congress and the federal government address competing demands and challenges; ensure that federal programs are operating as effectively and efficiently as possible; and identify overlap, duplication, and opportunities for cost-savings.

To address current and emerging challenges to the well-being and financial security of the American people, GAO has established nine strategic objectives:

- 1.1: Financing and Programs to Serve the Health Needs of an Aging and Diverse Population
- 1.2: Lifelong Learning to Enhance U.S. Competitiveness
- 1.3: Benefits and Protections for Workers, Families, and Children
- 1.4: Financial Security for an Aging Population
- 1.5: A Responsive, Fair, and Effective System of Justice
- 1.6: Viable Communities
- 1.7: A Stable Financial System and Consumer Protection
- 1.8: Responsible Stewardship of Natural Resources and the Environment
- 1.9: A Viable, Efficient, Safe, and Accessible National Infrastructure



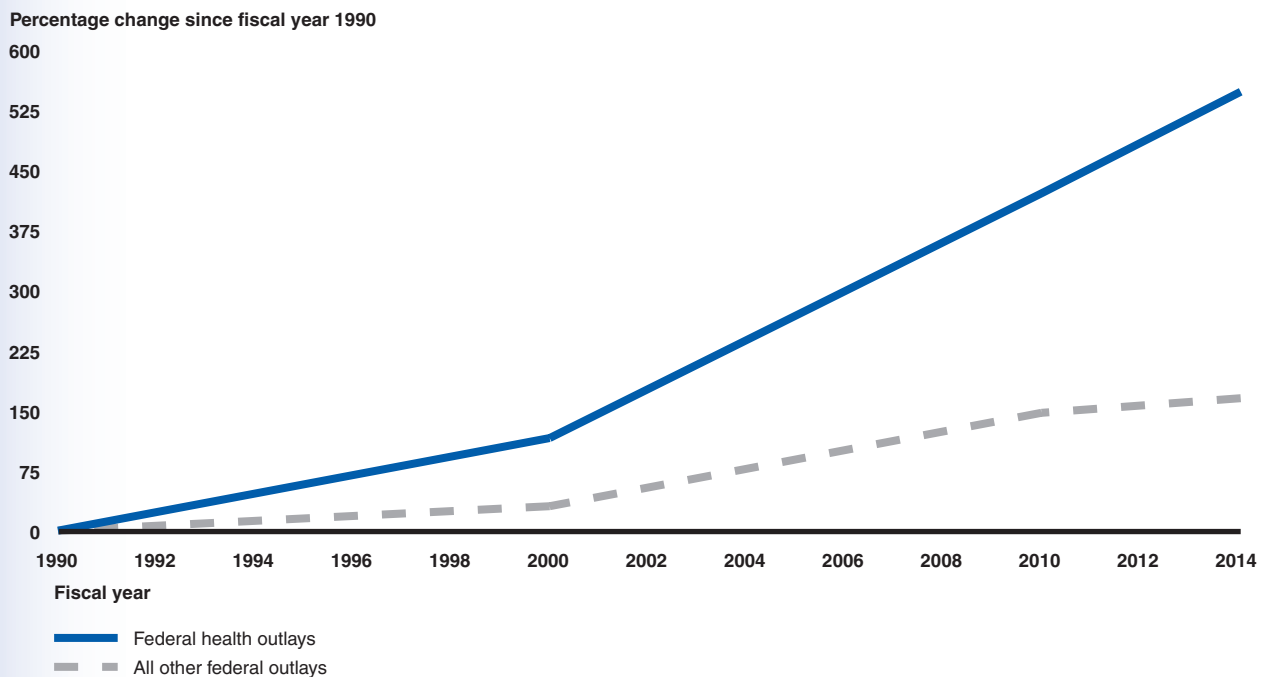
STRATEGIC OBJECTIVE 1.1

Financing and Programs to Serve the Health Needs of an Aging and Diverse Population

By 2018, total health care spending in the United States is expected to reach almost \$4.4 trillion, almost six times what it was in 1990. As a result, the health care sector will continue to claim an increasing share of the national income—from about 12 percent of GDP in 1990 to an estimated 20 percent in 2018. Not surprisingly, health care comprised 25 percent of all federal spending in 2008, has grown three times faster than the rest of the federal budget over the last quarter century, and is estimated to continue to

grow at a rapid pace. (See [fig. 21](#).) This spending growth creates tremendous challenges as the federal government grapples with efforts to institute health care reform and enable access to care for an aging and diverse population, while ensuring care quality and constraining costs. A weak economy and increased unemployment have created further pressure as the number of people who are uninsured or depending on government-sponsored health care coverage has risen.

Figure 21: The Growth of Federal Health Expenditures, Fiscal Years 1990–2014



Source: GAO analysis of Office of Management and Budget data.

Note: The percentages for 1990 through 2009 are based on actual dollar amounts. The percentages for 2010 through 2014 are projected.

New federal efforts: The federal role in health care is becoming ever more critical. In the coming years, the federal government will likely take actions that have the potential to significantly improve the nation's health through new efforts to regulate or reform the provision of health insurance, reform payments to health care providers, safeguard public health, and ensure and oversee the quality of care. Federal programs such as Medicare and Medicaid finance health care for some of the nation's most vulnerable populations—low-income children, people with disabilities, and older adults—and some of these populations are growing. DOD provides health care to servicemembers and their families, and VA provides care to the veterans; the two agencies are jointly responsible for the transition of care for wounded veterans from DOD to VA. Other federal programs that protect and promote the public's health, such as preparing for and responding to public health

emergencies, have to respond to emerging issues and new demands.

Access to health care: The continuing decline of private health insurance coverage has been coupled with a rise in the number of people who rely on government health insurance programs or who are uninsured. From 2000 to 2008, private coverage declined from 203 million to 201 million, while people who report receiving public coverage rose from 69 million to 87 million. Individuals can be covered by more than one public program, such as receiving coverage from both Medicare and Medicaid. With the growth in the uninsured from 38 million in 2000 to 46 million in 2008, the Congress passed the Patient Protection and Affordable Health Care Act (Pub. L. No. 111-148) in 2010. This health care reform has provisions affecting private and public coverage—notably, those involving standards for private health insurance, entities to provide or help consumers access coverage, tax incentives, and enhancements to public programs. Such reforms may increase access to health insurance for some individuals but will need to be carefully monitored for their cost implications, effects on those already covered, and the need for effective regulatory oversight. Further, rising health care spending could lead the federal government to consider other changes in the coming years that could affect access. For example, the federal government is currently estimated to forgo over \$1.4 trillion in tax revenue from 2010 through 2014 as a result of the tax incentives given to employers that contribute to their employees' medical care and medical insurance, but changing these incentives could discourage employers from providing these benefits.



Medicare: Medicare's projected growth in spending will continue pressures to improve its financing and management. Medicare now finances health care for an estimated 45 million Americans who are age 65 or older or with disabilities, at a cost estimated to be \$458 billion in 2010. Medicare spending is expected to rise to \$878 billion by 2019. As our population ages and medical costs escalate, Medicare is expected to more than double its share of the economy by 2035, crowding out other government spending and economic activity. Fundamental, structural changes are necessary to stem this rapid growth and ensure the program's long-term sustainability. Medicare's payment methods must be designed to improve care quality and efficiency while preserving equitable access to care. GAO has designated Medicare as a high-risk program, vulnerable to waste, fraud, abuse, and mismanagement. This makes improvements in management of the program, including preventing improper payments, a priority.

Medicaid: Like Medicare, Medicaid's growth in costs also calls for increased federal oversight to ensure its financial and operational integrity. The aging of the population and the national economic downturn have increased pressure on the program, for which federal expenditures are projected to rise from \$290 billion in 2010 to \$471 billion in 2019. GAO recently redesignated Medicaid as high risk, in part because its decentralized state-administered structure makes federal oversight extremely challenging. This federal-state program covers acute health care and long-term-care services for an estimated 50 million people per month—including about 8 million who also receive Medicare—through more than 50 distinct state-based programs. The Centers for Medicare & Medicaid Services (CMS) provides oversight at the federal level, but the states administer their respective programs' day-to-day operations. Although CMS has taken steps to improve the fiscal and management oversight of Medicaid, CMS's actions remain insufficient given the program's size, growth, and diversity.

Oversight: Federal oversight is needed to ensure that recipients of Medicaid and other programs providing coverage or care to vulnerable populations have access to quality long-term and acute-care services. As of 2007, Medicaid, Medicare, and other public programs contributed about three quarters of the over \$200 billion spent in 2007 on nursing home, home health, and other long-term care. The aging of the baby boomers and longer life expectancies because of medical advances will increase the elderly population over the next three decades, particularly those 85 and older—and will increase the demands for long-term care. The vulnerability of the population

needing long-term care underscores the need for oversight to ensure that providers of institutional or community-based services comply with all federal and state requirements. Medicaid along with the states' Children's Health Insurance Program (CHIP) and other programs are particularly important for responding to the acute health care needs of millions of vulnerable, low-income Americans. However, enrollment has not guaranteed eligible individuals' access to needed medical and dental services. Strengthened federal oversight is essential to ensure that these programs effectively and efficiently provide access to quality care.

VA and DOD: VA and DOD face challenges to improve two of the largest health care systems in the world to better meet the needs of veterans, servicemembers, and their families. VA is expected to spend about \$48 billion in fiscal year 2010 to provide health care to about 6 million patients—about 5.4 million of whom are veterans—while DOD's health care system is expected to spend over \$50 billion in fiscal year 2010 to provide health care to over 9 million eligible beneficiaries, including active duty personnel, retirees, and their dependents. Both systems face challenges to improve and adapt infrastructure and services in an era of growing demand for health care and increasing fiscal pressures.

In addition, these departments must meet the needs of servicemembers returning from Iraq and Afghanistan who transition from DOD's to VA's health care systems. VA's infrastructure is not effectively aligned with its new health care delivery model, which emphasizes outpatient care delivered closer to where veterans live. As a result of the influx of new veteran enrollees

due to relaxed eligibility standards and the return of veterans from combat, VA faces difficult decisions about how best to allocate its resources. DOD faces pressures to adapt its health care structure because of expanded benefits and an evolving marketplace, characterized by rising costs and beneficiaries' concerns about access. Because aspects of VA's and DOD's health care delivery systems are potentially complementary, integrating aspects of their operations could increase their overall efficiency and effectiveness.

Quality of health care: The federal government plays a critical and growing role in promoting, protecting, and ensuring the quality of health care—from patient safety to encouraging the implementation of quality measures—but the effectiveness of the government's efforts remains a concern. For example, such concern has led to the increasing public and congressional scrutiny of the Food and Drug Administration (FDA), which is currently



under pressure to better oversee the drug and medical device industries and now must regulate tobacco products. FDA faces the challenge of increasing inspections of medical products manufactured abroad and conducting more intense review of products already on the market. Federal agencies are also involved in new efforts to improve health care quality, such as by facilitating voluntary reporting on patient safety issues, developing and applying quality measures and payment methods based on them, and expanding health information technology use. However, these can raise new issues, such as maintaining medical information privacy, as the use of health IT expands.

Response to health threats: Recent public health threats—whether natural or manmade—have heightened concern about federal efforts to respond quickly and effectively. Emerging infectious

diseases, like the influenza pandemic caused by the 2009 H1N1 virus, require timely and effective surveillance and prompt action by the CDC and effective coordination with other public health agencies at international, federal, state, and local levels. The use of anthrax as a weapon in 2001 raised concerns about the nation's preparedness for biological terrorism attacks, while disasters such as Hurricane Katrina highlighted the need to effectively plan for catastrophic events that can disable a regional health care system or exacerbate widespread acute or chronic physical and mental health problems. Although the federal government has taken a number of actions to improve preparedness, such as devising a national strategy and implementation plan to deal with influenza pandemics, and the Congress has appropriated funds to help states and localities improve preparedness, many



issues still need to be addressed—such as agency roles in leading the response; the adequacy of surveillance; and gaps in health care capacity, guidance, and planning.

The demands on the federal government to meet Americans' health care needs are growing in volume and complexity, as federal challenges to oversee health programs escalate. GAO's forthcoming work on health coverage options, federal health programs' financing and management, and steps to ensure care access and quality and protect public health can help federal leaders make more informed and strategic decisions in reconciling these competing demands. To support efforts by the Congress and the federal government to address the nation's health care needs in the 21st century, GAO has established the following performance goals and key efforts:

Performance Goal 1.1.1 **Assess trends and issues in public and private health insurance coverage and reforms**

Key Efforts

- Analyze implementation of mandated and potential reforms, such as modifications to federal tax policies and new insurance-purchasing arrangements, for their estimated impact on the numbers of uninsured, costs of health care services, the health insurance industry, and implementation challenges for federal and state agencies.
- Evaluate trends, and the distribution of health insurance coverage, including long-term-care insurance and employer sponsorship of private health insurance for employees and retirees.

- Analyze the coverage and affordability of products available to consumers in the individual and small-group insurance markets.
- Assess the impact of public and private agencies' efforts to achieve compliance with federal and state health insurance standards.

Performance Goal 1.1.2 **Evaluate Medicare reform, financing, and operations**

Key Efforts

- Evaluate CMS's management of Medicare, including its implementation of legislative reforms and its service to providers and beneficiaries.
- Evaluate Medicare payment methods for health care providers and plans and assess the effects of Medicare's payment methods on access to and quality of health care services.
- Examine CMS's safeguards and program controls over provider and plan payments, beneficiaries' access, and quality of health care services.
- Analyze Medicare's financial condition and the potential consequences of structural reforms.

Performance Goal 1.1.3 **Evaluate Medicaid financing, operations, and program integrity**

Key Efforts

- Evaluate federal oversight of states' implementation of Medicaid, including ensuring fiscal integrity and the appropriate use of authority to waive certain statutory provisions.
- Evaluate CMS's and states' safeguards and program controls over provider and plan payments, beneficiaries' access, and quality of health care services.

Performance Goal 1.1.4 **Evaluate federal and state program strategies for financing and overseeing long-term health care**

Key Efforts

- Examine nursing homes' compliance with federal and state quality standards, including the adequacy of federal and state oversight and resources.
- Review federal requirements and standards and their use in ensuring quality care in community-based, long-term-care settings, such as home health arrangements, assisted-living facilities, and adult day care.
- Analyze public and private payment sources and strategies that finance the continuum of long-term care, including integrated programs for elderly or disabled beneficiaries who are dually eligible for Medicare and Medicaid.

Performance Goal 1.1.5 **Assess state experiences and federal oversight in providing health coverage or health care for low-income and other vulnerable populations through Medicaid and other programs**

Key Efforts

- Evaluate Medicaid and CHIP access and coverage for vulnerable populations, such as the chronically ill, and access to and use of services under different service-delivery systems, payment methodologies, and cost-sharing practices.
- Assess other programs, such as Federally Qualified Health Centers, that provide or fund health care to vulnerable populations.

Performance Goal 1.1.6 **Assess actions and options for improving VA's and DOD's health care services**

Key Efforts

- Evaluate proposals to restructure or consolidate VA's health care system, including proposals on capital asset realignment and resource-sharing.
- Review implementation of VA resource allocation and revenue collection systems and budget formulation and execution practices.
- Assess implications of changes to VA and DOD health benefits and health care delivery systems, including whether integrating aspects of their operations could increase their overall efficiency and effectiveness.
- Assess vulnerability of VA's system to fraud, waste, abuse, and mismanagement.
- Examine access to and quality and cost of care for VA and DOD beneficiaries, including DOD's efforts to contain and share the costs of expanded benefits for active duty, reserve, and retired beneficiaries, and VA's and DOD's efforts to provide care and seamless transitions for veterans returning from Iraq and Afghanistan.

Performance Goal 1.1.7 **Evaluate the effectiveness of federal programs to promote, protect, and ensure the quality of health care**

Key Efforts

- Assess the regulatory structure for ensuring the safety and efficacy of medical devices, drugs, and other medical products and therapies and impediments and barriers to the development of new prescription drugs and vaccines.

- Evaluate efficiency and effectiveness of public health agency programs and operations.
- Evaluate federal efforts to ensure health care quality.
- Examine the use of health IT and its effects on the costs and quality of care.
- Evaluate the effectiveness of programs to provide prevention, treatment, and other services related to mental health conditions, including substance abuse.

Performance Goal 1.1.8

Evaluate the effectiveness of federal programs to prevent, prepare for, and respond to public health emergencies

Key Efforts

- Assess the effectiveness of federal programs and evaluate the need for federally funded efforts to ensure state and local governments' preparedness for a public health emergency, including activities such as surveillance, training, and developing communication systems and laboratory capacity.
- Evaluate the development and acquisition of vaccines and other treatments for biodefense, including the use of risk assessment in acquisition decisions.
- Evaluate the ability of federal public health agencies to detect and counter emerging threats to the nation's health, including whether any duplication or overlap in responsibilities, activities, or efforts exists that could be better coordinated or consolidated to achieve greater efficiency.

STRATEGIC OBJECTIVE 1.2

Lifelong Learning to Enhance U.S. Competitiveness

Ensuring lifelong learning opportunities that enable people to learn and attain skills throughout their lives—from early childhood through their adult years—is critical to our society’s well-being and long-term ability to compete in a global marketplace. The education system is contending with rising student enrollments, ever higher costs, and tight budgets. The federal employment and training system has been stretched thin in its efforts to serve the increasing numbers of laid-off workers who need assistance. The federal government invested \$82 billion in fiscal year 2008 on programs that foster the development, education, and skill attainment of children and adults of all ages. Although this funding is expected to increase to almost \$96 billion in 2010, these challenges highlight the need to effectively manage and target federal resources.

Educating children: The federal government faces significant challenges in supporting the education of children, particularly during a period of significant fiscal constraint. Policymakers have advocated the need for a more integrated and seamless continuum of programs for children from birth through school age. The current administration is considering ways that would better align early care and development systems with kindergarten through 12th grade (K-12) education through upcoming reauthorization of the Elementary and Secondary Education Act (ESEA) and the Child Care and Development Block Grant. For example, options are being discussed to include inserting professional development and credentialing requirements in ESEA that would encompass both K-12 and pre-K teachers, as well as providing expanded



flexibility to local education agencies to use ESEA funding for pre-kindergarten (pre-K) programs. Partly as a result of adverse long-term fiscal conditions, the imperative for a growing portion of the population to self-finance an adequate retirement income, and the increased financial complexity of many common consumer decisions, policymakers have also identified the need for schools to improve the financial literacy skills of their students. However, the lack of integrated data systems, the absence of coordinated standards for what students should learn, and protracted and worsening fiscal constraints limit the capacity of both federal and state governments to align, coordinate, and monitor programs and funding in ways that can accomplish these goals.

Student performance: The administration and the Congress have also made improving low-performing schools a top



priority, providing \$3 billion under the American Recovery and Reinvestment Act of 2009 (the Recovery Act) to help these schools. Title I of ESEA, also referred to as No Child Left Behind, is targeted to low-income school districts and schools. ESEA has focused national attention on increasing accountability for states and school districts to improve achievement for all students, while continuing the traditional focus of federal K-12 programs that provide opportunities for children from disadvantaged families. One key factor for closing achievement gaps and improving student performance will be the effectiveness of the nation's teaching workforce. GAO and others have identified obstacles to these goals, however, such as weak coordination among the many federal programs addressing teacher issues. It will be essential for the federal government to address these obstacles and leverage federal expenditures to improve the effectiveness of the teaching workforce in raising student achievement and ensure consistent access to high-quality education.

Higher education: America's higher education system is also beset by a number of challenges:

- Students and their families face escalating educational costs.
- Postsecondary enrollments are projected to increase in the next decade.
- Fiscal and budgetary pressures will constrain federal and state support to higher education.

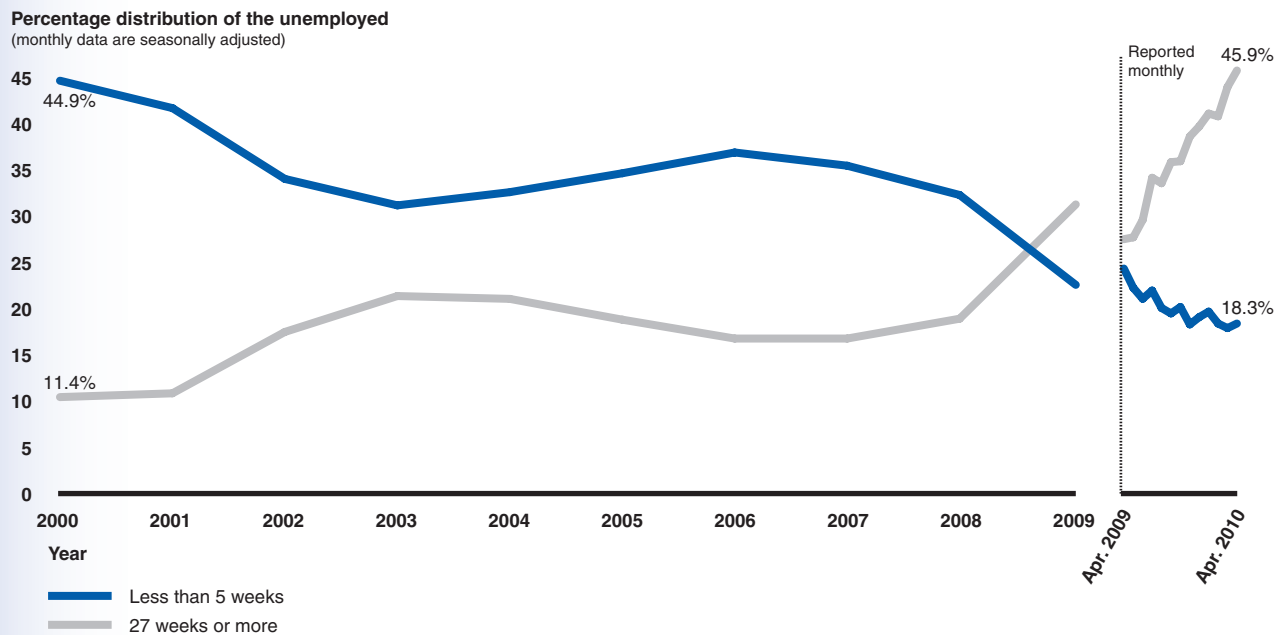
In fiscal year 2009, the federal government provided about \$113 billion in financial aid to almost 13 million students and their families, a substantial increase in funding over fiscal year 2008. Given the likelihood of increased demand for these funds to

help cover the cost of college, it will be important to look for ways to control rising costs and maximize the federal investment in them, as well as in programs that promote access, affordability, and completion for disadvantaged students. Federal efforts must address these challenges and improve oversight to ensure that the federal investment in postsecondary education is adequately protected.

Employment and training: High levels of unemployment and long-term joblessness, and the increasing number of dislocated workers highlight the need for job training and related services. For example, the percentage of the unemployed who remain jobless 27 weeks or more rose from 11 percent in 2000 to 46 percent in April 2010, while the percentage who are unemployed less than 5 weeks declined from 45 percent in 2000 to 18 percent in April 2010 (see [fig. 22](#)). While unemployment may decline somewhat

as the economy recovers, the number of unemployment insurance beneficiaries is expected to remain higher through 2013 than it was in 2008. Moreover, even when the economy starts adding more jobs than it loses, there are concerns that many of the unemployed will find that the types of jobs they previously held are no longer available. The Department of Labor (Labor) anticipates a significant increase in the depth and breadth of training needed for dislocated workers and youths. Job search assistance, training, and re-employment services—such as those offered through the Workforce Investment Act (WIA) and Trade Adjustment Assistance programs—can help develop the skills that employers require, while minimizing long-term unemployment. Key issues for policymakers will be how limited funding can best be leveraged and targeted to enhance the skills of the U.S. workforce, strengthen program accountability and oversight, and improve coordination among employment programs.

Figure 22: Duration of Unemployment, 2000–2009 (Annual Data), April 2009–2010 (Monthly Data)



As the Congress and federal government continue to refine the country's education and employment programs, they will need reliable information on:

- how efficiently and effectively federal funds are used to provide or augment educational and lifelong learning opportunities, particularly among those most in need of help;
- how well federal programs are achieving their objectives and meeting the changing needs of workers; and
- how the management and oversight of these programs can be improved.

The Congress and GAO will also be monitoring the impact under the Recovery Act of increased funding to education and employment programs—such as Title I of ESEA, the Individuals with Disabilities Education Act (IDEA), and WIA—and tracking the expansion of early childhood programs, such as Head Start and Early

Head Start. These efforts will require a large role for the federal government and the states as they oversee the distribution of additional funds. To support efforts by the Congress and the federal government to address these issues, we will use the following performance goals and key efforts:

Performance Goal 1.2.1

Assess options for federal programs to effectively address the educational needs of children and youths and their educational settings

Key Efforts

- Evaluate the cost, coordination, potential overlap, and availability of child care and early childhood education.
- Provide information on trends and changes in student performance outcomes in early childhood and K-12 education programs.
- Assess the impact of efforts to close achievement gaps among disadvantaged populations in K-12 education programs.



- Evaluate federal oversight and management of education programs.
- Evaluate support for state, local, and private-sector program service providers and efforts to coordinate service delivery.

Performance Goal 1.2.2 **Identify opportunities to improve programs that provide postsecondary education and federal student aid**

Key Efforts

- Determine how well programs designed to promote access to and affordability of postsecondary education achieve their goals.
- Assess efforts to assist disadvantaged populations to complete postsecondary education.
- Evaluate oversight and management of postsecondary education and federal student aid programs.

Performance Goal 1.2.3 **Identify ways to improve programs that facilitate job opportunities for workers and enhance their employment skills**

Key Efforts

- Determine how employment and training programs are responding to changing economic and budgetary conditions to better assist workers.
- Evaluate federal oversight and management of employment and training programs and identify potential overlaps.
- Evaluate oversight of employment and training providers and efforts to coordinate service delivery.



STRATEGIC OBJECTIVE 1.3

Benefits and Protections for Workers, Families, and Children

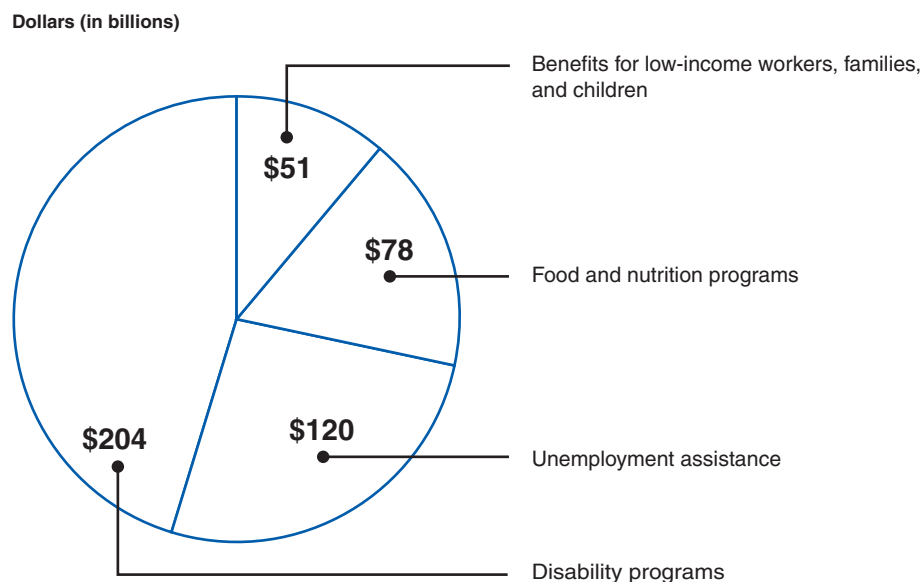
Through a wide range of programs, the federal government, often through states, plays an essential role in promoting and supporting work among those able to work, aiding those unable to provide for themselves, and protecting vulnerable populations. In fiscal year 2009, the federal government invested more than \$453 billion in these programs (see [fig. 23](#)), which together form the foundation for the nation's social safety net. Yet the growing federal deficit, the economic downturn, and changing workforce demographics driven heavily by the aging of baby boomers are among the many factors increasing demand for supports and benefits and challenging customary federal approaches. It is thus imperative to explore and assess other

approaches for providing benefits and protections in a cost-effective manner while promoting program integrity.

Assistance programs: Even during prosperous times, tens of millions of individuals and families face daunting challenges and turn to a patchwork of social programs. These programs provide needed benefits, such as financial or food assistance, or protection for vulnerable groups, such as children and the elderly:

- The severe economic downturn exacerbated these challenges, and if historic experience repeats, low-income families will be slow to recover: Poverty will continue to rise for some time, even after recovery. [Figure 24](#) shows

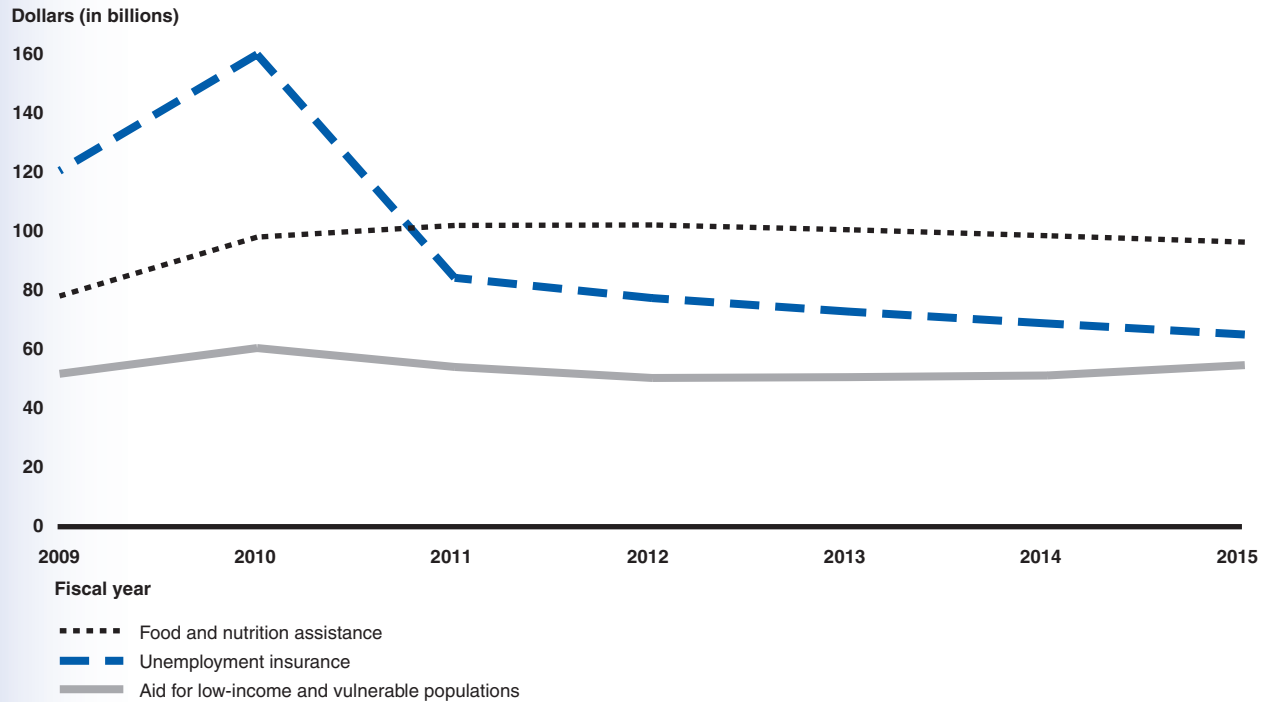
Figure 23: Funding for Selected Benefit Programs, Fiscal Year 2009



Total: \$453 billion

Source: GAO analysis of data from the Office of Management and Budget, Social Security Administration, and Department of Veterans Affairs.

Figure 24: Estimated Outlays for Selected Assistance Programs, Fiscal Years 2009–2015



Source: GAO analysis of Office of Management and Budget data.

rising estimated outlays for food and nutrition assistance, driven mainly by the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program), to 2015.

- Further, many states are expected to face severe budget stresses over the next few years, raising questions about the capacity of state-administered programs to address long-standing intractable problems, such as the estimated 900,000 children who are victims of child abuse or neglect each year. Although \$67 billion in Recovery Act funds is estimated to be spent on many of these programs over the next few years, concerns have been raised about the capacity of service providers beyond the availability of this additional funding. Moreover, despite an increased focus on work following the nation’s overhaul of its welfare programs and the ensuing reductions in welfare caseloads, self-sufficiency continues to

elude many, such as those with a limited education or disability. As states and localities use their federal funds to try different approaches to serving those in need, it is important to gain further insight into cost-effective approaches that support desired program outcomes and appropriately balance the need for accountability with state flexibility to design programs that reflect their needs and values.

- Also, billions of dollars in benefits continue to be incorrectly paid through these social programs each year. For example, state-administered federal programs, such as unemployment insurance and SNAP, have reported billion of dollars in improper payments. Further study of federal and state efforts will be required to reduce these improper payments, as well to disseminate promising practices.

- Finally, the performance of some programs during the economic downturn—such as unemployment insurance and welfare—has raised questions about their ability to respond to varying economic conditions. In the coming years, GAO will examine federal and state efforts to deliver benefits to the target populations that appropriately balance program integrity with benefit access and that promote cost-effective approaches to achieving program goals.

Worker protections: For those who are already working, the government is increasingly challenged to protect safety and health, wages, and equal employment opportunities, as well as the security of sensitive personal information, such as the Social Security number (SSN):

- Regulations and activities by federal agencies, such as the Occupational Safety and Health Administration, need revision to reflect changes in the work arrangements and demographics of the nation's workforce. Such changes include the increasing use of telework, temporary workers, and independent contractors (who do not now receive safety and health protections through their employers). Through enforcement and other strategies, such as voluntary compliance programs, federal and state efforts must balance the need to protect workers with employers' needs to increase productivity in an increasingly competitive global environment.
- The federal government also faces challenges in protecting workers' sensitive personal information, such as the SSN. Despite its narrowly intended purpose, the SSN has in practice become the national identifier and is central

to a range of vital transactions and services, such as obtaining a driver's license, and receiving health care. For this reason, SSNs are key pieces of information in creating false identities. The terrorist events of September 11, 2001, underscore the importance both of issuing SSNs only to those eligible for them and protecting those SSNs already assigned to individuals. The flow of noncitizens into the United States and the accompanying number of SSNs issued to this group over the last several years add to the importance of having sound practices to avoid issuing SSNs to those who do not qualify for them and to ensure the identity of those who receive them. Millions of people become victims of identity theft each year—up to 4.6 percent of the U.S. adult population—translating into losses exceeding \$50 billion. Recent security breaches of both federal and private data sources have highlighted the challenges to preventing identity theft. GAO will assess federal



and state efforts to appropriately use and safeguard SSNs and prevent their improper use in securing other key documents, such as driver's licenses, as well as ensure safety, health, and other protections for workers.

Disability programs: Federal disability programs have grown during the economic downturn and are poised to grow further as more baby boomers reach their disability-prone years. For example, because of the increasing number of beneficiaries relative to the number of workers paying into Social Security, the Social Security Administration's Disability Insurance program is projected to grow by more than 40 percent between 2004 and 2030. Of the 54 million Americans with physical or mental impairments, millions apply for benefits each year through one or more of the nation's disability programs. Almost 200 federal programs administered by 21 federal agencies provide various types of support for individuals with disabilities, including monetary benefits, employment-related assistance, medical care, and information. Several of these 21 agencies provide similar services, potentially causing overlap and duplication.

The Social Security Administration and VA oversee four of the largest programs, which collectively paid out more than \$185 billion in cash benefits to more than 17 million beneficiaries in 2008. These programs have struggled to address increasing workloads; provide timely, accurate, and consistent eligibility decisions; and prevent overpayments. At the same time, the tens of thousands of service members wounded in recent military conflicts have strained the capacity of the DOD and the VA disability evaluation processes, including their ability

to provide timely and accurate disability decisions. Moreover, other federal disability programs face challenges in providing additional support and services, including health care and return-to-work assistance, such as vocational rehabilitation. GAO added modernizing disability programs to its High-Risk List in 2003, noting that federal disability programs in general do not fully incorporate how advances in medicine and technology impact individuals' ability to live with greater independence and function in work settings.

Taken as a whole, efforts need to continue to be made to better position disability programs to provide meaningful and timely support for persons with disabilities. Effectively coordinating our nation's myriad disability programs is essential to ensure efficient service delivery and improve supports. GAO will assess federal efforts to provide accurate, timely, and consistent disability decisions to program applicants; reduce fraud, waste, and overpayments; and modernize and increase coordination among federal disability programs, which could help minimize overlap and duplication. This would include assessing how federal programs can leverage new medical and technological advances to increase work participation for more individuals at the earliest viable point.

To support government efforts to address these issues, we will use the following performance goals and key efforts:

Performance Goal 1.3.1 Identify opportunities to improve programs that provide social services and economic and nutrition assistance to individuals, families, and children

Key Efforts

- Determine whether social, economic, and nutrition programs achieve their goals and appropriately target resources.
- Assess federal and state oversight and management of social services and economic and nutrition assistance programs to ensure program integrity.
- Analyze issues related to cost-effective service delivery, effects on special populations, and interactions among programs.

Performance Goal 1.3.2 Assess the effectiveness of strategies and safeguards to protect workers as well as individuals' identities

Key Efforts

- Assess federal and state efforts to ensure safety, health, and other protections for workers.
- Evaluate federal and state efforts to promote workplace quality through direct intervention and cooperative approaches.
- Assess efforts to appropriately use and safeguard SSNs.

Performance Goal 1.3.3 Identify ways to improve federal policies and support for people with disabilities

Key Efforts

- Assess the operations and program integrity of federal disability programs and whether they follow best practices.
- Assess DOD and VA efforts to provide services to wounded warriors and other servicemembers with disabilities.
- Assess efforts to modernize and coordinate federal policies and programs that provide support and services to people with disabilities.

STRATEGIC OBJECTIVE 1.4

Financial Security for an Aging Population

Providing retirement income security in the United States has traditionally been a shared responsibility of government, employers, and individual workers. However, the financing shortfall facing Social Security and Medicare, which could result in benefit reductions, and the declining security of employer-provided pension plans suggest a shift in responsibility and risk to individual workers for ensuring an adequate and secure retirement. These trends are the outgrowth of broader developments associated with population aging, global competition, and labor market trends and are unlikely to abate in the near future. With the baby-boom generation beginning to retire, the Congress (1) will need more information on the economic, financial, and social implications of these trends to ensure that

government, employers, and workers share retirement risk equitably and efficiently and (2) will need to ensure that the Social Security Administration is efficiently managing the influx of new baby-boom retirees. Such information will also help workers make informed retirement planning decisions, including on when and how to retire and invest their savings. Moreover, these decisions may be driven in part by the interaction between federal programs, including any changes to retirement age, health insurance coverage, and disability benefits.

Sustainability of retirement programs:

Since 1960, life expectancy at age 65 has increased by over 3 years. By 2050, persons age 65 or over will account for over 20 percent of the total U.S. population, up from about 13 percent in 2000. If retirement ages do not adjust to these changes, people are expected to spend more time in retirement. This will adversely affect the sustainability of pay-as-you-go-financed federal retirement programs. Although the Social Security trust funds are not expected to be depleted until 2037, the strains on government finances will begin as early as 2016, when Social Security starts to pay out more than it takes in each year.²⁹ Given current benefit and revenue streams, Social Security programs will face shortfalls over the long run, and the federal government is going to have to make hard choices regarding either benefits or revenues or both, to stabilize the

²⁹In 2010 and 2011, the Social Security program is expected to pay out more in benefits than it collects in taxes. However, this is not expected to happen again until 2016 when, without changes, it will occur every year until the trust funds are depleted.



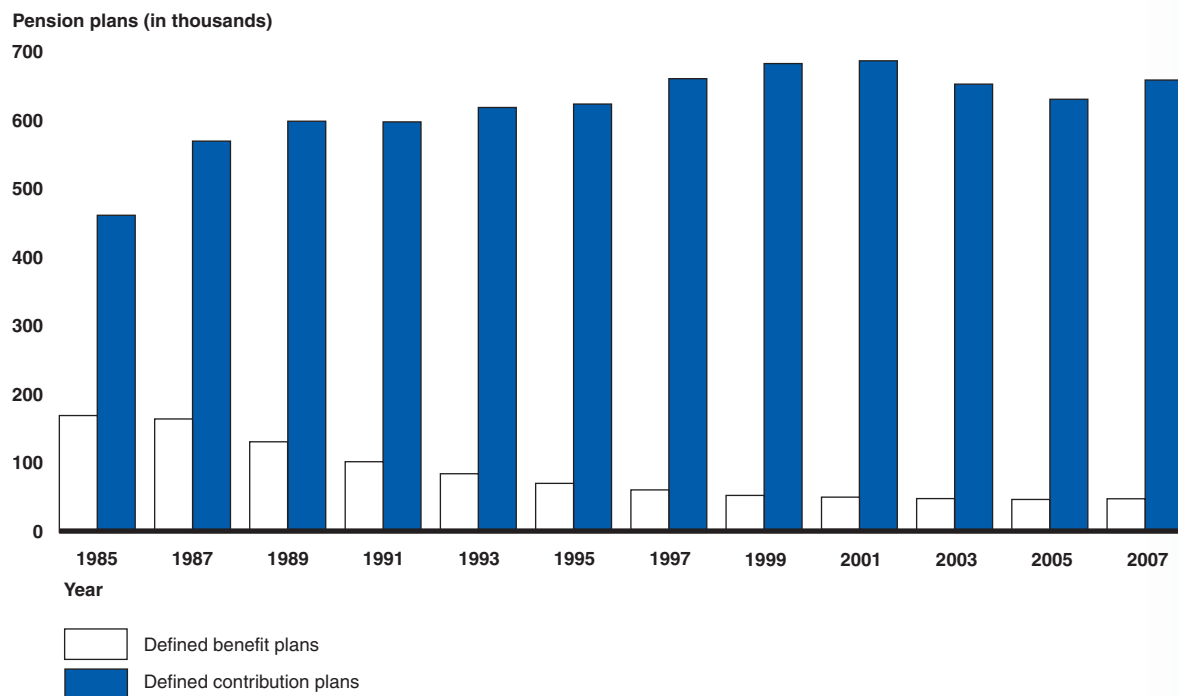
programs. To the extent such choices reduce benefits, they will affect the level of financial resources workers can draw on during retirement. Furthermore, the expected increase in the average amount of individual health care expenses—from 17 percent of the average Social Security benefit in 2010 to 37 percent in 2080—may further reduce these resources.

Employer-provided pensions: Although many Americans will rely on employer-provided pensions for an important part of their retirement income, this source of income is also facing challenges:

- Because providing pensions is voluntary, not all employers offer a pension and, among those that do, not all employees choose to participate. At any given time, only about half of the private-sector workforce has a pension.
- The number of defined benefit pension plans (see [fig. 25](#)) has declined dramatically as has the percentage of the private labor force covered by these plans.
- Meanwhile, employers are increasingly moving away from traditional defined benefit plans to what has become the most

When a defined benefit pension plan is in financial distress, the Pension Benefit Guaranty Corporation (PBGC), which insures the defined benefit pensions of 44 million participants, protects a portion of the retirement income of workers by providing a guaranteed maximum benefit. GAO placed PBGC’s programs on its High-Risk List because of concern about the program’s long-term net financial position. PBGC’s structural financial shortfall has worsened because of unfavorable economic conditions and the instability of pension plans PBGC insures, particularly those of major employers in the manufacturing and transportation sectors. At the end of fiscal year 2009, PBGC’s programs registered a negative net accumulated position of \$21.9 billion, an increase in the deficit of \$10.8 billion over the prior year.

Figure 25: Number of Defined Benefit and Defined Contribution Plans, 1985-2007



Source: U.S. Department of Labor.

dominant and fastest growing type of defined contribution plans, 401(k) plans; 401(k) plans allow workers to save for retirement by diverting a portion of their pretax income into an investment account that can grow tax-free until withdrawn in retirement. As participants accrue earnings on their investments, they also pay a number of fees, including expenses, commissions, or other charges associated with a 401(k) plan. Since workers now largely bear the risk of investment under 401(k) plans, any factor or decision that negatively affects participants' retirement savings income, such as adverse fees or hardship withdrawals, can have potentially irreversible consequences for the participant's retirement income and could result in workers having to extend their work life or rely more heavily on personal savings.

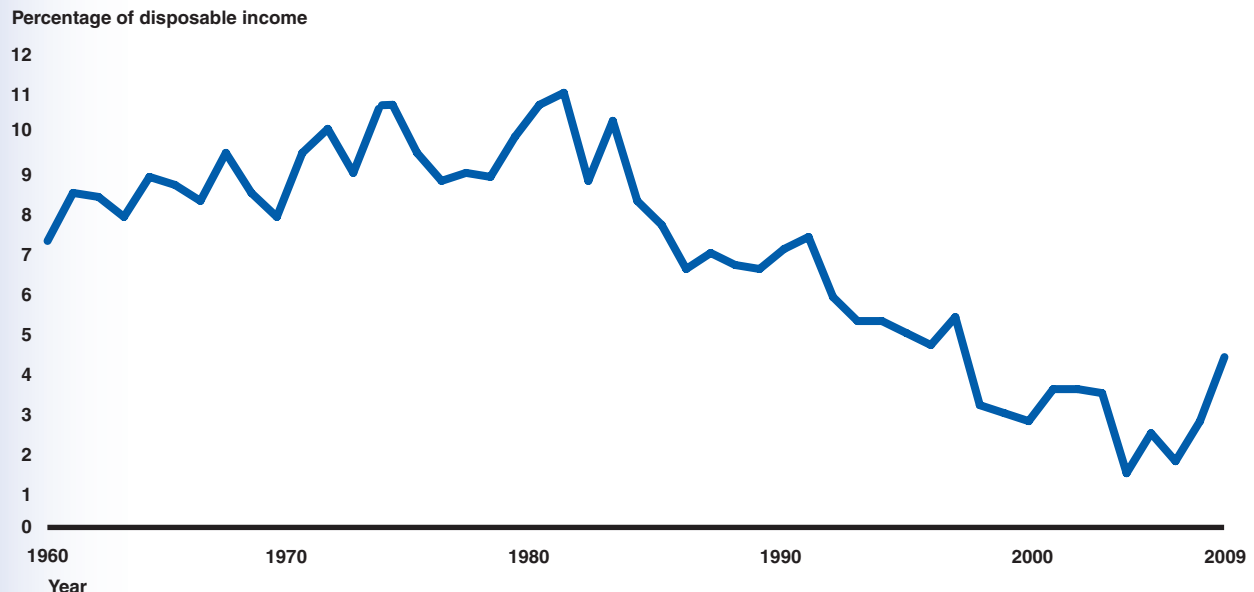
Personal savings: Despite the outlook for federal retirement programs and employer-sponsored pension plans, individuals have so far not filled in the gap with personal saving, and the economic downturn has depleted the savings of many individuals.

In 2007, only 40 percent of families headed by someone ages 55 to 64 owned an Individual Retirement Account, and among families in this cohort in 2009, median account balances were \$52,000.³⁰ In recent years, personal saving as a percentage of disposable income has been very low. In 2005, for example, personal saving averaged just 1.4 percent of disposable income. The economic downturn has caused people to decrease spending, which has likely increased saving: The personal saving rate rose to 4.3 percent by 2009. (See [fig. 26](#).) Whether this trend will continue remains to be seen.

Delaying retirement: In response to these challenges and changing economic conditions, many workers may need to stay in the labor market past today's typical retirement age, which is about age 62 for both men and women. This trend may already be under way and may have strengthened during the economic downturn. For example, the highest

³⁰This amount is based on an adjusted 2007 median of \$65,000, adjusted by market index returns and asset allocation of IRA and Keogh owners.

Figure 26: Personal Saving Rate as a Percentage of Disposable Income, 1960-2009



Source: U.S. Department of Commerce.

participation rate increases between 2008 and 2018 are projected to be 7.5 percent for workers ages 62 to 64, and 6.2 percent for workers ages 65 to 69. Many employers indicate a willingness to recruit or retain older workers, and some programmatic changes, such as the Social Security earnings test for those people above the normal retirement age, have been updated to eliminate penalties for continued work. But most employers have not made the types of changes—such as establishing alternative work and schedule arrangements or allowing phased retirement—that would accommodate the needs and preferences of older workers. The Congress and employers must address the labor market challenges posed by an aging population and encourage older workers to participate in the workforce.

In the coming 3 to 5 years, GAO will examine policies aimed at ensuring financial security by stabilizing the Social Security program for the long run and enhancing retirement security through improvements to pension plan features. Improved financial literacy and greater awareness of retirement income needs can also help workers develop strategies to ensure income security in old age. To support these efforts, GAO has established the following performance goals and key efforts:

Performance Goal 1.4.1
Assess the policy and administrative challenges to the federal government in providing for Americans’ financial security in retirement

Key Efforts

- Analyze policies to ensure Social Security’s financial stability and continued effectiveness as the foundation of retirement income.

- Assess challenges facing the Social Security Administration in providing customer service and ensuring program integrity.

Performance Goal 1.4.2
Assess the financial and administrative challenges to providing employer-sponsored pensions and retaining older Americans in the workforce, and their implications for national retirement security

Key Efforts

- Monitor the impact of changing economic conditions on PBGC, defined benefit pension plans, and regulations to protect benefits.
- Monitor the impact of changing economic conditions on pension offerings, savings, and participation in defined contribution plans.
- Identify strategies to enhance the role of private pensions and increased employment of older workers.

Performance Goal 1.4.3
Assess options and strategies to help individuals ensure retirement security for themselves and their families

Key Efforts

- Examine challenges to workers posed by the rise in the risk and responsibility they bear for their retirement security.
- Examine financial vehicles to foster greater retirement savings and how people adapt to changing economic conditions.
- Examine the effectiveness of services and protections provided to individuals at older ages.

STRATEGIC OBJECTIVE 1.5

A Responsive, Fair, and Effective System of Justice

As the U.S. population ages, the ongoing downward trend in violent crime, exhibited by the recent 10 percent decline in murder and manslaughter in 2009, is expected to continue. At the same time, increasingly sophisticated transnational criminal and drug organizations will present new and growing challenges for the Department of Justice (DOJ). In particular, the Federal Bureau of Investigation (FBI) estimates that the United States will continue to face terrorist threats, along with an increase in ethnic-related organized crime—including white-collar crime, racketeering, and human trafficking—that will increasingly affect local communities throughout the United States. DOJ and the federal judiciary

also face challenges in effectively managing resources, while ensuring accountability to the taxpayer in the face of tight budgets, a continued focus on terrorism, new and evolving criminal threats, rising criminal immigration caseloads, and a growing population of offenders released from prison who require community supervision. Managing the breadth of DOJ's mission and changing workload while operating in a constrained fiscal environment will likely present potentially significant policy trade-offs. GAO's oversight of DOJ as it manages these trade-offs will be essential to help ensure accountability to the Congress and the American people.

Domestic intelligence, revitalized counterterrorism, and emerging crimes: DOJ is faced with an evolving domestic intelligence and revitalized counterterrorism mission and the need to respond to new and emerging crimes, such as cyber and financial crimes. Garnering the resources and having the organizational dexterity to respond to this changing mission while protecting the safety and civil liberties of the American public will place a premium on DOJ's ability to effectively manage its resources. DOJ's 40 components execute its statutory responsibility for a wide-ranging mission that encompasses enforcing the law and defending the interests of the United States, ensuring public safety, providing federal leadership in crime prevention and control, seeking punishment for those guilty of unlawful behavior, enforcing the nation's voting rights statutes, and ensuring the fair and impartial administration of



justice for all Americans. The federal judiciary will also need to address a growing immigration caseload. Criminal immigration cases have risen steadily since 2000—they increased 21 percent in 2009 alone, to 25,804—representing one-third of all criminal cases filed in U.S. district courts nationwide. Effective strategic planning and performance measurement will become increasingly important tools in helping DOJ and the federal judiciary achieve their missions.

Federal Bureau of Investigation: Within DOJ, the FBI commands the largest portion of resources, has the broadest mission, and will face trade-offs as it continues to build its counterterrorism capabilities while managing its more traditional law enforcement missions. Protecting the United States from terrorist attacks remains the FBI's top priority, but the FBI

must also address a 60 percent increase in public corruption investigations and a doubling in high-yield-investment fraud investigations. The FBI faces significant human-capital challenges, such as realigning staff to face new and evolving law enforcement missions while recruiting and retaining employees with the specialized skills needed to address evolving counterterrorism priorities. Maintaining a steady stream of new talent will continue to be especially important for the FBI, since 20 percent of its current workforce will be eligible to retire in the next 2 years. The FBI will also need to build and improve its intelligence-gathering, analytic, and information-sharing capabilities—requiring ongoing transformation of its intelligence program and upgrading of its computer systems. In addition, growing gang violence will continue to pose safety threats to communities across the United States. DOJ estimates that there are about 20,000 gangs and 1 million gang members in the United States. These gangs, which engage in crimes such as homicide and drug-selling and trafficking, are increasingly migrating to suburban and rural communities.

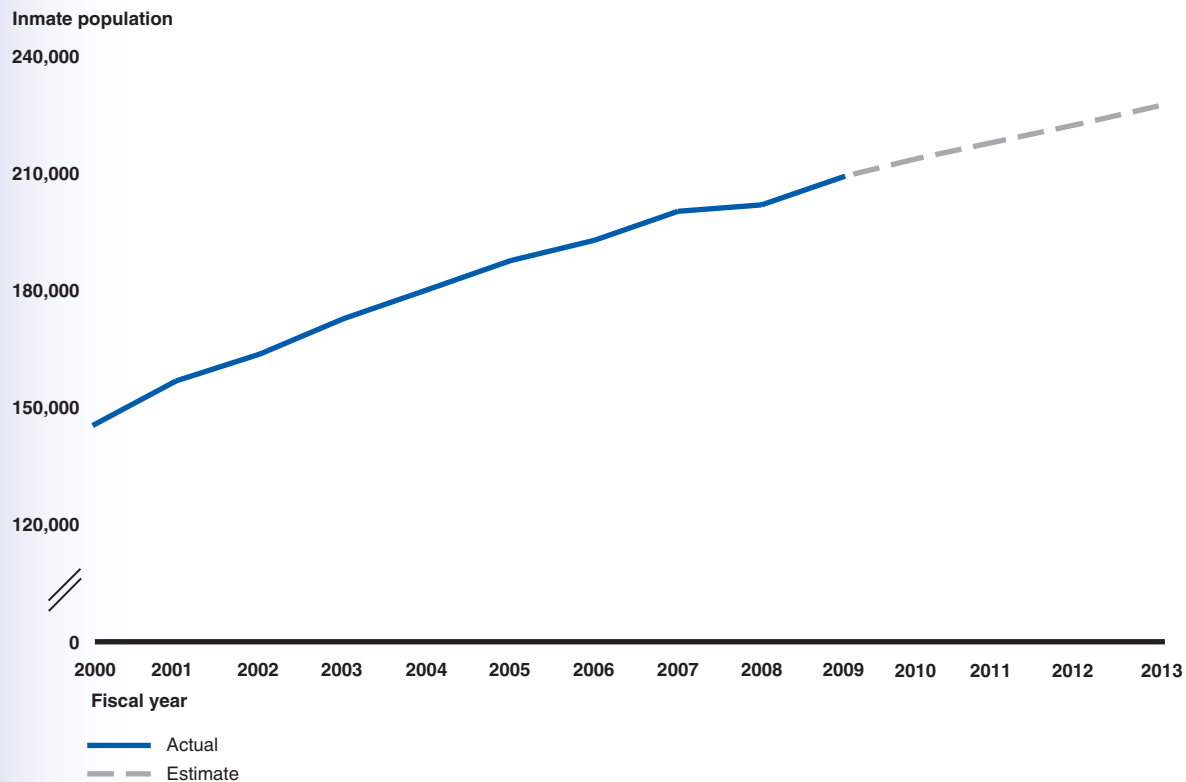
Federal inmate population: The United States also faces difficult decisions in managing a growing and increasingly costly federal inmate population that now accounts for nearly a quarter of the entire DOJ budget. DOJ's Federal Bureau of Prisons (BOP) faces significant challenges in effectively managing this prison population within an already overcrowded and increasingly aging prison system. The federal prison population grew by 44 percent from 2000-2009, and additional growth is projected (see [fig. 27](#)). In response to the increased inmate population, BOP's



annual budget also has grown by 68 percent during this same time period. However, according to BOP, its facilities were operating at 37 percent overcapacity at the end of 2009 and overcrowding is expected to continue, straining BOP and community resources. Addressing overcrowding will require DOJ to carefully assess and balance several competing resource demands, including maintaining its aging facilities, meeting current inmate medical needs, and enhancing programs to reduce the rate at which former inmates return to prison (recidivism). The most recent Bureau of Justice Statistics study found that more than two-thirds of prisoners released were rearrested for a new offense. These trends strain limited federal and community resources and significantly complicate DOJ's and the judiciary's efforts to confine, rehabilitate, and prepare for and monitor the release of convicted offenders.

Federal probation officers: The federal judiciary will also need to address an increasing number of offenders on supervised release as a growing number of federal probation officers become eligible for retirement. In the 1980s and 1990s, thousands of offenders were sentenced to mandatory minimum prison terms of 10 or more years for drug offenses. The terms of many are coming to an end. In addition, in March 2008, 21,000 federal prison inmates sentenced for crack cocaine offenses became eligible for shorter prison sentences. As of January 2009, 12,723 of these inmates had been granted an average sentence reduction of 24 months. Each of these inmates must serve a term of community supervision after release from prison, placing increasing demands on federal probation services. Monitoring how the judiciary responds to these and other workload demands is important, as

Figure 27: Growth of Federal Prison Population, Fiscal Years 2000–2013



Source: GAO analysis of U.S. Department of Justice data and projections.

this response affects other aspects of the federal justice system, such as prosecution, sentencing decisions, and prison capacity.

Grant funding: At its most fundamental, the nation's communities must deal with the consequences of crime. DOJ plays a critical role in equipping states and localities to address crime by providing federal grant dollars for prevention, intervention, and enforcement programs:

- In 2009, DOJ managed over \$3 billion in grant funding from its regular fiscal year appropriation, according to the DOJ Office of the Inspector General. DOJ has had problems effectively managing its grant funds and will need to increasingly focus on ensuring that states and localities are spending funds on crime prevention and reduction programs that have achieved long-standing results.
- In an era when states and localities are increasingly concerned about their ability to fund and sustain programs to fight traditional crime, the effectiveness and efficiency of federal law enforcement grant programs will become increasingly important. With state governments projected to face a collective budget gap of \$162 billion for fiscal year 2010, some state governments are re-evaluating sentencing, parole, and drug policies to scale back the expense of housing inmates.
- In this light, DOJ will need to play an important role in researching, supporting, and evaluating new model programs, such as programs addressing gang violence and juvenile delinquency, to ensure that they have shown demonstrated results to help communities reduce or prevent crime. For example, from fiscal years 2007 through 2009, DOJ's Office

of Juvenile Justice and Delinquency Prevention (OJJDP) provided about \$1.1 billion in grants to states, localities, and organizations to help reduce juvenile delinquency and victimization.

- However, GAO's prior work has shown that OJJDP could enhance its efforts to ensure the effectiveness of its grant programs by taking steps to ensure performance measurement data collected from grantees are verified, regularly soliciting and incorporating feedback from the juvenile justice field on information it disseminates about programs, and finalizing a plan for its research and evaluation efforts.

GAO's prior and future work on the federal system of justice can help federal decision makers address an increasingly complex strategic environment. To support efforts by the Congress and the federal government to ensure a responsive, fair, and effective system of justice, GAO has established the following performance goals and key efforts:

Performance Goal 1.5.1 **Assess the federal government's ability to effectively administer and ensure accountability for the federal justice system**

Key Efforts

- Assess DOJ's efforts to protect individuals' rights and civil liberties as the department executes its missions.
- Evaluate whether DOJ and its components act as effective stewards of their resources, including through efforts to minimize potential overlap in programs and functions.
- Evaluate the judiciary's efforts to manage and resolve its growing and evolving

workload, including through mediation and other trial alternatives.

- Assess DOJ's accountability mechanisms, including its strategic planning and performance management system.
- Evaluate progress in addressing challenges facing the nation's election system, including ensuring accurate voter registration lists and ballot access for all eligible voters.

Performance Goal 1.5.2 **Assess DOJ's efforts to prevent and deter terrorism and traditional crimes through investigations and prosecutions**

Key Efforts

- Assess DOJ's efforts to address terrorism and traditional crime, as well as emerging crimes such as cyber crime.
- Assess the effectiveness of federal efforts to control the supply and demand for illicit drugs.
- Evaluate DOJ components' coordination with state, local, tribal, and federal law enforcement agencies to ensure effective use of intergovernmental resources and minimize duplication of federal programs and services.

Performance Goal 1.5.3 **Review the federal government's efforts to confine, rehabilitate, and monitor the release of convicted offenders**

Key Efforts

- Assess DOJ's efforts to safely and effectively manage a growing federal prison population.
- Evaluate DOJ programs and activities to rehabilitate convicted offenders.
- Review federal efforts to monitor convicted offenders after release.

Performance Goal 1.5.4 **Evaluate DOJ's efforts to assist communities with combating crime through federal law enforcement grants**

Key Efforts

- Evaluate the extent to which DOJ has sufficient controls in place to monitor grant recipients' use of funds for law enforcement activities.
- Assess DOJ's efforts to provide training and technical assistance to grant recipients.
- Review DOJ's efforts to evaluate the impact of funded programs on crime prevention and the extent to which DOJ requires recipients to conduct independent evaluations.
- Assess DOJ's efforts to share the information it collects on effective programs within and among its components.

STRATEGIC OBJECTIVE 1.6

Viable Communities

The economic and social well-being of communities is vital to the nation's overall growth and prosperity. Adverse economic conditions—including declining home prices, high unemployment, and distressed residential and commercial lending markets—will continue to threaten the long-term viability of communities nationwide. For example, communities with high levels of foreclosures face a growing number of vacant or abandoned properties, which will further depress property values in surrounding neighborhoods and destabilize neighborhood conditions. These conditions could further stress communities with historically higher levels of poverty, homelessness, and disinvestment. In and of itself, promoting economic stability and development in communities is complex, involving the combined efforts of federal, state, and local governments, as well as financial institutions, businesses, and nonprofit organizations. The impact of the recent economic crisis has made these efforts even more complicated. The federal government, in particular, will face significant challenges carrying out its role, including helping to reduce or limit the impact of foreclosures on communities.

Homeownership: Housing, which represents over a third of the nation's total fixed assets, contributes significantly to the health of communities and the overall economy. The federal government plays a role in furthering homeownership through various finance programs, incentives, and requirements administered by the

Department of the Treasury (Treasury) and the Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Agriculture (USDA). In addition, two government-sponsored enterprises (GSE), Fannie Mae and Freddie Mac, are major participants in the home mortgage market:

- As evidenced by their placement under federal conservatorship in September 2008, the GSEs pose significant risks to taxpayers and investors. For example, the Congressional Budget Office (CBO) estimated that the total cost of Treasury's financial assistance to the GSEs will be nearly \$400 billion.
- Declining home prices and rising mortgage foreclosures were important factors in the financial crisis that began



in 2008 (see fig. 28) and have placed severe stresses on federal single-family housing programs, current and prospective homeowners, and the neighborhoods in which they live. For example, the capital reserves of HUD's Federal Housing Administration (FHA) fell below the statutory minimum in 2009, a year in which FHA's business volume increased dramatically.

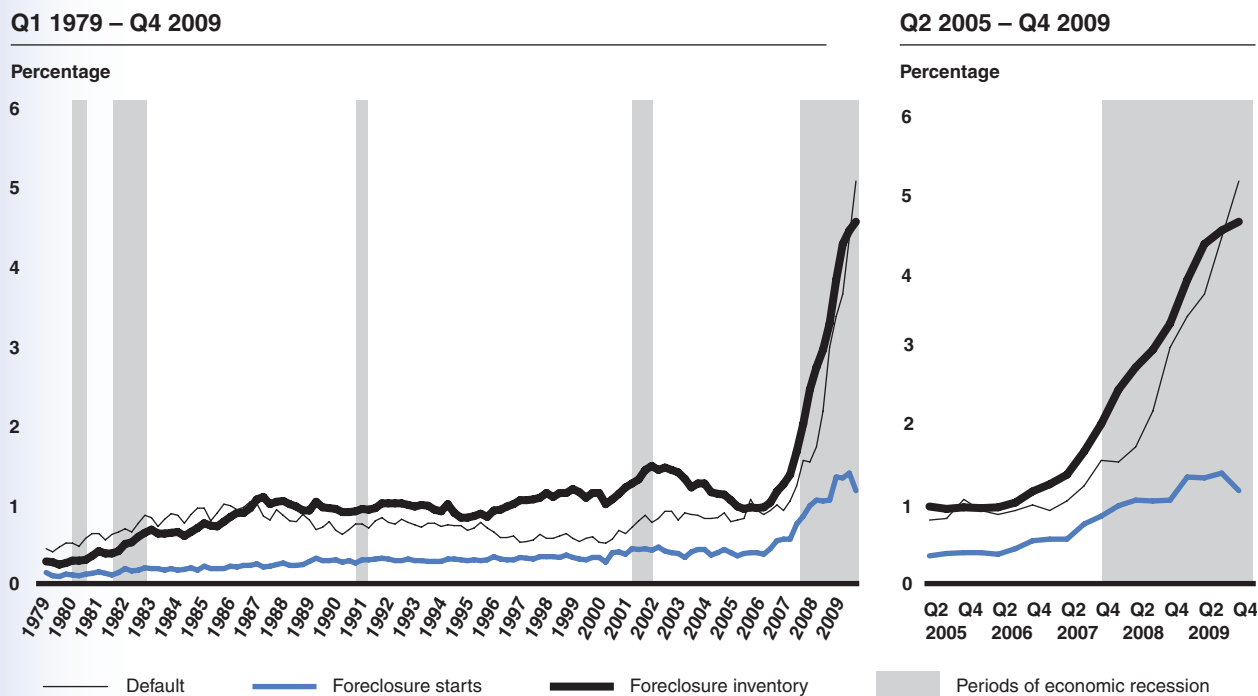
- As a by-product of FHA's expansion, the volume of guarantees by the Government National Mortgage Association (Ginnie Mae) has grown sharply, raising concerns about the financial risks of these commitments.
- Furthermore, buying a home is a confusing process for many families, partly because of complex settlement procedures and disclosure requirements that have not kept up with changes in the mortgage industry. The recent foreclosure

crisis highlights the risks of purchasing a home with mortgage products that borrowers do not fully understand. Enforcing federal laws and disclosure requirements is an important part of protecting prospective homeowners from abuse.

Over the long term, the federal government will face difficult decisions on how to balance the benefits and risks of promoting homeownership.

Rental housing: The availability of decent, safe, and affordable rental housing can also affect community stability. HUD, USDA, and Treasury spend around \$40 billion annually in outlays and tax expenditures on numerous programs to help rental households with lower incomes reside in decent, safe, and affordable housing. Over the years, HUD has made progress in addressing long-standing management

Figure 28: National Default and Foreclosure Trends, 1979-2009



Sources: GAO analysis of Mortgage Bankers Association data, National Bureau of Economic Research.

weaknesses. However, in recent years, legislative and administrative actions have changed HUD's biggest programs—Section 8 and public housing—in ways that may call for different oversight approaches. Also, the stock of housing assisted with federal funds and tax incentives is aging, and HUD and other agencies will need to consider strategies for ensuring that these properties remain in good physical and financial condition. Furthermore, some owners may decide to stop participating in these programs, raising concerns about the availability of housing that is affordable to low-income and special-needs households. Over the coming years, the federal government faces challenges in ensuring that federally assisted properties are maintained in a physically and financially sound manner, are administered in a way that best serves the needs of low-income

households, and remain available to lower-income tenants to the extent practicable.

Homelessness: The nation's communities are also affected by the long-standing, complex, and multifaceted problem of homelessness. HUD's *2008 Annual Homeless Assessment Report* to the Congress estimates that 1.2 million to 2 million individuals stayed in homeless shelters or were on the street for at least one night in 2008. This problem may have been exacerbated by the financial crisis that started in 2008. It has been reported that increases in foreclosures and rising unemployment have contributed to higher rates of homelessness among some groups, but particularly among families facing increased financial strain. Multiple federal agencies—HUD, the Department of Health and Human Services, and VA—administer programs that provide housing and services to the homeless at a cost of around \$2.5 billion annually:

- Federal decision makers must find ways to improve the design and flexibility of these programs to help the homeless, while working with multiple players—state and local governments and nonprofit organizations—and limited data on the homeless population.
- At the same time, federal agencies must provide enough oversight to ensure that programs meet their goals and comply with federal requirements.

Distressed communities: For decades, federal, state, and local governments and the private and nonprofit sectors have sought ways to revitalize distressed communities. The federal government alone operates over 100 programs that offer communities various grants, loans,



loan guarantees, and special tax incentives designed to assist distressed areas. For example, the Community Development Block Grant program provides assistance for a variety of infrastructure and capacity-building needs, and the Empowerment Zone and Renewal Community programs are intended to encourage investment in targeted areas:

- Despite these efforts, no simple answer has been found to the question of how best to revitalize America's distressed communities, in part because of the difficulty of measuring the factors that actually cause communities to improve.
- Also, the issue of how best to deliver aid is complicated by the need to strike a balance between the goals of the federal government and those of state and local governments and nonprofit organizations, which administer a large share of federal dollars for community and economic development.

Small business: Small businesses, which employ more than half the nation's workforce, are crucial to economic growth in many communities. Small businesses are also vulnerable during economic downturns, particularly when these businesses may face challenges in accessing credit. The Small Business Administration (SBA)—the nation's single, largest financial backer of small businesses—guarantees over \$60 billion of business loans and provides management and technical assistance to over 1 million small business owners annually. SBA also has oversight responsibility for federal contracting goals for small and minority-owned businesses. In addition, many of SBA's programs are intended to assist small businesses that are economically and socially disadvantaged. SBA has faced

challenges in overseeing its numerous programs to fulfill its mission to aid, counsel, assist, and protect the interests of small businesses, including ensuring that only eligible businesses obtain assistance from programs that target specific populations.

GAO's work can help inform the Congress in reforming programs and policies that support homeownership, as well as strengthening the management and oversight of the programs that promote affordable rental housing, economic activities in distressed communities, and small and minority-owned businesses. To support efforts by the Congress and the federal government to address these issues, GAO has established the following performance goals and key efforts:

Performance Goal 1.6.1 **Assess how the federal government can balance promoting homeownership and financial risk while adapting to changing markets and policies**

Key Efforts

- Evaluate the effectiveness of federal efforts to promote and sustain homeownership.
- Evaluate how well federal housing finance programs are adapting to market changes and operating on a financially sound basis.
- Assess the federal government's oversight of secondary mortgage market participants, including the housing GSEs (Fannie Mae and Freddie Mac) and Ginnie Mae.
- Evaluate efforts to reform and enforce federal laws and disclosure requirements intended to protect prospective homeowners from abuse.

Performance Goal 1.6.2
Track how well federal programs that support affordable rental housing meet their objectives, including managing the condition of assisted properties and improving the well-being of special populations

Key Efforts

- Monitor federal agencies' efforts to ensure that federally assisted rental housing is effectively managed and in good physical and financial condition and to encourage property owners to continue to participate in federal programs.
- Evaluate federal performance in overseeing housing agencies, property owners, and contractors responsible for administering federal housing assistance.
- Evaluate the effectiveness of federal housing programs in meeting the housing and supportive service needs of the elderly and other special populations.

Performance Goal 1.6.3
Assess federal homeless assistance efforts and their impact on both homeless individuals and families

Key Efforts

- Evaluate the effectiveness of federal programs in meeting the housing and supportive service needs of the homeless.
- Assess the extent to which the missions, goals, and activities of federal programs are duplicative and evaluate efforts to consolidate federal assistance to the homeless.
- Evaluate the extent of program coordination among the various federal agencies that provide homeless assistance.
- Assess efforts to ensure homeless programs meet goals and comply with requirements.

Performance Goal 1.6.4
Monitor federal community and economic development assistance and its impact on communities

Key Efforts

- Evaluate the extent of federal program coordination in targeted communities.
- Evaluate the extent to which the missions, goals, and activities of federal programs are duplicative and examine the potential costs and benefits of consolidating them.
- Assess the impact of development initiatives on communities.
- Evaluate federal agencies' efforts to ensure that development programs meet their goals and comply with requirements.

Performance Goal 1.6.5
Assess the effectiveness of federal initiatives to assist small and minority-owned businesses

Key Efforts

- Assess the impact of federal contracting policies and practices on small businesses and determine what oversight SBA provides to ensure that the programs serve eligible small businesses as intended.
- Assess SBA's actions to improve its internal control and fraud prevention measures, use of information technology, and management of human-capital.
- Monitor SBA's initiatives to make its programs more efficient, effective, and helpful to small businesses, especially to those businesses least able to access credit markets.
- Assess the effectiveness of SBA's programs to achieve the agency's mission of meeting the needs of small businesses.

STRATEGIC OBJECTIVE 1.7

A Stable Financial System and Consumer Protection



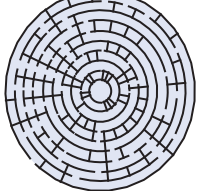

The nation's financial services industry has helped provide capital for U.S. companies and returns for the savings of individual investors and savers. However, since 2008, the financial markets have been coping with the vast and far-reaching fallout from the crisis that has resulted in the failure, sale, or government control of some of the largest and most significant U.S. financial institutions. Moreover, unprecedented federal help had to be provided with the passage of the Emergency Economic Stabilization Act of 2008 and creation of the \$700 billion Troubled Asset Relief Program (TARP) in an attempt to stabilize the financial system and restore the functioning of credit markets. GAO is performing ongoing monitoring and evaluation to determine the extent to which actions by Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and others have achieved the intended goals of reducing foreclosures, restoring stability in the credit and financial markets, and protecting taxpayers. While achieving the intended goals is important, it will be vital for the government to have exit strategies from various assistance programs that will not further disrupt the stability of the financial markets.

Regulatory system: The crisis also dramatized the ineffectiveness of the regulatory system in overseeing the increasing complexity of U.S. markets, institutions, and products that have rapidly evolved over the past 30 years and are expected to continue to do so.

The outdated U.S. financial regulatory system was designated as a major problem in GAO's 2009 high-risk program. The four key developments and associated challenges for government—such as the emergence of large, complex globally active conglomerates and increasingly global financial markets—are summarized in [figure 29](#). The regulatory system, developed piecemeal over the past 150 years, with some parts of the system created in response to previous financial crises, lacks the comprehensive framework needed to regulate today's highly complex, ever-changing global marketplace. The result has been myriad proposals to create new regulatory bodies and new rules to govern financial services firms and activities.



Figure 29: Key Developments and Resulting Challenges Hindering the Effectiveness of the Financial Regulatory System

Developments in financial markets and products	Examples of how developments have challenged the regulatory system
 <p>Emergence of large, complex, globally active, interconnected financial conglomerates</p>	<p>Regulators sometimes lack sufficient authority, tools, or capabilities to oversee and mitigate risks.</p> <p>Identifying, preventing, mitigating, and resolving systemic crises has become more difficult.</p>
 <p>Less-regulated entities have come to play increasingly critical roles in financial system</p>	<p>Nonbank lenders and a new private-label securitization market played significant roles in the subprime mortgage crisis that led to broader market turmoil.</p> <p>Activities of hedge funds have posed systemic risks.</p> <p>Overreliance on credit ratings of mortgage-backed products contributed to the recent turmoil in financial markets.</p> <p>Financial institutions' use of off-balance sheet entities led to ineffective risk disclosure and exacerbated recent market instability.</p>
 <p>New and complex products that pose challenges to financial stability and investor and consumer understanding of risks</p>	<p>Complex structured finance products have made it difficult for institutions and their regulators to manage associated risks.</p> <p>Growth in complex and less-regulated over-the-counter derivatives markets have created systemic risks and revealed market infrastructure weaknesses.</p> <p>Investors have faced difficulty understanding complex investment products, either because they failed to seek out necessary information or were misled by improper sales practices.</p> <p>Consumers have faced difficulty understanding mortgages and credit cards with new and increasingly complicated features, due in part to limitations in consumer disclosures and financial literacy efforts.</p> <p>Accounting and auditing entities have faced challenges in trying to ensure that accounting and financial reporting requirements appropriately meet the needs of investors and other financial market participants.</p>
 <p>Financial markets have become increasingly global in nature, and regulators have had to coordinate their efforts internationally</p>	<p>Standard setters and regulators also face new challenges in dealing with global convergence of accounting and auditing standards.</p> <p>Fragmented U.S. regulatory structure has complicated some efforts to coordinate internationally with other regulators, such as negotiations on Basel II and certain insurance matters.</p>

Sources: GAO (analysis); Art Explosion (images).

Because the financial sector is vital to our economic well-being and billions of taxpayer dollars have been committed to address the financial crisis, the efforts being undertaken in the next few years to ensure that this sector is overseen by an effective and efficient regulatory system is a key challenge to our nation. In a January 2009 report, we provided a framework for crafting and assessing proposals on modernizing the outdated U.S. financial regulatory system to assist the Congress with its financial regulatory reform effort. The framework consists of nine characteristics that should be reflected in

any new regulatory system. Existing and newly created or combined regulators that may emerge as a result of these proposals will also face challenges in organizing themselves effectively. Meanwhile, it is equally important for existing regulators to be vigilant in overseeing troubled financial markets, such as the commercial real estate market, and corresponding risk management practices at financial institutions because growing defaults in commercial mortgages or commercial mortgage-backed securities could pose additional risk to the recovering financial system.

Financial products and services:

Dramatic transformations in the financial services sector have generated both benefits and costs for consumers. While consumers enjoy more choices in financial products and services and in some cases lower costs, they also face more complex products with risks that are difficult to understand. Numerous studies published in recent years have shown that most adults have not mastered basic economic concepts, such as the risks associated with investment choices. Poor financial literacy can reduce consumers' economic well-being and security. Moreover, GAO and federal regulators have previously noted the lack of adequate disclosure requirements for financial services and products. For example, available disclosures for subprime and other risky mortgage products did not provide borrowers with easily comprehensible information on the risks associated with such mortgages. Ensuring that regulators adequately protect consumers from inadequate disclosures and predatory products will continue to be important and challenging.

Consumer products: Similar to financial products, consumer products—such as toys and household appliances—are also becoming more technically complex and sophisticated, and they increasingly are not “from” any one place but, rather, consist of parts and components from any number of countries:

- From 1998 to 2007, the value of consumer products imported into the United States increased about 101 percent, with products from China (which includes Hong Kong) nearly quadrupling over that same period to constitute about 42 percent of all imported consumer

goods. In addition to the growing value of imports, the number and variety of consumer products have been increasing.

- The growing volume of consumer products imported into the United States has strained the resources of the Consumer Product Safety Commission (CPSC) and is challenging the agency to find new ways to ensure the safety of these products. In fiscal year 2007, CPSC announced 473 recalls, the most in 10 years. Some 389 of these recalls (or about 82 percent) involved imported products. The number of product recalls in fiscal year 2008 was even higher. These record numbers of recalls have raised the issue of whether CPSC can ensure the safety of products that are increasingly manufactured overseas. The Consumer Product Safety Improvement Act (CPSIA) was enacted on August 14, 2008.³¹ CPSIA mandated that GAO review CPSC's authorities to protect consumers.

GAO's work in the next 3 to 5 years can help the Congress determine how to best update the financial regulatory structure to ensure that the financial system is safe and sound in the 21st century and that regulators provide effective consumer protections in financial and manufactured products. To support efforts by the Congress and the federal government to address these issues, GAO has established the following performance goals and key efforts:

³¹Pub. L. No. 110-314, 122 Stat. 3016 (Aug. 14, 2008).

Performance Goal 1.7.1

Assess the ability of the financial services industry and its regulators to maintain a stable and efficient financial system in the face of significant market and regulatory shifts

Key Efforts

- Monitor and evaluate the appropriateness of the U.S. government's efforts, including the use of billions of dollars of taxpayer funds, to help with recovery from the 2008 crisis.
 - Evaluate whether changes in the overall regulatory structure and the role of existing and any newly created financial regulatory agencies are addressing the gaps in oversight, changes in market practices, and financial institution ownership and organizational structures.
- Assess how regulators are overseeing financial firms that are increasingly global and manage multiple business lines and types of risk across regulated and unregulated entities.
 - Assess how well regulators are responding to new products and market participants, emerging threats, and their impact on safety, soundness, and competition in the financial services industry.
 - Assess the effectiveness of regulatory programs and policies in deterring the use of financial institutions and products to commit financial crimes.
 - Assess how well new and existing regulators are managing their operations and making effective use of technology and human capital.



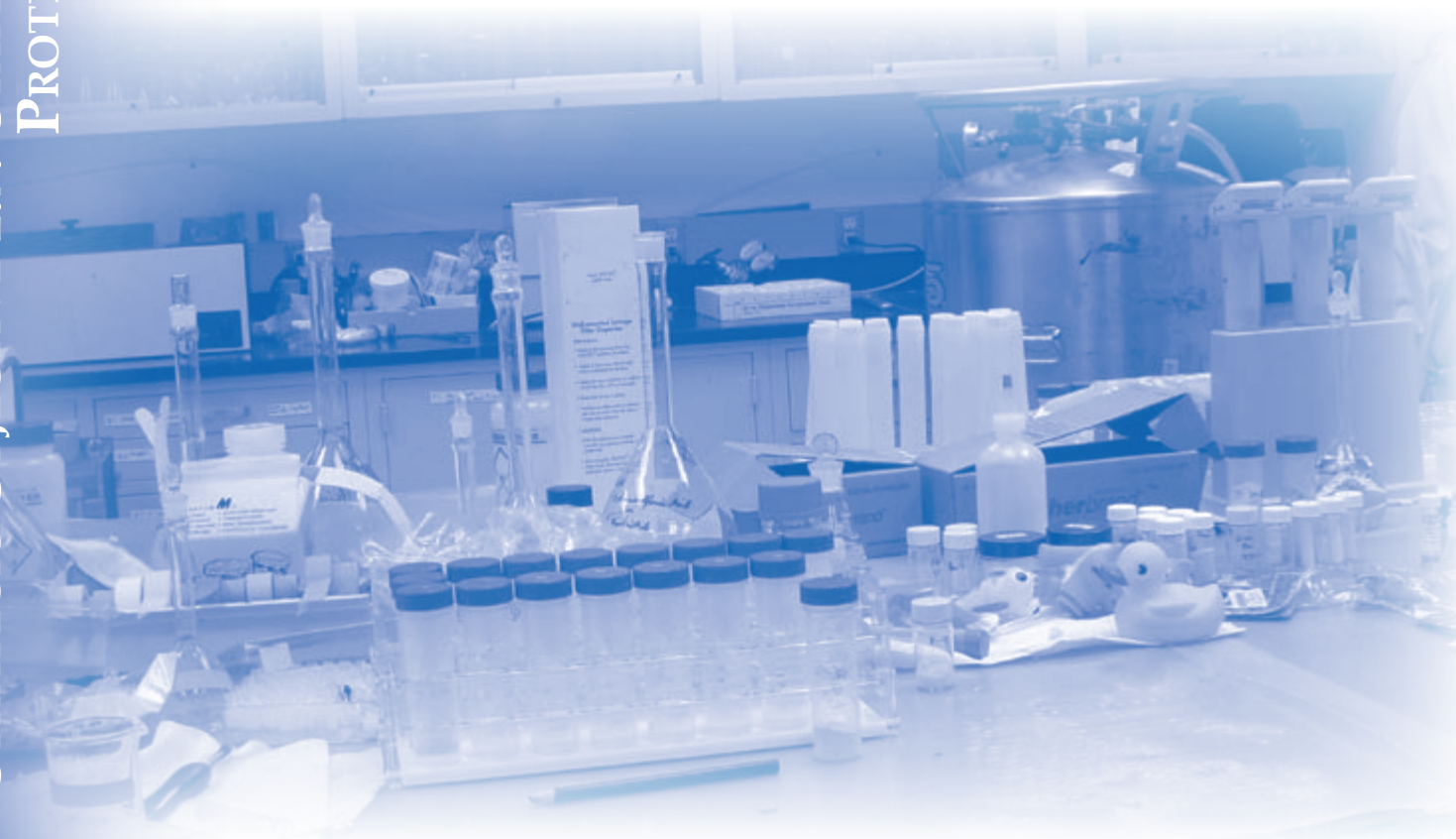
Performance Goal 1.7.2
Assess federal oversight of consumer protection laws and regulations for financial services and products and manufactured items

Key Efforts

- Determine whether financial regulators and institutions are promoting the financial literacy of consumers and investors, including providing information on how to manage their finances, with an emphasis on preparing to meet their retirement and other goals, using credit responsibly, and assessing and understanding risks.
- Assess whether current regulatory efforts, policies, and requirements are adequate to ensure that investors and consumers are sufficiently informed of the costs and risks of traditional

and innovative financial products and services.

- Assess federal financial regulators' oversight and enforcement of consumer protection laws, such as the fair lending laws and securities investor disclosure requirements, and their efforts to detect and punish violators and deter other illegal activity.
- Assess the development and implementation of potential new regulatory structures and organizations to monitor and enforce compliance with consumer protection laws.
- Assess consumer protections related to manufactured products and CPSC's efforts to better ensure the safety of key imported and domestically produced manufactured items.



STRATEGIC OBJECTIVE 1.8

Responsible Stewardship of Natural Resources and the Environment

Responsible stewardship of our natural resources and the environment encompasses some of the nation's most challenging issues. (See fig. 30.) Balancing the demands of often-competing objectives—economic growth for today versus protection of our natural resources and the environment for the future—will entail difficult decisions affecting fundamental human needs, such as air, food, and water. Moreover, many of these decisions are linked; for example, our choices about how we produce food and use energy affect our climate and are altering the land and water we depend on for survival. As a result of our choices, many of the nation's natural resources and the systems associated with their use are under widespread and increasing stress. The increasing globalization of natural resource issues adds another layer of complexity, and addressing transboundary issues such as climate change will be increasingly important. GAO's work on natural resources in the coming 3 to 5 years will include a focus on these key concerns.

Energy: Energy is a key force in our modern economy but raises difficult questions about how to resume and sustain economic growth when the engines of that growth—factories, automobiles, fertilizers, and electricity-generating plants—can adversely affect air and water quality, potentially changing the climate in catastrophic ways. For decades, businesses and consumers have been able to depend on plentiful, inexpensive energy to maintain our nation's global competitiveness and way of life. Although the United States accounts for about 4.5 percent of the world's population, it consumes about 20 percent of the primary energy produced worldwide. Energy demand has nearly tripled in the past 50 years and is projected to continue to grow, resulting in a more precarious market balance. Concerns about volatile prices, overreliance on oil, and the impacts of energy use on climate and the environment have driven interest in reducing demand, promoting energy-efficiency, and shifting supplies toward renewable energy sources and modified use

Figure 30: Examples of Natural Resources and Environment Issues



Sources: Los Alamos National Laboratory, Department of Agriculture, National Institutes of Health, Environmental Protection Agency, and Department of the Interior.

of traditional sources, such as clean coal and advanced nuclear technologies. Such a shift could have far-reaching effects on land and water use, trade and transportation patterns, national security, and energy prices. Further, the energy sector is responsible for a large share of greenhouse gas emissions; as such, efforts to decrease greenhouse gas emissions face competing and complementary concerns about energy security and impacts on fuel prices. At the same time, the nation's extensive energy infrastructure, which includes hundreds of thousands of miles of transmission lines and pipelines, is also showing signs of strain and may require new investment to update and secure. Finally, the Congress is concerned that growth in renewable energy initiatives—and the consequent growth in federal funding and agencies responsible for regulating this industry—could allow for regulatory gaps and wasteful duplication that hinder progress.

Land and water resources: Management of the nation's land and water resources is characterized by the struggle to accommodate competing—sometimes incompatible—demands and the need to balance their use in the short term with their preservation over the long term. The resources owned and managed by the federal government are vast, including about 700 million acres of federal land, or almost 30 percent of the nation's land surface; rights to minerals underlying more than 700 million acres of both federal and nonfederal land; almost 1.8 billion acres of the Outer Continental Shelf; and fisheries as far as 200 miles offshore. The debates over oil development on federal lands illustrate the challenge of balancing demand for resources today with preservation for the future. These resources are also showing increasing signs of stress—more catastrophic wildfires, such as the one shown below; shrinking aquifers; destruction of wildlife habitat;



and the collapse of many fisheries. At the same time, competition for water is growing among various interests, including agriculture, communities, and energy providers. Shortages could lead to severe economic, environmental, and social consequences. Finally, multiple federal agencies are engaged in resource management research, raising questions about the efficiency of these efforts.

Environment: Protecting the environment and human health has become increasingly complex. For example, although nationwide air quality has improved steadily over the past few decades, the Environmental Protection Agency (EPA) reports that approximately 138 million people live in areas that do not meet health-related national air quality standards for ozone, particulate matter, or both. In addition, according to EPA, about 44 percent of the nation's 3.5 million miles of rivers and streams are impaired. Further, climate change could threaten coastal areas, alter

agricultural productivity, and increase the intensity and frequency of floods and tropical storms. Efforts to address these consequences domestically and internationally are increasingly important. Moreover, although scientific understanding of the effects of toxic chemicals has improved, information on the toxicity of many chemicals is insufficient, and EPA cannot make informed decisions on how best to protect the public. As a result, GAO added EPA's processes for assessing and controlling toxic chemicals as a high-risk area in January 2009.

Hazardous and radioactive waste sites: Significant challenges remain in cleaning up the country's hazardous and radioactive waste sites—including more than 1,200 Superfund sites nationwide. EPA estimates that one in four Americans live within 3 miles of a hazardous site, posing potential health and safety problems. Further, federal efforts to dispose of high-level radioactive waste and spent nuclear fuel are in flux,

and inventories are increasing. The nation's current inventory of about 70,000 metric tons of high-level radioactive waste, mostly generated by the nation's nuclear power reactors, is likely to more than double to about 153,000 metric tons by 2055. Moreover, radioactive waste from weapons production still needs to be cleaned up at Department of Energy (DOE) sites in 13 states. While DOE has made improvements recently, environmental cleanup contracts and projects managed by DOE's Office of Environmental Management remain on GAO's High-Risk List.

Food and agriculture: Challenges persist in the way the nation produces and protects its food supply. Fragmentation in U.S. food safety laws—with 15 agencies administering more than 30 laws—has caused inconsistent oversight, ineffective coordination, and inefficient use of resources, leading GAO to add the federal oversight of food safety to its High-Risk List in 2007. Addressing this problem is even more pressing because the volume of imported foods is increasing, and shifting demographics mean that more of the U.S. population is, and increasingly will be, susceptible to food-borne illnesses. Moreover, diseases that spread between livestock and humans, such as influenzas, have the potential to seriously compromise our daily lives, and given the potential for and the consequences of bioterrorism, food security continues to pose serious concerns. In addition, while U.S. Department of Agriculture (USDA) programs provide about \$16 billion annually to subsidize crop production and farm conservation practices and to supply disaster assistance, the integrity and equity of these programs are in question. Further, pressures to minimize the environmental

impact of the \$200 billion agricultural sector are likely to intensify. Finally, USDA also faces major management challenges to provide fair and equitable services to all of its customers and to uphold the civil rights of its employees.



GAO's past and forthcoming work can help federal leaders reconcile competing demands for our natural resources and achieve a balance that will meet the country's needs in the 21st century. To support efforts by the Congress and the federal government to address these issues, we will use the following performance goals:

Performance Goal 1.8.1
Assess the nation's ability to ensure reliable and environmentally sound energy for current and future generations

Key Efforts

- Evaluate efforts to ensure the reliability, physical security, and affordability of the energy supply infrastructure.

- Analyze energy market regulation, competition, and information.
- Evaluate federal efforts to promote energy-efficiency and conservation.
- Assess energy-related research and development and science.
- Analyze the relationship between energy use and the environment—including health—and climate.
- Assess federal energy management practices and efficiencies.

Performance Goal 1.8.2
Assess federal strategies for sustainably managing our nation’s land and water resources

Key Efforts

- Evaluate federal use and protection of natural resources and protection of threatened and endangered species.
- Assess federal natural resource agencies’ operational and maintenance needs.
- Evaluate federal efforts to recover costs from the sale and use of public resources.
- Evaluate federal programs for Native Americans and Alaska Natives.
- Assess management practices and efficiencies at federal natural resource agencies.

Performance Goal 1.8.3
Assess environmental protection strategies and programs

Key Efforts

- Evaluate federal efforts to assess and control toxic substances.
- Evaluate federal efforts to improve the nation’s air quality.
- Assess the implications of climate change.
- Evaluate federal efforts to ensure safe drinking water and improve the quality of the nation’s waters.
- Assess management practices and efficiencies at EPA.

Performance Goal 1.8.4
Assess efforts to reduce the threats posed by hazardous and nuclear wastes

Key Efforts

- Assess efforts to address nuclear, ordnance, and other hazardous wastes resulting from federal activities.
- Evaluate strategies for cleaning up Superfund and other private-sector hazardous waste sites and responding to emergency contamination releases.
- Analyze nuclear waste disposal sites and facilities.
- Assess management practices and efficiencies at waste cleanup agencies.

Performance Goal 1.8.5
Assess federal programs’ ability to ensure a plentiful and safe food supply, provide economic security for farmers, and minimize agricultural environmental damage

Key Efforts

- Evaluate federal efforts to ensure a safe food supply and guard against agroterrorism and infectious disease.
- Evaluate agricultural production and federal support for it.
- Identify the potential environmental impacts of agricultural practices.
- Assess management practices and efficiencies at USDA and other food safety agencies.

STRATEGIC OBJECTIVE 1.9

A Viable, Efficient, Safe, and Accessible National Infrastructure

The infrastructure of the United States—including transportation, telecommunications, the postal system, and federal facilities (see fig. 31)—provides a foundation for the nation’s economic vitality and quality of life. But challenges—such as capacity constraints, deterioration, and technological obsolescence—hinder efforts to ensure that the infrastructure is viable, efficient, safe, and accessible. In addition, resource limitations constrain funding improvements and complicate the nation’s ability to respond to these challenges.

Funding: The nation’s aviation and surface transportation systems are undergoing strain, and the estimated cost of safely and reliably meeting future demands, including modernizing the air traffic control system, runs into the hundreds of billions of dollars. Calls for increased investment come at a time when traditional funding sources are under increasing stress. Revenues to both the Highway Trust Fund and the Airport and Airway Trust Fund have not kept pace with outlays,

requiring additional appropriations from the Congress to prevent a shortfall in both funds. For example, Highway Trust Fund expenditures have exceeded revenues in recent years, requiring the Congress to appropriate about \$35 billion from the General Fund of the Treasury over the last 3 fiscal years so that the Highway Trust Fund could remain solvent. We placed surface transportation funding on our High-Risk List in part due to concerns about the solvency of the Highway Trust Fund. Moreover, increases in transportation spending in recent years have not translated into commensurate improvements in system performance, raising questions about the effectiveness of federal programs in addressing key challenges. In addition, no national strategy currently integrates the different modes of transportation into a system that is more than a sum of its parts.

Transportation accidents: The nation’s transportation system acts as the backbone of the nation’s economy and affects the daily life of most Americans. Yet,

Figure 31: Examples of U.S. Infrastructure



Sources: Far left image (Creatas); other images (PhotoDisc).

despite considerable federal investment and oversight of transportation safety, accidents continue to kill and injure too many of our citizens: While fatalities and injuries have fallen in recent years, on average, about 44,000 people are killed and 2.8 million more are injured each year. Traffic accidents claim most of these lives and result in most of these injuries. Some age groups are particularly vulnerable. For example, traffic crashes are the leading cause of death for 15- to 20-year-olds. Older drivers are more susceptible to injury or death in an accident than others, and the population age 65 or older is expected to nearly double by 2030. While most transportation-related deaths and injuries occur on our nation's highways, about 860 fatalities occur annually in rail accidents and another 620 annually in commercial and general aviation accidents.

The federal government faces seemingly intractable causes of accidents, such as impaired, distracted, or fatigued driving, and is seeking new tools and approaches to mitigate these safety threats. Changes in technology have improved safety both by helping people avoid accidents and by mitigating their impact, but technological change has also led to new causes of crashes, such as distraction by electronic devices. Until such challenges are addressed, many deaths and injuries

will continue to plague our transportation systems. In addition, the federal government will face increasing challenges to ensure that transportation safety is not sacrificed due to economic recession.

Congestion: Congestion continues to worsen and looming problems from the anticipated growth in travel demand are not being adequately addressed. The economic and environmental implications are significant, ranging from wasted fuel and lost time as cars idle in traffic to increased costs for businesses as the transportation system grows more unreliable. Also, as the nation's economy recovers, freight movement will continue to expand, particularly containerized freight moving through the nation's ports and onto already congested highway and rail networks.

To address congestion in our transportation system, policymakers will be challenged to both identify ways to fund investments in new infrastructure and encourage more efficient use of the existing infrastructure. Transportation policy decisions are also inextricably linked with environmental and energy policy concerns. Long-standing federal policy requires that improvements to our transportation infrastructure be made in an environmentally responsible manner—creating and maintaining conditions under which humans and



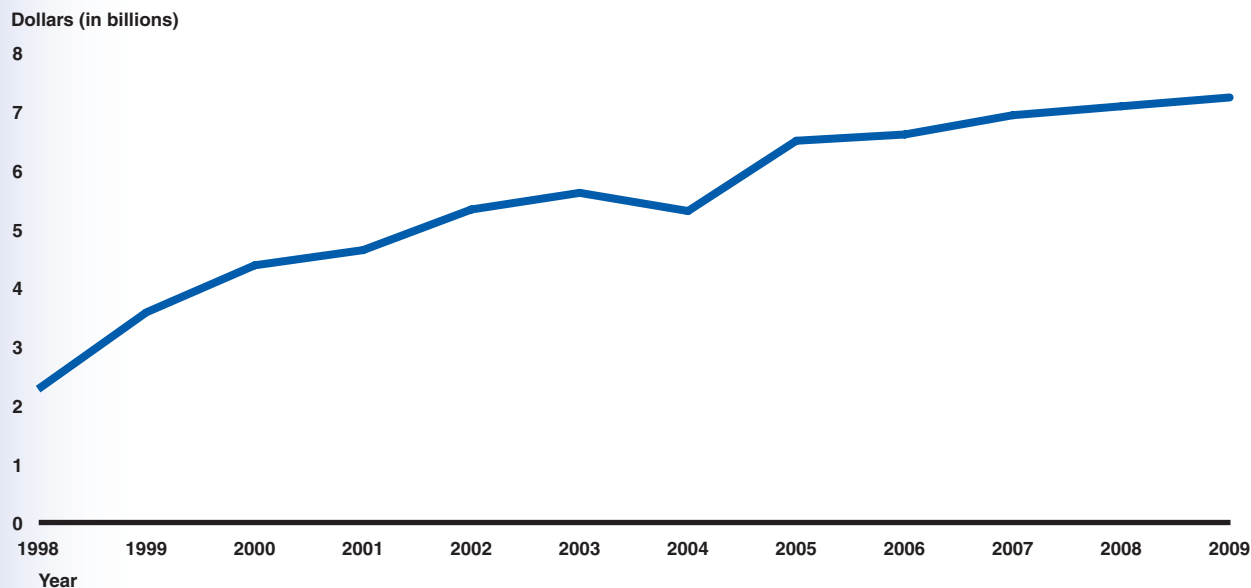
nature can exist in harmony—but these requirements can lengthen planning and project lead times and perhaps conflict with the need to respond to congestion. Improving aviation congestion through modernization promises significant benefits, such as reduced emissions and mitigated delays, but is also a serious challenge as the cost of transforming the nation’s air traffic control system could exceed \$40 billion in combined government and civilian investment, according to the Federal Aviation Administration’s Joint Planning and Development Office.

Telecommunications industry: In 2007, the telecommunications and related industries contributed over \$400 billion to the nation’s economy; these industries deploy infrastructure and provide services that every day affect how Americans communicate, conduct business, and educate themselves:

- The federal government, led by the Federal Communications Commission, faces challenges in carrying out its

responsibility to ensure that the largely private telecommunications industry operates in the public’s interest. Within the industry, universal access to the Internet via broadband technologies is commonly viewed as a vital part of infrastructure and a key driver of economic growth. Yet, the United States ranks 15th among the 30 democratic countries that comprise the Organization for Economic Cooperation and Development in broadband subscribers per 100 inhabitants. Consequently, federal policy regarding broadband deployment, use, and affordability is under debate and development. For example, in the National Broadband Plan, the Federal Communications Commission recommended changes to the existing Universal Service Fund to better create incentives for universal availability and adoption of broadband. However, the cost of the Universal Service has increased dramatically, from \$2.3 billion in 1998 to over \$7.0 billion in 2009, imposing greater burdens on consumers. (See [fig. 32.](#))

Figure 32: Universal Service Fund Disbursements, 1998-2009



Sources: Universal Service Administrative Company annual reports (1999-2009).

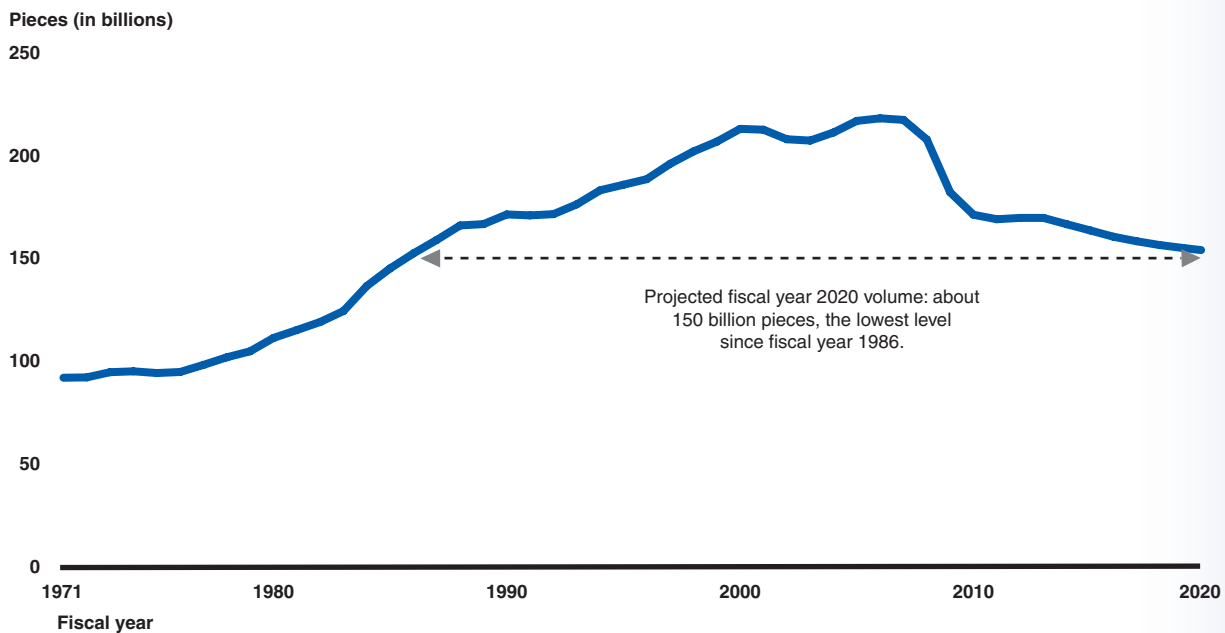
- As the telecommunications industry has evolved, concerns have arisen about whether the existing government policies, procedures, and organizational structures adequately address consumer and industry needs. For example, with increased reliance on wireless communications for a variety of commercial and government functions, questions about the current approach to allocating spectrum across these sectors are growing in importance.
- Further, technology advances, such as enhanced 911 capabilities for wireless service that allow emergency responders to pinpoint a caller’s location, offer opportunities to improve public safety that are tempered by challenges in expanding network coverage. Recent consolidation and certain industry practices, such as marketing handsets exclusive to individual wireless networks, have also raised concerns in the Congress and elsewhere about whether

competition is sufficient to ensure that new technologies are introduced and that lower costs are passed on to consumers.

U.S. Postal Service: Mail use has been declining dramatically as a result of the economic downturn and changing use of the mail linked to the continuing shift to electronic communications and payments. Mail volume dropped by about 36 billion pieces (about 17 percent) from fiscal years 2007 through 2009. The U.S. Postal Service (USPS) projects further volume declines of about 15 percent by fiscal year 2020 (see [fig. 33](#)). When we added USPS’s financial condition to our High-Risk List in July 2009, we reported that USPS urgently needed to restructure to address its current and long-term financial viability:

- The short-term challenge for USPS is cutting costs quickly enough to offset the unprecedented volume and revenue declines, so that it can cover its operating expenses.

Figure 33: Actual and Projected Total Mail Volume, Fiscal Years 1971–2020



Source: U.S. Postal Service.

Note: Mail volumes for fiscal years 2010 through 2020 are projected.

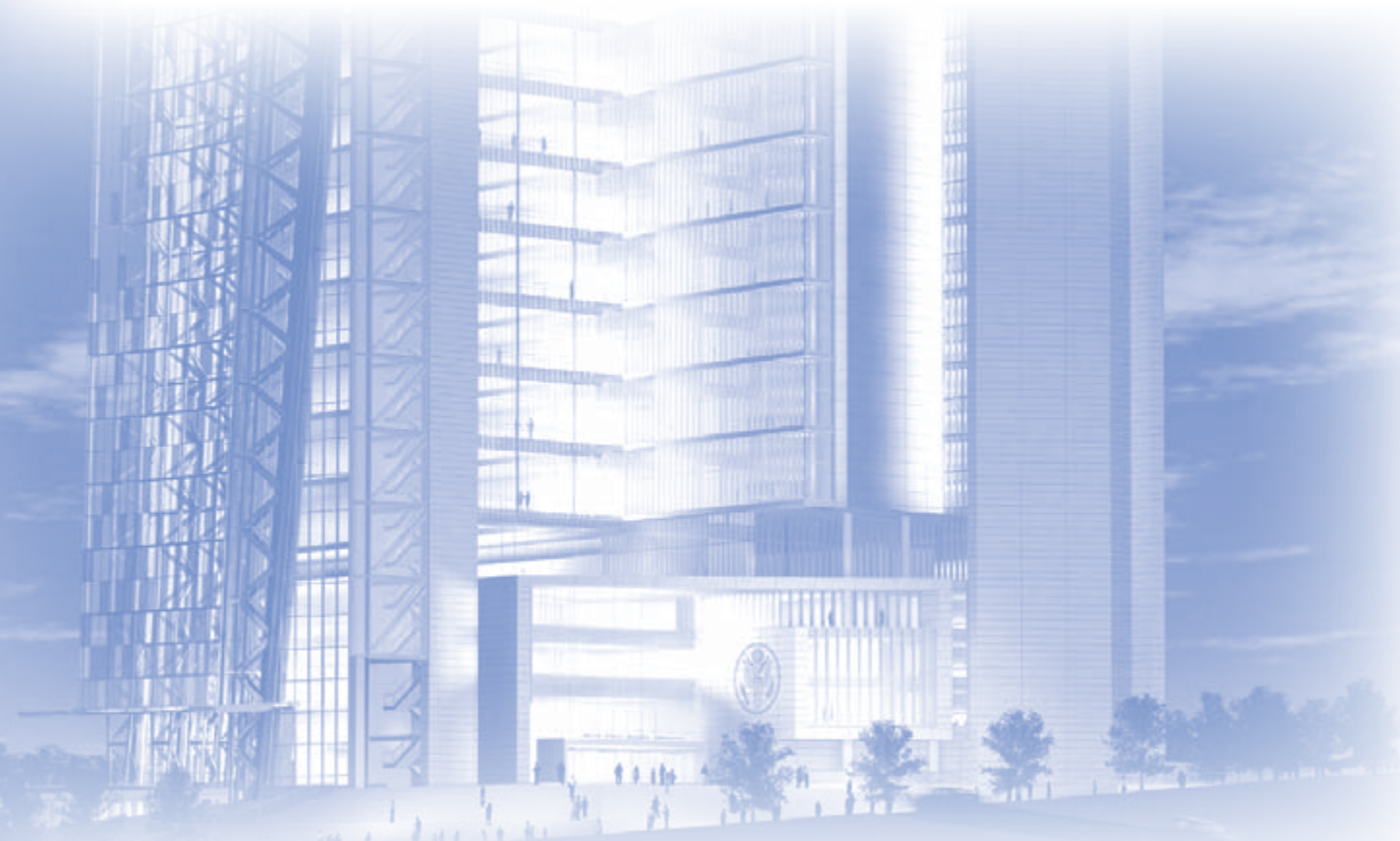
- In the long term, the Congress must engage USPS about potential changes to its mission, including restructuring postal operations, networks, and the workforce to improve efficiency, and assessing whether long-standing services, such as 6-day-per-week mail delivery, should be changed to reflect the emerging business environment and reduced use of the mail.

Part of USPS's challenge is to continue to improve the efficiency of its operations through modernization of its mail processing and retail networks, while ensuring the quality and availability of postal services during any restructuring.

Federal real property: The vast and diverse federal real property portfolio totals more than 3 billion square feet of space with an estimated gross value in the hundreds of billions of dollars. Long-standing problems that we have highlighted in our High-Risk List series include:

- excess and underutilized property,
- deteriorating facilities,
- repair and restoration backlogs in the tens of billion of dollars,
- unreliable real property data, and
- overreliance on costly leasing.

We have called for addressing these problems more directly through a reassessment of options; development of well-reasoned strategies; and, in some cases, changes in law. Protecting federal facilities from the threat of terrorism is an ongoing challenge, since in recent years, our work has shown that federal facilities continue to be vulnerable. Allocating resources according to risk, leveraging technology, and sharing information among agencies will provide a framework for guiding and overseeing agencies' protection efforts and addressing security challenges.



Last, the federal government is the nation's largest energy consumer. Compliance with and the effectiveness of new laws and policies requiring improved environmental and energy performance of federal properties will require ongoing attention and oversight.

Our past and forthcoming work on the nation's infrastructure can help federal leaders face key strategic decisions about how the nation can best establish and maintain a viable, safe, secure, and accessible infrastructure to meet the country's needs in the 21st century. To support efforts by the Congress and the federal government to address infrastructure issues in the areas of aviation and surface transportation, telecommunications, postal service, and federal facilities, GAO has established the following performance goals and key efforts:

Performance Goal 1.9.1 **Assess federal investments in and financing of transportation infrastructure**

Key Efforts

- Review the effectiveness of federal investments in surface transportation and determine the effectiveness of federal investments in integrated intermodal solutions.
- Review the effectiveness of federal investments in aviation.
- Assess the sustainability and alternative methods for financing federal transportation investments.

Performance Goal 1.9.2 **Assess federal regulation of transportation safety and efforts to fund improvements in safety**

Key Efforts

- Assess federal oversight of aviation safety.
- Assess federal oversight of safety in highway, rail, pipeline, and other surface modes.
- Review the use of federal grants and other strategies to improve safety outcomes.

Performance Goal 1.9.3 **Evaluate federal policies to improve the mobility of and increased access to transportation systems**

Key Efforts

- Assess efforts to make transportation systems available to older Americans and other populations.
- Assess federal programs for improving the efficiency of freight and passenger movement in all modes.
- Assess efforts to mitigate environmental effects of transportation systems and balance environmental protection with improved mobility.

Performance Goal 1.9.4 **Assess federal efforts to support and oversee telecommunications in the public interest**

Key Efforts

- Assess federal efforts to promote affordable access to telephone, digital television, and broadband Internet services.
- Assess federal efforts to promote efficient spectrum management and emerging telecommunications technologies.
- Evaluate federal efforts to enforce oversight in the public interest of media and telecommunications technologies.

Performance Goal 1.9.5
Assess the U.S. Postal Service's efforts to ensure its viability and accomplish its mission

Key Efforts

- Assess USPS's business model and plans for restructuring to address its financial condition and outlook.
- Evaluate USPS efforts to improve operational efficiency through modernization.
- Monitor and evaluate the quality and availability of postal services.
- Assess lessons learned from emerging international trends in providing postal services.

Performance Goal 1.9.6
Assess federal efforts to manage and secure the government's real property portfolio in an economically and environmentally viable way

Key Efforts

- Assess federal efforts to manage its real property portfolio to improve its efficiency and condition.
- Review federal efforts to protect and secure federal facilities.
- Determine the effectiveness of federal efforts related to managing energy use and improving environmental performance across the government's real property portfolio.

GOAL 2

Respond to Changing Security Threats and the Challenges of Global Interdependence

GAO's second strategic goal is to assist the Congress and the federal government in their responses to changing security threats and the challenges of global interdependence. Our specific objectives are to support congressional and federal efforts to:

- protect and secure the homeland from threats and disasters,
- ensure military capabilities and readiness,
- advance and protect U.S. foreign policy interests, and
- respond to the impact of global market forces on U.S. economic and security interests.

Over the next 5 years, such threats and challenges are expected to be pronounced. The United States is in a transitional moment, according to the President's *2010 National Security Strategy*, and faces a broad array of challenges that require a renewal of American leadership. The complex and rapidly evolving national security environment facing the United States includes cyber attacks, terrorist activities fueled by extremist ideologies, and instability in Afghanistan and Pakistan, as well as global interdependence—as demonstrated by the recent global financial crisis and economic downturn.

Further, the nation's growing fiscal imbalances—ever-increasing trade deficits, the dependence on foreign capital inflows to finance U.S. spending, and the imbalance between government revenues and spending—will affect the entire federal government as difficult decisions are made about the nation's priorities. The nation's security agencies—most prominently, the Departments of Defense (DOD), Homeland Security (DHS), and State—will need to strike an affordable balance between spending on current missions and investing in new capabilities. Today, the three departments and other agencies are attempting to:

- defeat the terrorist threat in Afghanistan and Pakistan,
- stabilize Iraq,
- protect the homeland,
- curb transnational criminal organizations,
- ensure the free and lawful flow of people and goods into and out of the homeland,
- promote international security to reduce conflict, and
- foster economic growth through stable trade and investment flows.



At the same time, federal agencies are attempting to develop new mission capabilities to address emerging threats and the challenges presented by global trends. These trends—population growth, limited natural resources and energy, the emerging economic power of countries such as India and China, transformational technologies, increasing movements of money and people, and climate change—create great uncertainty and could lead to rapid social, cultural, and geopolitical shifts that result in instability and potential conflict. GAO’s work under Goal 2 can assist the Congress and the federal government in determining the most effective and efficient balance between maintaining current capabilities for national security and developing new capabilities for emerging threats and challenges.

DOD, DHS, State, and other national security agencies will also need to enhance basic management capabilities to meet these threats and challenges. For example, all three departments need to strengthen strategic and operational planning, better manage human-capital, improve acquisition and contract management, and focus on results-oriented decision making. For these reasons, DHS is on our list of agencies most in need of broad reform, while several program and management areas at DOD and State are considered high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement. GAO will monitor these agencies’ progress in enhancing their management capabilities and make recommendations to improve the effectiveness and efficiency of their operations and services.

Finally, federal agencies also need to improve their ability to collaborate on interrelated conventional and emerging threats that often go beyond the authority and scope of any one agency. As a result, overarching strategies and plans will be required to enhance agencies’ abilities to collaborate with each other, as well as with foreign, state, and local governments and nongovernmental partners. The Congress has recently taken steps to strengthen interagency collaboration for international issues, and a number of other commissions, research institutions, and congressionally mandated studies have proposed reforms to parts or all of the national security and foreign policy system to improve interagency collaboration, among other things. GAO’s future work in this area will identify barriers to interagency collaboration, inefficiencies in the use of resources, and duplication of effort, as well as identify tools for ensuring a united effort.

To provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence, GAO has established four strategic objectives:

- 2.1: Protect and Secure the Homeland from Threats and Disasters
- 2.2: Ensure Military Capabilities and Readiness
- 2.3: Advance and Protect U.S. Foreign Policy Interests
- 2.4: Respond to the Impact of Global Market Forces on U.S. Economic and Security Interests

STRATEGIC OBJECTIVE 2.1

Protect and Secure the Homeland from Threats and Disasters

In the coming years, the United States will continue to face dynamic and increasingly complex threats to the nation's security. These threats include:

- terrorists' potential use of radioactive, chemical, or biological agents to carry out an attack inside the country;
- terrorists' and other criminals' exploitation of critical infrastructure vulnerabilities in sectors such as transportation, energy, and information technology; and
- the spread of infectious diseases, such as the H1N1 pandemic.

Increasingly adaptive and interconnected terrorist and transnational criminal organizations are likely to leverage these vulnerabilities, and any failure to address them would have serious consequences for the physical and economic security of the country. At the same time, concerns are growing that climate change and other factors may increase the frequency and magnitude of natural disasters, whose occurrence and scale inherently remain unpredictable.

Federal leadership: The federal government must enhance its ability to assess, respond to, and recover from a wide range of hazards and threats against the personal security of its citizens and its economic interests. Federal leadership is critical in addressing security needs while maintaining personal freedoms and the legitimate flow of commerce and people.

As the unifying core of the vast national network of organizations and institutions involved in securing the nation, DHS will need to ensure that it can respond to and recover from natural disasters, as well as protect against terrorist threats on various fronts. These threats include vulnerabilities along the U.S. border, in the nation's transportation systems, and in national critical infrastructure and key resources open to attack and exploitation. They also include challenges in the gathering, analyzing, and sharing of information to help prevent and respond to terrorist and other incidents.

Constrained budgets: DHS faces significant challenges in addressing changing threats within the confines of annual appropriations that are likely to be increasingly constrained and may be limited in growth in real terms:

- It will be critical for DHS to ensure that its resources are effectively directed toward the nation's most pressing homeland security challenges. In particular, DHS must define an acceptable and achievable level of risk, to prioritize among its missions, and make risk-based decisions about investments and resources.
- DHS will also need to continue its efforts to integrate and transform the functions, programs, and assets of its numerous component offices and agencies into a more holistic department. GAO has designated DHS's implementation and transformation as high risk, in part

because of the inherent difficulties of such a massive effort. Given the complexity and significance of its organization, missions, and functions, it is likely to take several more years for DHS to complete its transformation efforts.

- While DHS has made progress, the department must continue to address its programmatic challenges and risks while identifying, refining, and implementing actions to improve its financial, information technology, human-capital, and acquisition management functions.

Sharing intelligence information: On December 25, 2009, despite information indicating a possible terrorist threat, the country came close to experiencing another horrific event. A passenger attempted to detonate a bomb onboard an international flight into Detroit. In the aftermath, a number of fundamental questions were raised regarding the intelligence community's sharing of information about the alleged terrorist; analysis of that information to determine the threat posed; and decisions on the individual's placement on a government terrorist watch list. Federal agencies have begun sharing more information about terrorist threats with their partners in new ways—they have developed new organizational structures, as well as policies, databases, and information systems; intelligence reports and products; and standards, among other things. But gaps in that sharing—including policy, cultural, and other barriers—continue to pose serious security vulnerabilities and elevate the critical need to address them. Because of the security liability the government faces, GAO designated the sharing of terrorism-related information as high risk in 2005.

Our work in recent years has found that while the Congress has mandated that the government create an information-sharing environment across agencies that defines what information needs to be shared, with whom, and how, the federal government still lacks a road map to clearly establish agency responsibilities and a system to hold agencies accountable to the Congress and the American public. GAO's planned work will help better ensure progress in closing gaps for this high-risk function.

Protecting the nation's transportation system: In addition to sharing information, DHS plays a vital role in protecting the nation's transportation system. Roughly one-third of past terrorist attacks worldwide have targeted transportation systems, and intelligence and recent events demonstrate that the transportation network continues to be an attractive target for those wanting to harm U.S. citizens and interests. However, securing the U.S. transportation system—which includes more than 5,000 public-use airports, 3.9 million miles of roads, over 300 seaports, and over 500 train stations—will continue to be difficult because of its vastness and open access points:

- Given the global interdependence of the nation's transportation network, the United States will need to strengthen partnerships with foreign nations and harmonize security efforts to protect these systems. DHS has made progress in strengthening the security of commercial aviation and seaports through multiple layers of security programs, but the department must continue to adapt security measures to counter evolving threats, balance resources across missions, develop and deploy new security technologies, and increase its

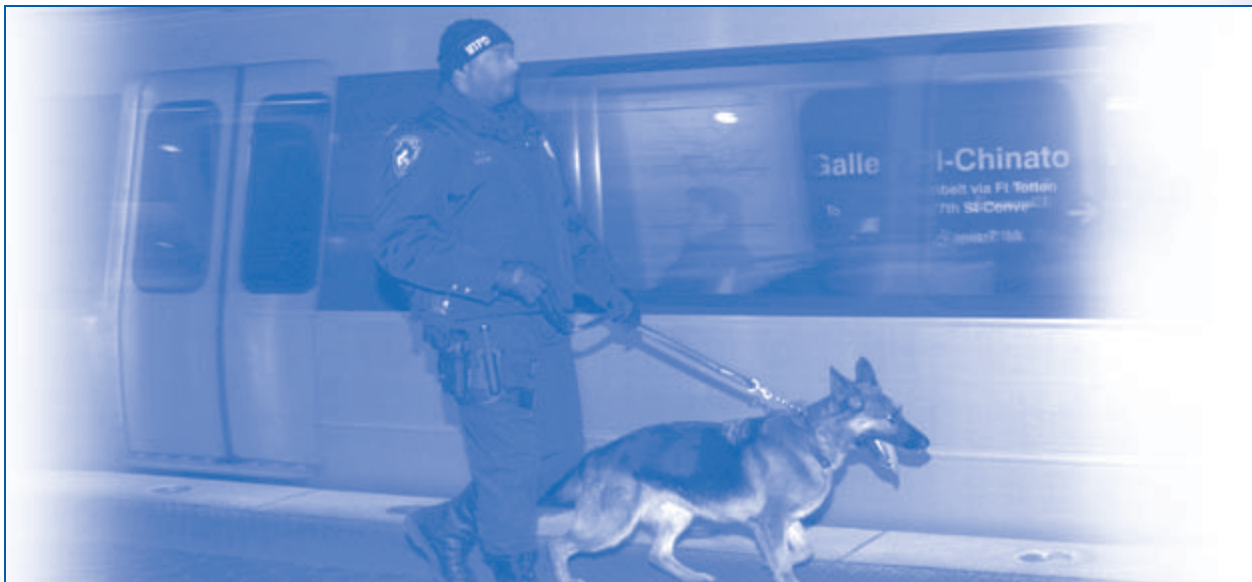
focus on securing nonaviation modes of transportation, particularly surface modes of transportation. (See [fig. 34](#).)

- History has shown that terrorists have been effective at modifying their tactics to circumvent existing security measures, such as by using liquid explosives and evolving methods of concealment. Further, terrorist attacks on surface transportation systems around the world highlight the vulnerabilities of these systems and the need for an increased focus on securing them from terrorism. Maritime transportation components overseas have been attacked by terrorists and pirates, highlighting the potential vulnerabilities of our own ports, vessels, and sea-based supply chain for such critical items as oil and liquefied natural gas. Frequent criminal use of seagoing cargo containers—to smuggle drugs and traffic people—demonstrates the potential for terrorists to use such containers to get weapons of mass

destruction and other contraband into the United States.

- Although DHS components, such as the Transportation Security Administration, or TSA, Coast Guard, and U.S. Customs and Border Protection have primary responsibility for various aspects of transportation security, the responsibility for securing all of these transportation modes is shared among other federal, state, local, international, and private-sector partners, necessitating continual DHS coordination with these entities. In addition, because of the interconnectivity of the global and national transportation network, it is important that the department's risk assessment consider systemwide and multimodal risks, as well as risks pertaining to intermodal facilities—where more than one mode of transportation connect—so that terrorists are not driven from one mode to another that they view as less secure.

Figure 34: Example of High-Visibility Canine Sweep at a Mass Transit Station



Source: Washington Metropolitan Area Transit Authority.

Securing U.S. borders: The significant transnational flows of people and goods create challenges in securing U.S. borders. Hundreds of millions of people and millions of cargo containers enter the United States each year through more than 300 ports of entry. Estimates indicate that hundreds of thousands of people try to enter illegally across the more than 7,000 miles of land border with Canada and Mexico:

- DHS will continue to face major challenges in identifying and apprehending those trying to enter the country illegally across the U.S. borders or at ports of entry through the use of false documents or documents belonging to others, and in interdicting suspect cargo—including potential terrorists and weapons of mass destruction. DHS will have to balance these homeland security missions while not significantly impeding the flow of legitimate travelers and cargo. (See [fig. 35](#).)
- DHS will also continue to face obstacles in reducing the conditions that encourage illegal employment, identifying and removing millions of undocumented aliens from the country, preventing and combating immigration fraud and identity theft, and providing timely immigration services to eligible individuals. (See [fig. 36](#).) As the economy improves, it is likely that attempts to immigrate illegally will increase as the prospects for work in the United States increase. While DHS has already spent billions of dollars to hire thousands of additional border enforcement personnel and to deploy advanced technology, our work shows that some of this technology has not worked as planned. DHS may also need to modify its investment plans to address evolving threats to the border, such as increased violence against U.S. law enforcement.
- Strategies and resources will also be needed to prevent the illegal movement out of the country of cash and weapons that are fueling drug-related violence along the Southwest border and threatening the security of the United States, as well as that of Mexico.

Figure 35: U.S. Port of Entry at San Ysidro, California



Source: GAO.

Figure 36: Worksite Enforcement Operation



Source: Department of Homeland Security.

- Future pandemics could also significantly challenge DHS's efforts to secure the border because of the sheer volume of traffic and the difficulty in developing screening protocols to detect an influenza-like illness.
- Finally, comprehensive immigration reform legislation—which could be taken up within the next several years—would put significant pressure on DHS to meet its goals of transforming its immigration benefit application process in order to meet a potential surge of millions of additional applications, while simultaneously processing the approximately 5 million applications it already receives each year.

Disaster preparedness and response:

As the threat of terrorist attacks and the severity and related financial costs of natural disasters increase in the next decade, so will the national preparedness, response, and recovery challenges for federal, state, and local emergency responders:

- Scientific assessments indicate that climate change is expected to result in more volatile weather patterns, with potentially more frequent and severe natural hazard events, such as hurricanes, that result in increased economic losses and response and recovery costs.
- Other factors—such as changing demographics (e.g., the growing population of those age 65 or older), evolving infectious disease or biological threats, and aging infrastructure—will affect disaster risks, the potential consequences of disaster, and, thus, the challenges of disaster preparedness.
- It will become increasingly important for the nation to enhance its ability to assess those evolving risks and make the appropriate adjustments and investments to disaster preparedness and response plans and capabilities. Although DHS has developed key national response policies, operational plans that identify the organizations and resources required for preparedness and a systematic means of prioritizing resources are needed to ensure that federal funds are used most effectively and that needed federal, state, and local capabilities are appropriately developed.

- Although billions of dollars have been spent to improve the nation's ability to respond to the next catastrophic disaster, the federal government continues to face challenges in developing useful measures to assess preparedness and response capabilities. Most disasters are the result of a single, short-term event, such as a hurricane or flood, but an infectious disease pandemic presents unique challenges because it could persist for months as it spreads across the country in waves, affecting first responders and health care workers, as well as the general population. Early detection of the spread of a biological agent—whether naturally occurring or introduced deliberately—is a formidable challenge requiring the resources and coordinated efforts of many federal, state, and private entities, such as public health services and hospitals. Such events may require specialized response capabilities—such as those for a release of radiation from a nuclear power plant or a dirty bomb.

Disaster recovery: Natural disasters in the United States have also highlighted challenges facing DHS and others in ensuring that homeowners and businesses have access to financial resources to recover from disasters. For example, the National Flood Insurance Program, which we have designated as high risk, still owes the Treasury \$19 billion it borrowed to pay for losses from earlier hurricanes, and some state insurance programs are under increasing financial strain as a number of private market insurers have begun limiting the number of policies they write in hurricane-prone areas. It is unlikely that the Federal Emergency Management Agency can repay a debt of this size and also pay future claims in a program that generates premium income of about \$2.6 billion a year. Legislation has been introduced that would limit National Flood Insurance Program subsidies, with the goal of improving the financial stability of the program. In addition, the Small Business Administration's (SBA) Disaster Loan



Program plays a crucial role by providing financial assistance to homeowners and business affected by disasters. Yet, SBA's response to the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma) exposed many deficiencies. Since then, SBA has taken several steps to reform the Disaster Loan Program so that the agency is better prepared to handle future large-scale disasters. However, as we reported in July 2009, SBA still has not fully addressed several requirements outlined in the Small Business Disaster Response and Loan Improvements Act of 2008. By continuing its efforts to implement all requirements in the act, SBA could improve its operations for future hurricane seasons, build on the lessons learned from the 2005 Gulf Coast hurricanes, and further signal its commitment to its mission of providing affordable and timely financial assistance to help businesses and homeowners recover from disasters.

Protecting critical infrastructure:

Terrorists, criminals, and others will continue to target the nation's physical and cyber assets—including vital information technology systems and networks—to disrupt national security, sap economic vitality, and endanger public health and safety. In addition, they will try to gain access to highly sensitive information and commit fraud and theft, including identity theft, and try to thwart programs and measures aimed at reducing the nation's and individuals' vulnerabilities to fraud and theft. In addition, natural disasters have and can result in widespread damage to physical infrastructure, including oil pipelines and refineries, transportation systems, electrical power lines, and cell-phone towers. Any man-made or natural

disaster affecting the highly interconnected computer and telecommunications systems needed to operate those assets could be debilitating to the nation's capacity to maintain essential national defense, economic activity, and quality of life. DHS, in partnership with other federal agencies; the private sector; and state, local, tribal, and territorial governments, will face ongoing challenges in meeting its responsibilities to protect critical infrastructure, especially since the effects of terrorist attacks and natural, man-made, or technological hazards can cascade far beyond the affected infrastructure and the geographic location of the incident. DHS and its partners also face challenges identifying threats, mitigating vulnerabilities, and minimizing the consequences of incidents, while managing the risk associated with interdependencies among diverse critical infrastructure so that assets, systems, and networks can be made more resilient. DHS and its partners are equally challenged in protecting federal information technology and the nation's cyber systems, including highly sensitive government and personal information and the computer and telecommunications systems that are vital to the continued operation of other critical assets, systems, and networks.

GAO's planned work will help federal decision makers assess efforts to protect against and respond to threats and other disasters facing the nation, and to identify, prioritize, and allocate resources and investments for homeland security. To support efforts by the Congress and the federal government to address these issues, GAO has established the following performance goals and key efforts:

Performance Goal 2.1.1 Assess federal homeland security management, resources, and stakeholder coordination

Key Efforts

- Assess DHS's transformation efforts and its ability to appropriately measure performance.
- Assess whether DHS is using a risk-based approach to allocate its resources and is being an effective steward of those resources.
- Evaluate DHS's and its components' efforts to acquire, manage, and efficiently use their assets.
- Assess federal efforts to develop and implement homeland security-related strategies and plans and to coordinate with homeland security partners.
- Evaluate DHS's efforts to manage science and technology resources and assess homeland security technologies to prevent and respond to attacks and disasters.

Performance Goal 2.1.2 Assess efforts to strengthen the sharing of terrorism-related information

Key Efforts

- Evaluate federal efforts to implement the information-sharing environment.
- Assess whether agencies' information-sharing roles and responsibilities have been clearly defined to help ensure effectiveness and minimize overlap or duplication.
- Determine federal, state, local, and tribal agencies' progress in sharing terrorism and law enforcement information, including technology innovations.
- Assess how federal, state, local, and tribal agencies balance sharing terrorism information with protecting privacy and civil liberties.

Performance Goal 2.1.3 Assess efforts to strengthen security in all transportation modes

Key Efforts

- Assess federal government efforts to secure the aviation, surface, and maritime transportation sectors while facilitating the legitimate flow of people and commerce.
- Assess progress in allocating security resources across and within all transportation modes based on risk.
- Assess the security of integrated transportation networks, across modes and among federal, state, local, and private-sector stakeholders.

Performance Goal 2.1.4 Assess efforts to strengthen border security and address immigration enforcement and services issues

Key Efforts

- Evaluate DHS's efforts to prevent the unlawful movement of people, money, and materials across U.S. borders.
- Evaluate DHS's use of customs and immigration authorities to respond to and address security threats and related vulnerabilities.
- Assess DHS's efforts to efficiently, effectively, and fairly process and adjudicate applications for immigration benefits.
- Evaluate immigration reform initiatives and proposals.

Performance Goals 2.1.5 Assess U.S. national emergency preparedness and response capabilities

Key Efforts

- Assess whether the federal government provides reasonable assistance to establish needed national preparedness capabilities.

- Assess whether emergency management organizations have the capabilities needed to respond to all disasters.
- Determine whether emergency management officials are effectively using federal grants to establish needed capabilities.
- Assess the extent to which DHS is leading assessments of federal emergency preparedness capabilities.

Performance Goal 2.1.6

Assess the cost, availability, and management of natural catastrophe insurance and disaster loan programs

Key Efforts

- Assess the Federal Emergency Management Agency management of the National Flood Insurance Program.
- Assess the costs and benefits of implementing new or revising existing disaster-related insurance programs.
- Assess efforts to increase private market provision of catastrophic insurance coverage.
- Assess SBA's disaster recovery efforts.

Performance Goal 2.1.7

Assess efforts to strengthen the protection and resiliency of the nation's critical physical and cyber infrastructure

Key Efforts

- Assess DHS's efforts to enhance the resiliency of critical national assets, networks, and systems.
- Review the effectiveness of computer and network security at federal agencies to better ensure the protection of government and personal information.
- Assess efforts to manage and protect the computer information systems

and networks that support the nation's critical infrastructure.

- Assess DHS's efforts to identify and reconcile gaps and overlaps between its critical infrastructure protection strategy and the regulatory regimes affecting its public and private-sector partners.
- Assess DHS's efforts to identify, manage, and mitigate risks associated with interdependencies across the spectrum of critical assets, systems, and networks.

STRATEGIC OBJECTIVE 2.2

Ensure Military Capabilities and Readiness

U.S. operations in Iraq and Afghanistan have seen increased deployments for military personnel, as well as put significant wear and tear on military equipment, and it is unclear when these demands will diminish. The decision to expand U.S. force levels in Afghanistan will place additional demands on DOD, including requirements for new types of equipment, additional facilities, and specialized training. Beyond these ongoing operations, DOD is confronted with a rapidly evolving national security environment exemplified by nonstate actors such as terrorists and pirates, as well as cyber attacks and other emerging threats. Also, global financial challenges and environmental changes could lead to greater instability and conflicts that could

involve U.S. forces. To meet the continuing demands of current operations and adjust to evolving security needs, DOD is pursuing broad-based initiatives to grow, modernize, and transform its forces to address a more diverse range of threats. However, the nation's fiscal challenges make it increasingly urgent that the department manage and prioritize its resources well.

Budgetary pressures: DOD's budget represents about half of the federal government's discretionary spending, and the level of resources provided to it have increased significantly in recent years. For fiscal year 2010, Congress set aside about \$661 billion for DOD, including about \$534 billion for base needs and about \$127 billion for contingency operations. (See [fig. 37](#).) As of December 2009, DOD had received



about \$1 trillion since 2001 to support contingency operations, including those in Iraq, Afghanistan, and elsewhere.

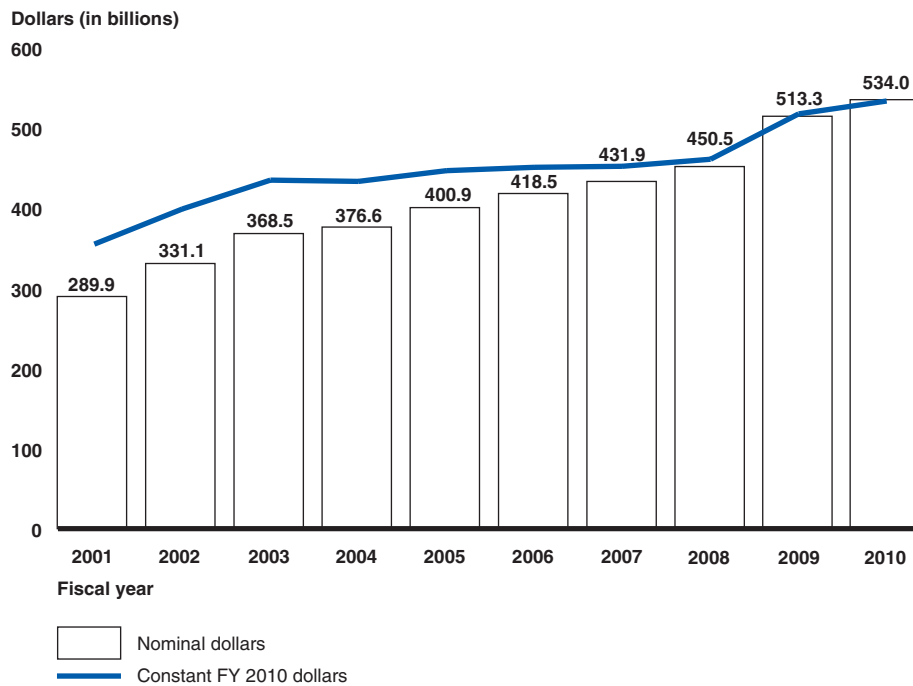
Despite the significant resources being devoted to defense, DOD will likely face mounting budgetary pressures over the coming 5 years due to the broader fiscal challenges the nation faces:

- As the growth of defense budgets slows, DOD will likely be forced to manage trade-offs among operations, personnel, and the development and acquisition of major weapon systems. Contingency operations will likely continue to require a considerable share of future defense budgets; the magnitude of the costs will depend on factors such as the scope and duration of the operations and the related, but as yet unknown, cost to rebuild the force in the aftermath.
- While it deals with the demands of continuing large-scale operations, DOD

must prepare for a range of evolving threats. This preparation includes efforts to become more agile—such as with the Navy’s development of a multimission littoral combat ship—as well as expanding the use of unmanned systems. Personnel costs have risen dramatically, partly because the Army and Marines have become larger to meet operational demands, but costs have also been driven by increases in basic pay, housing allowances, recruitment and retention bonuses, and incentive pay and allowances.

- Reflecting similar trends outside of the military, DOD’s health care costs are increasing rapidly and have grown from \$17.5 billion in fiscal year 2000 (\$21.95 billion adjusted for inflation) to \$47.4 billion in fiscal year 2010 budget authority. This cost growth, adjusted for inflation, is greater than 115 percent (\$25 billion). The full human costs of ongoing

Figure 37: DOD’s Budget Authority for Fiscal Years 2001–2010 (Excluding Contingency Operations)



Source: Department of Defense.

conflicts are unknown but will likely be borne for many years to come; by 2009, more than 30,000 servicemembers had been wounded, a number that continues to climb with the ongoing operations.

- Recapitalizing aging equipment will also compete for DOD resources. Since 2003, DOD's portfolio of major defense acquisition programs has grown from 77 to 96 programs; and its investment in those programs has grown from \$1.2 trillion to \$1.5 trillion (in fiscal year 2009 dollars). These programs include new weapons like the Joint Strike Fighter and Virginia-class submarine and upgrades to others, such as the Apache and Blackhawk helicopters. Improving acquisition outcomes will be crucial, as DOD has been unable to consistently achieve its goals to deliver weapon systems within the estimated time and costs. The consequences of this failure are significant: Hundreds of billions of dollars in cost growth for DOD's portfolio

of major defense acquisition programs, average delays in delivering capabilities of almost 2 years, and an erosion of the buying power of the defense dollar that results from fielding more expensive systems in fewer numbers.

Coordination and integration

activities: A growing realization of the limits of traditional military power to combat increasingly unconventional threats like economic instability or pandemic disasters has highlighted the need for U.S. government agencies to improve the coordination and integration of national security activities. Federal agencies will need to create mechanisms that coordinate national security activities across the federal government, such as developing overarching strategies to guide the planning and execution of missions or sharing and integrating national security information across agencies. Even when DOD does not take a lead role in future operations, prudent investment will be needed in key capabilities—such as cyber operations; unmanned systems; intelligence, surveillance, and reconnaissance; and nonlethal weapons. GAO's work will examine the federal government's investments in these key capabilities. This work will also assess approaches for addressing duplication and overlap across national security programs and activities, such as integrating service delivery, consolidating programs, or setting up better coordination approaches to ensure that agencies' strategic goals are mutually reinforcing.



Nuclear weapons stockpile: The National Nuclear Security Administration (NNSA) is responsible for producing nuclear weapons and naval reactors, as well as preventing the proliferation of weapons of mass destruction. The legislatively mandated Nuclear Posture Review, completed in April 2010, recognizes that in the years ahead, new approaches will be vital to ensuring that the nation's nuclear weapons stockpile continues to be safe and reliable without additional underground testing. Moreover, maintaining and refurbishing the stockpile as it ages will require a modern, efficient, and secure research and development and production infrastructure. Meeting these challenges will also require NNSA to have effective human-capital strategies to respond to an aging contractor and federal workforce. Our work in the coming years will help ensure that NNSA achieves effective results from the more than \$6 billion per year spent on these efforts, with a particular focus on NNSA's efforts to improve its project management and contract administration—an area we have identified as being at high risk for fraud, waste, and abuse.

Business operations: Importantly, DOD has an opportunity over the next few years to take concrete steps to correct long-standing weaknesses in its business operations, as well as free up resources that can better position the department to respond to changing economic conditions and future threats. DOD is taking some positive steps to formally establish business leadership positions and institutions so that defense business operations not only deliver the outcomes expected under the terms of DOD's overarching strategic plan, the Quadrennial Defense Review, but also respond and adapt to emerging needs

and unexpected problems. In addition, the department will need to continue to take steps to meet the congressionally mandated organizational changes designed to increase DOD's emphasis on acquisition improvements, such as cost estimating, program performance, systems engineering, and developmental testing. These changes, if implemented consistently, could improve the department's return on investment in this area. Lasting reform in defense business operations will require DOD to follow through by setting priorities, strengthening management accountability, executing plans, implementing policy, gauging actual progress against goals, and making adjustments as needed.

Major weapon systems acquisition: One area where DOD needs to make real progress is in improving its approach to acquiring major weapon systems. Total acquisition cost growth on DOD's fiscal year 2008 portfolio of major programs reached nearly \$300 billion over initial estimates. DOD's ability to successfully adapt to budgetary constraints will depend in great measure on its ability to better manage weapon systems acquisition. At the program level, programs are often begun and continued without enough knowledge about a system's requirements, technology, and design. Lacking such knowledge, managers rely on assumptions that are consistently too optimistic, exposing programs to significant and unnecessary risk and, ultimately, cost growth and delays. Cost overruns lead to fewer resources for other priorities and reduced buying power for DOD, and schedule delays mean that the warfighter does not get critical capabilities when needed and therefore relies on legacy systems or goes without. The Congress and DOD have recently addressed many

of these issues through acquisition reform legislation and changes to acquisition policy. However, many efforts at acquisition reform have been tried in the past without much success. Sustained leadership and consistent implementation of these recent reforms are necessary if DOD hopes to improve its weapon system program outcomes.

Supply chain network and support infrastructure: Improving management of DOD's vast and complex supply chain network and support infrastructure represents opportunities to increase efficiency, improve effectiveness, reduce waste, and free up resources for other priorities. For example, DOD officials have estimated that the level of investment in the department's supply chains is more than \$150 billion a year, and the value of its spare part inventories has grown by tens of billions of dollars in recent years. Yet, the department continues to have substantial unneeded inventory. Furthermore, DOD faces challenges in managing its portfolio of facilities, halting facilities' degradation, and reducing unneeded infrastructure to save money. DOD also faces challenges in relocating over 120,000 personnel to new bases, which will prompt significant new construction. As a result, DOD's budget will be even further squeezed as it attempts to complete all required construction, maintain facilities to avoid degradation, and ensure adequate installation support for DOD's mission and the quality of life for DOD personnel and their families.

DOD contractor-supported missions: DOD's ongoing reliance on contractor-provided services to support its missions makes effective management and oversight of these contracts critical. DOD obligated about \$207 billion on contracts for services

in fiscal year 2009.³² At installations within the United States, contractors provide base operations support (such as food and housing) and other administrative and logistical support. In Iraq and Afghanistan, where DOD reported that more than 217,000 contractors were supporting its efforts as of September 30, 2009, contractors provide not only traditional logistical support—such as base operations support and the maintenance of weapon systems—but also intelligence analysis and interpreters who accompany military patrols. This reliance on contractors will continue to present several challenges for DOD, such as:

- determining which functions and activities should be contracted out and which should not to ensure institutional capacity;
- developing a total workforce strategy to address the appropriate mix of contractor and government personnel;
- identifying and distinguishing the roles and responsibilities of contractors and civilian and military personnel; and
- ensuring appropriate oversight, including addressing risks, ethics concerns, and surveillance needs.

GAO's recent and forthcoming work on these challenges will support congressional oversight and assist DOD in determining the appropriate role of contractors in supporting the military in carrying out its mission.

³²According to the Federal Procurement Data System—Next Generation, DOD's total obligations for services in fiscal year 2009 were about \$193 billion. However, this figure reflects DOD's approximately \$13.9 billion downward adjustment to correct an administrative error made in fiscal year 2008. As this adjustment significantly affected DOD's reported obligations in fiscal year 2009, the \$207 billion figure we report reflects what DOD's total obligations for services would have been had the error not occurred.

Human-capital management: In addition to contractors, DOD needs effective management of its total workforce of over 3 million active duty, guard, reserve, and civilian personnel to maximize their value in achieving its mission. The cornerstones of human-capital management are leadership; strategic planning; acquiring, developing, and retaining talent; and creating results-oriented organizational cultures. However, DOD faces numerous challenges, including competition with the private sector, in making sure that it has the right number of people with the right skills. Also, social and behavior factors, such as incidents of sexual assault or domestic violence, can undermine core values and negatively affect readiness.

Taken together, the national security challenges are immense, and our work can help the Congress and federal leaders as they seek to reconcile competing demands,

strengthen interagency collaboration, and improve defense business operations to make the most of the nation's investment in national security. Specifically, GAO has established the following performance goals and key efforts:

Performance Goal 2.2.1 **Assess DOD's ability to meet operational demands while preparing for the future**

Key Efforts

- Assess services' readiness and training to accomplish missions.
- Evaluate plans for transforming active and reserve forces.
- Analyze DOD plans for maintaining and modernizing strategic capabilities.
- Review global posture and forward presence plans.



Performance Goal 2.2.2 **Assess DOD's efforts to secure the homeland and respond to emerging threats and irregular warfare**

Key Efforts

- Evaluate DOD's role and collaboration in homeland security.
- Evaluate DOD's preparedness for emerging threats and irregular warfare, including chemical, biological, radiological, and nuclear attacks from nonstate actors.
- Assess DOD's protection of its forces, critical infrastructure, and assets worldwide.
- Assess DOD's efforts to improve and integrate command, control, communications, computers, intelligence, surveillance, and reconnaissance.

Performance Goal 2.2.3 **Assess DOD's progress and challenges in improving interagency collaboration for national security**

Key Efforts

- Assess DOD's efforts to work with U.S. agencies and international partners to plan and execute operations overseas.
- Evaluate DOD's progress toward developing integrated joint and interagency capabilities in its regional commands and other organizations.
- Assess DOD's progress in developing a workforce skilled in an interagency environment.

Performance Goal 2.2.4 **Assess DOD's human-capital management to ensure a high-quality total force**

Key Efforts

- Assess DOD's approach to determining requirements and managing its military, civilian, and contractor workforce.

- Assess DOD's efforts to improve management of its active-duty, reserve, and civilian personnel workforce.
- Assess DOD's management of its financial resources to compensate personnel.
- Assess DOD's policies and programs for addressing social and behavioral factors.

Performance Goal 2.2.5 **Assess the ability of weapon system acquisition programs and processes to achieve desired outcomes**

Key Efforts

- Identify ways for DOD to prioritize its investments in weapon systems.
- Assess the performance of and budget requests for weapon programs.
- Analyze individual weapon programs to ensure that they are ready to start development or production.
- Identify best practices to address problems that consistently affect weapon programs.
- Assess DOD's implementation of acquisition reforms.

Performance Goal 2.2.6 **Assess DOD's progress in improving the economy, efficiency, and effectiveness of its logistics and support infrastructure**

Key Efforts

- Assess efforts to provide timely support to the warfighter and address emerging requirements.
- Evaluate the need and opportunities for improving logistics functions and systems.
- Assess facilities maintenance and modernization.
- Assess implementation of base realignment and closure efforts.

Performance Goal 2.2.7
Assess the National Nuclear Security Administration's efforts to maintain a safe and reliable nuclear weapons stockpile

Key Efforts

- Assess NNSA's research, development, and production programs to support a safe and reliable stockpile.
- Evaluate NNSA's personnel, procurement, and planning systems.
- Assess NNSA's development of effective and efficient security programs to protect nuclear weapons, materials, and information.

Performance Goal 2.2.8
Assess DOD's efforts to adapt and leverage management processes to improve performance

Key Efforts

- Analyze funding and costs of military operations and programs.
- Assess DOD's efforts and identify alternative approaches to improve planning, programming, and budgeting.
- Assess DOD's efforts to provide leadership for the transformation of its business operations.



STRATEGIC OBJECTIVE 2.3

Advance and Protect U.S. Foreign Policy Interests

In the second decade of the 21st century, the United States will continue to see growing challenges to its foreign policy interests, which include promoting global peace, prosperity, and stability. As boundaries become more fluid, more people, goods, money, culture, and information move across them more rapidly. As a result, the United States will be increasingly faced with international challenges, and Americans will more keenly feel the effects of these challenges, which include:

- unstable and failed states;
- ongoing terrorist and proliferation threats;
- humanitarian, economic, and political crises;
- breakdowns in multilateral consensus; and
- a tarnished U.S. image abroad.

These complex challenges will call for flexible and multifaceted government responses that combine sustained international security interventions, including vigilant international counterterrorism and nonproliferation efforts, with effective U.S. foreign assistance, collaborative multilateral participation, and strong U.S. diplomatic presence. GAO identified advancing U.S. efforts in Iraq, Afghanistan, and Pakistan as a major government challenge in November 2009 (see <http://www.gao.gov/highrisk/>). Such activities cross organizational and programmatic boundaries and put a premium on strategic

planning, interagency coordination, and international partnerships. These activities will also require substantial resources. For example, the U.S. government has already provided more than \$100 billion to State, DOD, the U.S. Agency for International Development (USAID), and other agencies for stabilization and reconstruction, and for capacity-building efforts in Afghanistan, Iraq, and Pakistan.

International security: Major U.S. security operations will continue in Iraq and Afghanistan and around the world to maintain peace among nations or stabilize states, either unilaterally or with the support of U.S. allies—including the North Atlantic Treaty Organization (NATO) and United Nations (UN) peacekeepers. In



other conflict areas, the UN is working to build sustainable peace in 15 peacekeeping operations worldwide, including Darfur, Lebanon, and the Democratic Republic of the Congo; however, the lack of donor country resources hinders some operations from fully carrying out their mandates.

The U.S. government, along with other member countries, is helping the UN address resource challenges, particularly with regard to specialized military units, police, and civilians. The United States will continue to provide bilateral security assistance and pursue programs that counter transnational threats in order to foster international security—including, for example, drug and arms trafficking, which not only destabilizes the U.S.–Mexico border, but also continues to affect regional stability in strategically important areas of Asia and Latin America.

Nevertheless, achieving U.S. objectives to stabilize regional conflicts and address security challenges will require long-term efforts. Building and sustaining such efforts requires commitment, coordination, resources, and consensus—which can be difficult to obtain in the face of competing international priorities and strained resource bases. GAO’s work will help the Congress monitor these complex security challenges, including the implications of the planned drawdown of U.S. forces in Iraq and buildup of forces in Afghanistan.

International counterterrorism: Since 2001, the United States has increased and realigned its resources, as well as developed strategies to achieve the critical national security goal of disrupting, dismantling, and defeating terrorist threats and closing terrorist safe havens, such as

Pakistan’s Federally Administered Tribal Areas and border region with Afghanistan, that provide protection to those who seek to threaten U.S. interests and citizens at home and abroad:

- In conjunction with international partners, the United States spearheads global efforts to identify and disrupt active international terrorist groups, such as al Qaeda, and reduce their flow of support (e.g., from terrorist financing and violent extremists). Various U.S. international agencies are engaged in activities to more effectively block the entry of terrorists and criminals; protect U.S. personnel overseas; and pursue military, intelligence, law enforcement, development, diplomatic, and economic efforts to erode terrorist networks and their sources of support.
- To advance these efforts, U.S. agencies will continue a variety of counterterrorism-related assistance programs to provide partner nations with training and equipment and improve bilateral ties. For example, U.S. agencies will help train and equip foreign countries to prevent, combat, and respond to terrorism and will invest billions of dollars to replace or harden government facilities overseas.
- The U.S. government has renewed its emphasis on key programs to protect U.S. borders and prevent the entry of those who are a danger to the United States or are likely to remain in the United States illegally.
- Additionally, the United States is increasing the use of nonmilitary efforts, such as giving economic and development assistance, to address terrorist threats abroad. GAO will address continuing

concerns about whether government agencies are effectively coordinating an international approach to combating terrorism. GAO will also assess whether agencies have efforts under way to mitigate program, resource, and security challenges that would otherwise adversely affect their missions.

Nonproliferation: The proliferation of weapons of mass destruction continues to receive heightened attention because of concerns that terrorists or a rogue regime could threaten the United States with nuclear, chemical, radiological, or biological attack. The centerpiece of U.S. nonproliferation efforts is a multibillion-dollar array of efforts by DOD, the Department of Energy, and State to help former Soviet states control and reduce their vast, diverse holdings of Cold War-era nuclear, biological, and chemical weapons and their related delivery systems and infrastructure.

However, U.S. programs have moved beyond past agreements with the former Soviet Union to focus on risks from other countries and terrorist networks seeking weapons of mass destruction. The United States is renewing nonproliferation efforts, as shown by the President's September 2009 address to the UN, in which he emphasized the need to curb Iranian and North Korean nuclear programs, reach new nuclear agreements with Russia, and provide high-level attention to arms control agreements, such as the Comprehensive Test Ban Treaty. The United States also seeks ways to strengthen and modernize multilateral export controls over sensitive technologies and weapon systems through its national export control system and multilateral arrangements with other nations that trade

in these technologies. GAO's work will help the Congress maintain attention on the serious threats posed by the international spread of these weapons and related technologies.

Foreign assistance: Bilateral and multilateral foreign assistance is central to advancing U.S. international interests, and the U.S. government's process for managing such assistance continues to evolve. Policymakers have pursued organizational and procedural changes intended to enhance the effective use of foreign assistance. Furthermore, increased momentum for additional foreign assistance reforms may result from a presidential directive examining development policy and the first Quadrennial Diplomacy and Development Review, announced in July 2009.

These changes have sought to more fully align programs carried out by State,



USAID, and the more than 25 other U.S. departments and agencies involved in delivering U.S. development, humanitarian, and economic assistance and carrying out activities fostering democracy and human rights. For example, the U.S. government will provide about \$24.2 billion for such assistance in 2010, including basic education, disaster relief, and aid to refugees in strategic regions such as Africa and Asia. For 2011, the President requested about \$1.28 billion to provide developing countries with development assistance through the Millennium Challenge Corporation.

The administration has committed to increasing foreign assistance—seeking to double it by 2015—and is emphasizing development—building countries’ capacities for transformational change—as a key element of U.S. foreign policy. These efforts support the globally agreed Millennium Development Goals set through the UN a decade ago.



In addition to these bilateral efforts, the United States delivers some of this foreign assistance through international partners and a wide variety of multilateral organizations, including the UN and related agencies. In 2009, major donor countries agreed to a \$22 billion, 3-year commitment for agriculture and food security for developing countries. The U.S. share of this commitment—at least \$3.5 billion—includes \$1.2 billion toward the administration’s Global Hunger and Food Security (or Feed the Future) initiative in fiscal year 2010, representing more than double the fiscal year 2009 budget request. Moreover, the President proposed \$63 billion in funding for all global health programs through 2014, with more than 70 percent of this amount for AIDS relief. In signing the Copenhagen Accord at the 2009 United Nations Climate Change Conference, the United States committed to join with other developed countries to provide new and additional resources approaching \$30 billion from 2010 to 2012 and to jointly mobilize \$100 billion by 2020 to support developing countries in combating climate change. Nevertheless, the January 2010 earthquake in Haiti is an example of an unforeseen major event that may place new demands on foreign assistance resources and require changes in agency plans.

GAO’s work will focus on helping the Congress assess the efficiency and impact of U.S. foreign assistance.

Membership in multilateral organizations: U.S. participation in a wide variety of multilateral organizations—including the UN and 11 related agencies (such as the International Atomic Energy Agency), the International Monetary Fund, the World Bank, and four regional

development banks—was sometimes debated during the last administration. It remains to be seen whether the new administration will work more through multilateral forums to build international consensus for actions that further U.S. foreign policy goals. Although multilateral organizations facilitate international cooperation in many areas, questions continue to arise about these organizations' effectiveness and their ability to advance U.S. interests. As a result, the United States will remain a strong advocate of action within multilateral organizations to (1) address today's needs, threats, and opportunities; (2) become more efficient and effective; and (3) ensure financial and programmatic accountability for funds that member nations provide. For example, the United States has urged the UN to implement key management reforms and improve its internal controls and has supported efforts to combat corruption in international organizations' programs.



GAO's key efforts will help the Congress monitor the success of these efforts and may provide further impetus for such improvements.

U.S. diplomatic presence: The United States must safeguard and ensure the strategic use of U.S. government personnel and resources overseas as they are called on to operate in a growing number of dangerous locations. U.S. diplomats are working to adapt to today's highly volatile global environment and to instantaneous worldwide communications.

As a result, in November 2009, GAO identified "ensuring effective representation of U.S. diplomatic interests and image" as a major government challenge that it now tracks on GAO's High Risk and Other Major Government Challenges Web site.³³ Throughout the world, the public face of the United States generates strong opinions, both positive and negative. Negative perceptions of the United States persist in many locations, despite the investment of billions of dollars on communication designed to advance U.S. strategic interests abroad and promote U.S. national security objectives, such as countering ideological support for violent extremism. Enhancing the U.S. public image overseas and engaging foreign audiences directly through social networks and technologies (such as Facebook and Twitter) could help the U.S. government achieve its foreign policy and assistance objectives.

In addition, U.S. diplomatic readiness is compromised by several issues, including human-capital and physical-infrastructure challenges, which have prompted reforms that continue to affect the overseas

³³See <http://www.gao.gov/highrisk/>.

presence of about 23,000 U.S. staff from more than 30 agencies who work in more than 260 diplomatic posts in about 180 countries. For example, State must continue to address persistent staffing gaps at critical posts and shortfalls in foreign language capabilities, both of which compromise diplomatic readiness. State has undertaken several initiatives to address these problems, but has not done so in a comprehensive and strategic manner.

More broadly, the potential is great for overlap and poorly coordinated roles and responsibilities with so many agencies involved in U.S. foreign affairs activities. GAO will help the Congress seek to ensure that:

- critical programs achieve their intended results;
- the U.S. government has a sound strategic plan for carrying out its foreign affairs functions and activities; and
- resources are aligned with needs, particularly to ensure that new secure embassy compounds—which can cost hundreds of millions of dollars—are designed for the right number of staff.

GAO's key efforts will help the Congress guide the evolution of U.S. diplomacy and presence overseas.

GAO's work on issues that advance and protect U.S. foreign policy interests will continue to look across programmatic, organizational, and geographic boundaries to bring objective perspective and thoughtful analysis to inform policymakers and the public. To support efforts by the Congress and the federal government to address these challenges in international security, counterterrorism,

nonproliferation, foreign assistance, multilateral organizations, and U.S. diplomatic presence, GAO has established the following performance goals and key efforts:

Performance Goal 2.3.1 **Analyze the strategies, plans, roles, costs, and results of international security activities**

Key Efforts

- Evaluate U.S. and multilateral activities to stabilize security in areas of conflict.
- Assess multinational peacekeeping and U.S. military alliances with other nations or international organizations, such as NATO.
- Assess the management of U.S. bilateral security assistance programs, such as foreign military financing and training.
- Evaluate U.S. efforts to counter transnational threats, such as illegal trafficking in drugs and other illicit activities.

Performance Goal 2.3.2 **Evaluate the coordination and effectiveness of U.S. and international counterterrorism efforts**

Key Efforts

- Evaluate U.S. programs to train and equip foreign countries to prevent, combat, and respond to terrorism.
- Assess U.S. efforts to protect overseas personnel, facilities, and interests from terrorist attack.
- Assess U.S. international programs focused on preventing and combating the growth of terrorism and violent extremist ideology.
- Evaluate U.S. efforts to improve passport, visa, and other processes to prevent terrorists or criminals from entering the United States.

Performance Goal 2.3.3
Assess the effectiveness of U.S. and international efforts to prevent proliferation of nuclear, biological, chemical, radiological, and conventional weapons and sensitive technologies

Key Efforts

- Evaluate U.S. programs and facilities' safety to minimize proliferation of nuclear, biological, chemical, radiological, and conventional weapons.
- Assess the impact of multilateral agreements to reduce arsenals of weapons of mass destruction.
- Assess the management and effectiveness of U.S. and multilateral controls over exports of sensitive goods and technologies.

Performance Goal 2.3.4
Analyze the implementation and management of U.S. bilateral and multilateral foreign assistance

Key Efforts

- Evaluate U.S. efforts to provide development assistance.
- Examine U.S. efforts to provide humanitarian assistance.
- Assess U.S. efforts to provide economic assistance.
- Analyze U.S. activities to promote democracy and human rights.

Performance Goal 2.3.5
Evaluate the extent to which U.S. membership in multilateral organizations serves U.S. interests

Key Efforts

- Assess the effectiveness of U.S. participation in multilateral organizations.
- Review institutional management and reform.

Performance Goal 2.3.6
Assess the strategies and practices for maximizing the U.S. diplomatic presence and general management of international activities

Key Efforts

- Evaluate the efficacy of U.S. public diplomacy and other key programs to enhance the U.S. image abroad.
- Assess efforts to improve U.S. diplomatic readiness.
- Assess efforts to achieve the optimal level of U.S. overseas presence.
- Review broader efforts to strategically align overall foreign affairs management.



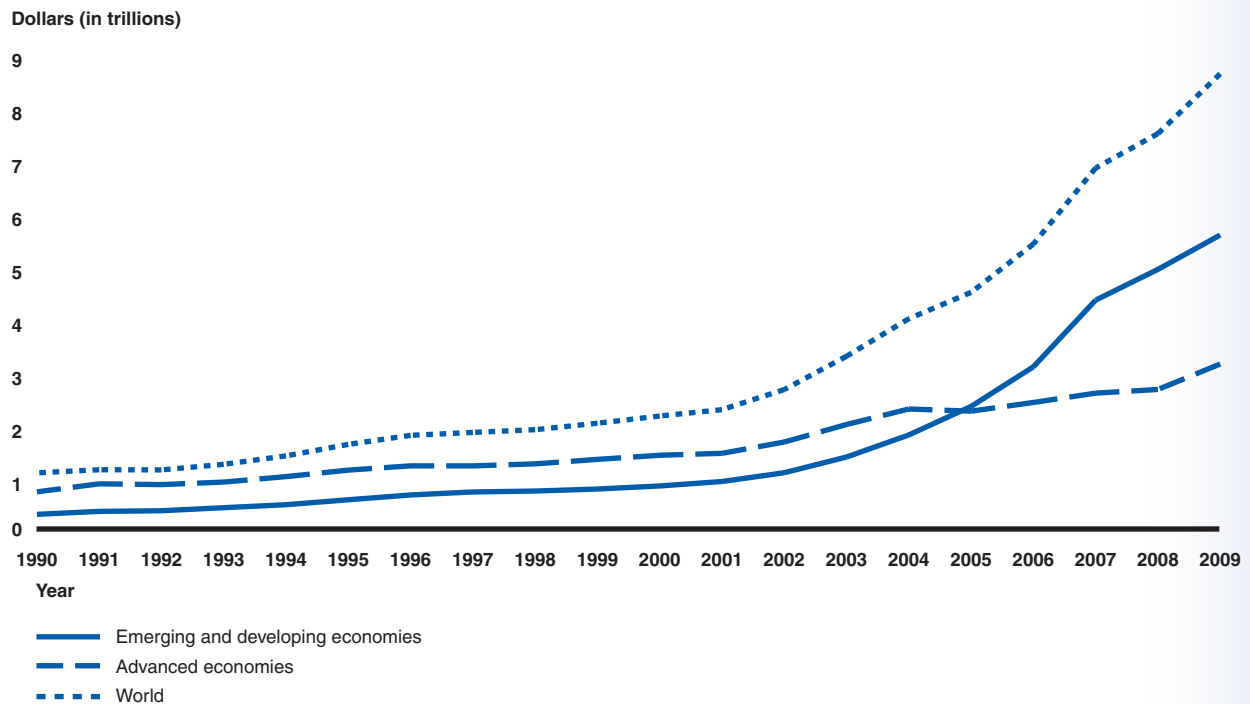
STRATEGIC OBJECTIVE 2.4

Respond to the Impact of Global Market Forces on U.S. Economic and Security Interests

While the steady opening of international markets helped fuel global development and the growth of U.S. trade and investment in the past, the global financial crisis and severe economic downturn that began in fall 2008 demonstrated that closer global integration can bring greater susceptibility to financial risk and loss. Further, the continuing emergence of several large and economically significant developing countries—such as Brazil, China, and India—has shifted traditional patterns of trade, production, and investment and poses questions concerning future U.S. economic and security

strategies. Current account surpluses with the United States have contributed to the buildup of foreign currency reserves in some economies. Since 1990, international reserves in advanced economies have grown nearly five-fold, and reserves in emerging and developing economies have increased more than twenty-five-fold. International reserves in emerging and developing economies overtook those of advanced economies in 2005. (See [fig. 38](#).) In addition, the same mechanisms that facilitate the free flow of goods and people also potentially increase U.S. vulnerability to national security threats.

Figure 38: International Reserves, 1990–2009



Source: GAO analysis of International Monetary Fund data.

Note: International reserves are assets available for financing international payments that are controlled by finance ministries and central banks. Such reserves can be used to cushion an export shortfall or defend the home currency in a financial crisis.

World financial system: Restoring and maintaining global financial health and the maintenance of the world financial system are critical to long-term U.S. objectives and are cornerstones of U.S. foreign policy. International efforts in this area are primarily undertaken through international financial institutions, most notably the World Bank and the International Monetary Fund (IMF), and use various means to help countries deal with complex financial problems and development needs. These international financial institutions will be using new or revised mechanisms to anticipate, prevent, and resolve financial crises, but it remains to be seen if these mechanisms will safeguard the stability of the international financial system and enhance recovery. For example, with increased support in response to

the global financial crisis and persistent poverty in many developing countries, these multilateral organizations will seek to keep finance available to support global recovery. These organizations will also work to address the increasing or heavy debt burdens of low-income countries, about 40 of which have been classified as heavily indebted. The United States is the IMF's major contributor and relies heavily on it and the World Bank to promote global economic health. Given the significant role of these institutions in responding to the global financial crisis, their programs, operations, and transparency are likely to come under increased scrutiny.

In addition, as foreign government-controlled sovereign wealth funds continue to grow, the United States will need to make new efforts to monitor their transparency and potential impacts. The Export-Import Bank of the United States will continue to play an important role in promoting U.S. exports, including in areas such as small and minority-owned businesses, and financing for environmental exports. GAO stands ready to provide the Congress with independent assessments of these complex international financial challenges.

International trade: As the world economy tries to recover from the recent recession, the United States will see increasing opportunities and challenges in international trade with regard to promoting economic growth and creating well-paying jobs. The United States has been the principal architect of the open world trading system, as embodied in the World Trade Organization and other trade agreements, and has benefited immensely from global trade and investment. Yet, ongoing multilateral trade negotiations

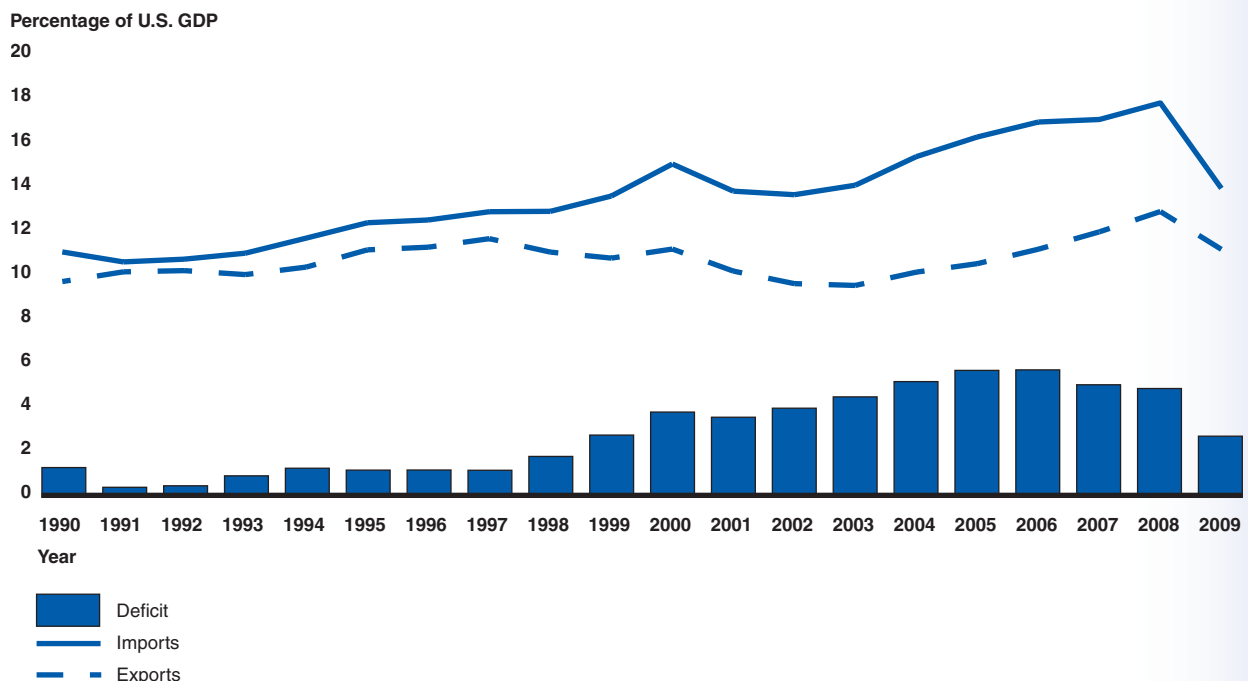
have stalled, as has U.S. approval of some bilateral free trade agreements. Trade will remain a vital part of U.S. economic prosperity and growth, but large trade imbalances between the United States and the rest of the world will need to decline to lessen distortions and risks in the global economy. (See [fig. 39](#).) It is uncertain whether a new consensus in the Congress to seek more open trade and investment will emerge, at least in part because segments of the U.S. and world populations have not shared equally in the benefits and may not do so in the future. The effective monitoring and enforcing of trade agreements the United States has signed, which govern access to most of the world's export markets, will be crucial to ensuring that they achieve their intended goals.

In addition, despite the nation's \$1.6 trillion in exports in 2009, significant foreign trade barriers in fast-growing markets in developing countries remain, and fewer than 1 percent of U.S. firms are identified

as exporters; this presents great potential for continued trade liberalization and federal export promotion activities. The rapid growth in Brazil, China, and India will increase international competition for natural resources, will compound global climate change and greenhouse gas emissions, and parallels the growing role of developing countries in international negotiations and the world trading system.

Policymakers will be forced to respond to these challenges, and in doing so, to balance calls for protection from industries at risk from the "offshoring" of U.S. jobs against calls supporting resumed or increased trade that many consider vital to global economic health. Similarly, U.S. agencies will continue to face management challenges as they balance their varied functions, such as upholding free and fair trade, protecting intellectual property rights, preventing trade in illegal goods such as conflict diamonds, and collecting duties of close to \$30 billion annually.

Figure 39: U.S. Trade as a Percentage of U.S. GDP, 1990-2009



Source: GAO analysis of U.S. Department of Commerce data.

GAO's key efforts will help the Congress assess these competing international trade interests and the outcomes.

Global supplier base: The globalization of the supplier base is changing the way the United States obtains technologies and capabilities to best serve its national security interests. Domestic firms that develop defense products, parts, and weapon systems and integrate and maintain those systems often rely on a supplier network of both domestic and foreign firms. At the same time, DOD has shown a willingness to acquire goods and services from foreign suppliers to achieve its goals. For example, the department has partnered with foreign allies to develop major weapon systems, such as the F-35 aircraft program. Globalization presents opportunities to DOD, such as the potential to speed innovation and reduce costs, but it also carries potential threats to the technological superiority of the U.S. military and may require new approaches to protect national security interests. Because of weaknesses we identified in the programs to protect technologies critical to U.S. national security interests, GAO continues to include this area in its High-Risk List. GAO's independent assessments of the effects of increased reliance on a globalized defense industrial base will provide information needed for DOD to better manage its critical technologies, as well as its interactions with the global supplier base.

To support efforts by the Congress and the federal government to address issues that relate to the impact of global market forces on U.S. economic and security interests, GAO has established the following performance goals and key efforts:

Performance Goal 2.4.1

Assess how the United States can influence improvements in the world financial system

Key Efforts

- Assess the operations of international financial institutions.
- Provide insight about international debt issues.
- Review international investment and exchange issues.
- Evaluate U.S. government international financing and guarantees.

Performance Goal 2.4.2

Analyze how international trade serves U.S. interests

Key Efforts

- Examine efforts to ensure and increase access to foreign markets and sources, including trade agreements and export promotion activities.
- Assess the effectiveness of duty collections, trade remedies against injurious goods, and other import programs.
- Analyze emerging trade policy issues and crosscutting trade management challenges.

Performance Goal 2.4.3

Improve understanding and management of the effects of a global supplier base on U.S. national security interests

Key Efforts

- Evaluate the effectiveness of U.S. government programs designed to protect critical technologies.
- Assess DOD's management of its commercial and foreign supplier base.

GOAL 3

Help Transform the Federal Government to Address National Challenges

Our national government faces serious short- and long-term challenges, including working through the aftermath of the most serious economic crisis since the Great Depression and continuing to improve efforts to prepare for, respond to, and recover from national emergencies, such as natural disasters, mass-casualty events, and pandemics. The nation's success in meeting these and other large-scale challenges depends on how the federal government works with its partners; manages its performance; maximizes its resources; and promotes efficiency, effectiveness, and accountability in all of its endeavors. The federal government must transform itself to:

- work more effectively across silos and traditional boundaries,
- form new relationships and strengthen existing ones,
- modernize its systems and improve operations, and
- find new strategies for allocating limited resources.

To meet the economic challenges over the next 5 years, the federal government must address the nation's long-term fiscal outlook, which shows escalating deficits and debt even after economic recovery. Examining all aspects of fiscal policy is needed to help the government ensure that its fiscal position improves. Evaluating existing programs and operations, as well as tax administration for opportunities to reduce fraud, waste, abuse, and mismanagement, will also help create flexibility to meet the nation's needs.

Access to complete, reliable, and timely federal financial information will be critical. The nation's leaders need a clear and realistic assessment of the federal government's financial condition and cost of operations to address long-term challenges, including the direction of federal programs and policies. Yet, much work lies ahead to strengthen the current state of federal financial management and accountability.

Because the public expects demonstrable results from the federal government, government leaders need to address management challenges and high-risk issues with better strategic planning, crosscutting approaches, and a focus on results. Helping create a capacity for and a culture that embraces



risk management will be critical to navigating rapid change, uncertainty, and fiscal strain. Further, the changing role of government, along with increasing global interdependence, means that the federal government must work closely with state and local governments, nongovernmental organizations, and the private sector—domestically and internationally—to achieve results. Accordingly, GAO will focus on the government’s role in achieving national goals in an increasingly networked and globalized environment and on the government’s ability to report on, deliver, and account for high, cost-effective performance.

To help transform the government and increase its ability to respond to major national challenges, GAO has established three strategic objectives:

- 3.1: Analyze the Government’s Fiscal Position and Opportunities to Strengthen Approaches to Address the Current and Projected Fiscal Gap
- 3.2: Identify Fraud, Waste, and Abuse
- 3.3: Support Congressional Oversight of Major Management Challenges and Program Risks

The screenshot shows the GAO FraudNet/Reporting Fraud website. At the top, there is a navigation bar with links for Home, About GAO, Contact GAO, Site Map, E-mail Updates, and Help. A search bar is located on the right side of the navigation bar, with the text "Keyword or Report#" and a "Search" button. Below the navigation bar, there are several tabs: Reports & Testimonies, Legal Decisions, Comptroller General, Topic Collections, Careers, and FraudNet/Reporting Fraud. The main content area is titled "FraudNet/Reporting Fraud" and includes a section "What Type of Fraud Are You Reporting?" with links for "Federal Funds", "Small Business", and "Internal Fraud at GAO". There is also a video player showing Gene Dodaro, Acting Comptroller General, GAO. The page includes social media links for Twitter and YouTube, and a feedback section.

STRATEGIC OBJECTIVE 3.1

Analyze the Government's Fiscal Position and Opportunities to Strengthen Approaches to Address the Current and Projected Fiscal Gap

Weaknesses in the economy and financial markets—and the government's responses to them—have contributed to near-term increases in federal deficits, which reached record levels in fiscal year 2009. Yet, the federal government faces even larger fiscal challenges that will persist long after the return of financial stability and economic growth.

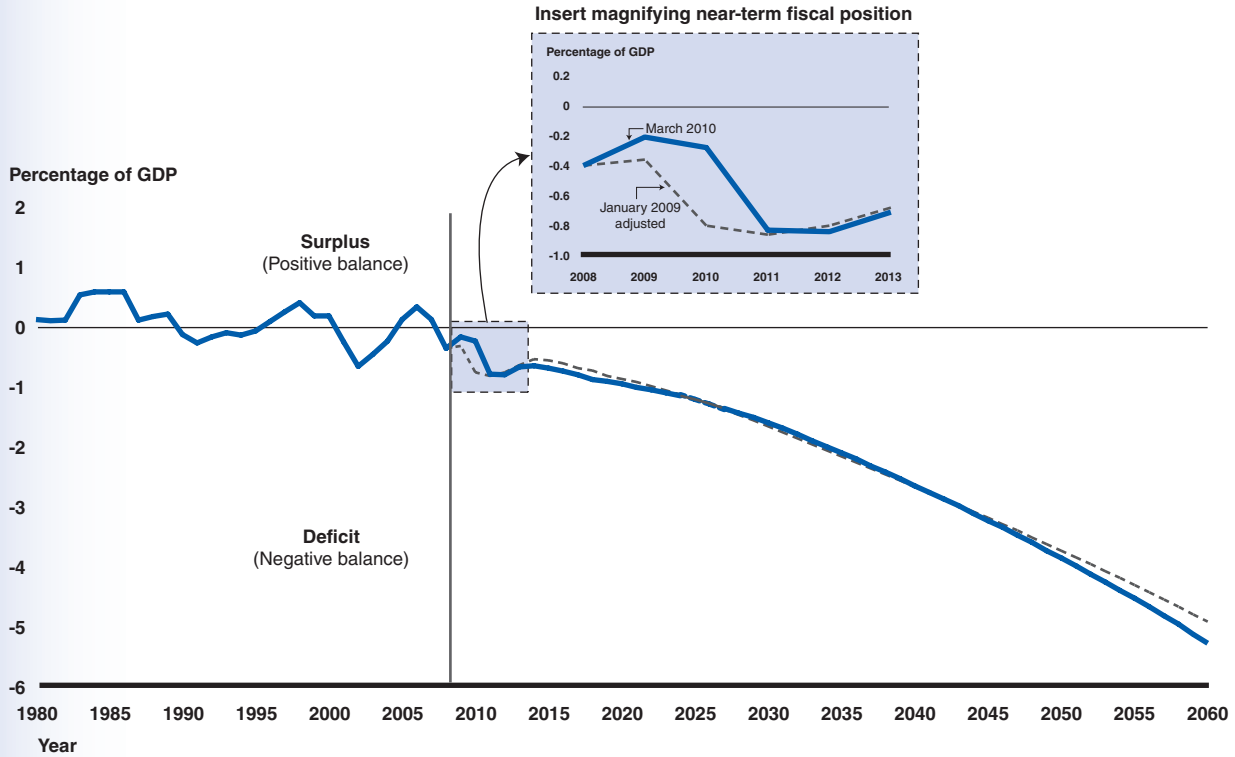
In the coming decades, the nation's fiscal outlook will be shaped largely by demographics and health care costs. As the baby-boom generation retires, federal spending on retirement and health programs—Social Security, Medicare, and Medicaid—will grow dramatically. A range of other federal fiscal commitments, some explicit and some representing implicit public expectations, also bind the nation's fiscal future. Without changes in policy, a growing imbalance between expected federal spending and tax revenues will mean escalating and ultimately unsustainable federal deficits and debt.

Long-term fiscal outlook: GAO's simulations of the long-term fiscal outlook show debt escalating and illustrate that the nation's long-term fiscal outlook remains unsustainable. In barely 10 years, debt held by the public as a percentage of gross domestic product (GDP) could exceed the historical high reached in the aftermath of World War II and grow at a steady rate thereafter. The large public debt that must

be refinanced over the coming 5 years also causes concern. The recent increase in federal debt takes place in the context of growing long-term fiscal pressures that will further squeeze the resources available to finance government activities. Like the federal government, state and local governments have faced and will continue to face fiscal challenges, which will be even more acute during periods of higher unemployment, constrained revenue, and increased demands for services (see [fig. 40](#)). Moreover, as states and localities seek to foster economic growth and fiscal sustainability within their jurisdictions, they are increasingly competing with each other across a range of business, economic, and social dimensions to achieve policy goals. Public policy decisions would benefit from a greater understanding of the tools used to compete, as well as the advantages and disadvantages of such competition.

Financial reporting and debt management: The federal government's economic stimulus and recovery efforts have created new and unprecedented federal financial reporting and debt management challenges. Accurate and timely financial information about government spending, including how the American Recovery and Reinvestment Act (the Recovery Act) and other federal funds are being used by states and localities, will help policymakers and the public assess and manage the country's fiscal condition and economic progress in the coming years.

Figure 40: State and Local Model Operating Balance as a Percentage of GDP, 1980–2060



— Operating balance March 2010
 - - - - - Operating balance January 2009 adjusted
 Sources: GAO simulations, updated March 2010 and January 2009 adjusted.

Notes: Historical data are from the Bureau of Economic Analysis's National Income and Product Accounts from 1980 to 2008.

Data in 2009 are GAO estimates aligned with published data where available. GAO simulations are from 2010 to 2060, using many Congressional Budget Office projections and assumptions, particularly for the next 10 years. Simulations are based on current policy.

GAO's planned work reflects significant developments, such as:

- The total cost of loans, credit guarantees, and other assistance that the Treasury, Federal Reserve, or other government entities have committed to date to address the financial crisis has been estimated in the trillions of dollars. In the near term, oversight is needed to ensure that the government's responses achieve its goals efficiently and effectively.
- The federal government is on an unsustainable long-term fiscal path driven primarily by rising health care costs and known demographic trends.

The Statement of Social Insurance, for example, shows that the present value of projected scheduled benefits exceeds earmarked revenues for social insurance programs (such as Social Security and Medicare) by about \$46 trillion over the next 75 years.

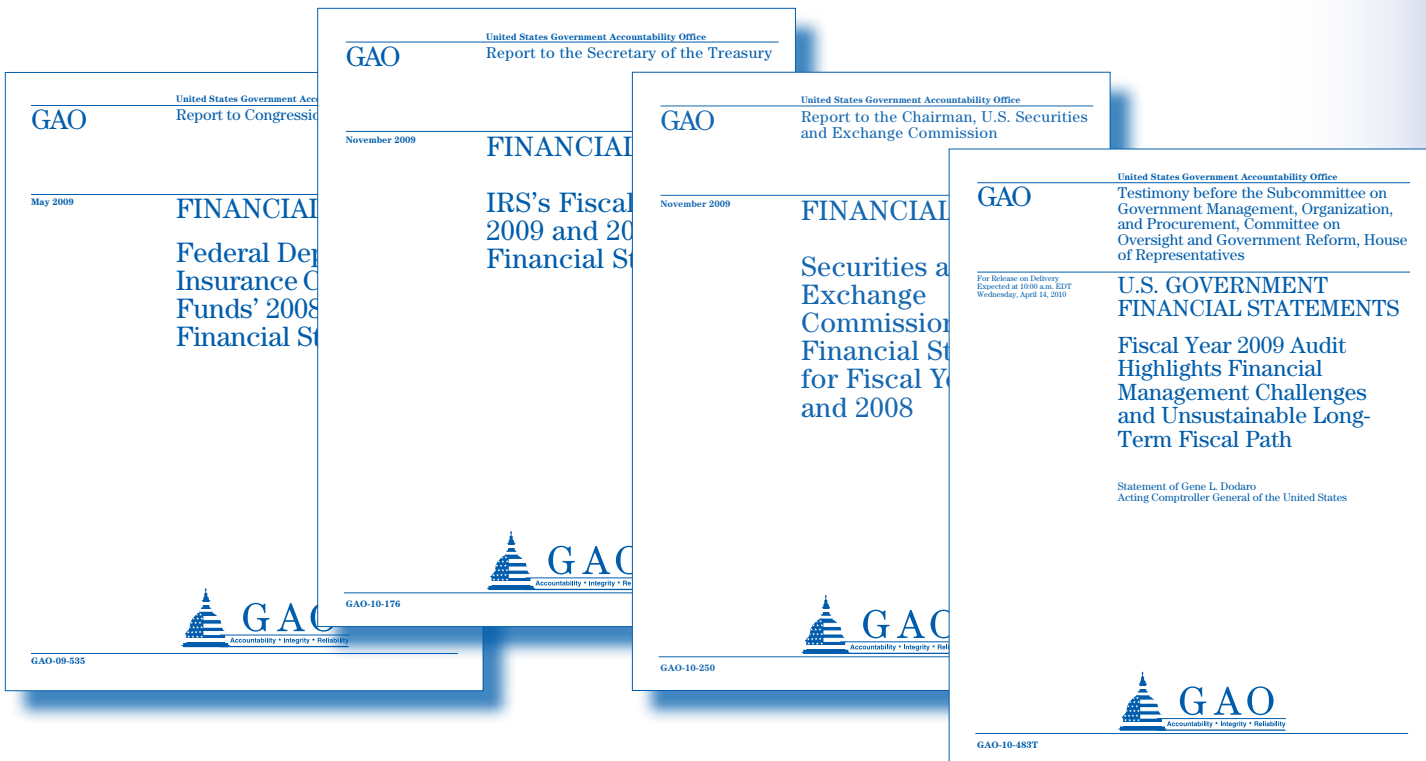
- Other risks and uncertainties may affect the federal government's reported financial condition. For example, the federal government is allowing its funding commitment to Fannie Mae and Freddie Mac to increase as necessary to accommodate any cumulative reduction in the net worth of the two entities over

the next 3 years. Notably, Fannie Mae and Freddie Mac together own or guarantee roughly half of the \$11.7 trillion in U.S. residential mortgage debt.

- GAO will also monitor high-risk areas of government operations vulnerable to economic weakness, like the Pension Benefit Guaranty Corporation, whose government-insured insurance programs remain exposed to the threat of terminations of large underfunded pension plans sponsored by financially weak firms. Pension plans of financially weak firms are estimated to be underfunded by about \$161 billion—a figure that may worsen if the economic recovery slows or financial markets weaken.

Annual financial statements: Of particular importance in the coming 5 years will be GAO's unique role in auditing the U.S. government's annual consolidated financial statements, as well as those of the Federal Deposit Insurance Corporation's

Deposit Insurance Fund, the Securities and Exchange Commission, the Internal Revenue Service (IRS), the Bureau of Public Debt, the Federal Housing Finance Agency (with its responsibility for the supervision and oversight of Fannie Mae, Freddie Mac, and the 12 federal home loan banks), and Treasury's Office of Financial Stability (responsible for the Troubled Asset Relief Program). For example, the financial crisis has expanded the federal government's ownership of private-sector firms, its purchase and guaranteeing of financial assets, and its insurance against financial losses. As a result, auditing the government's financial statements—and properly accounting for its assets and liabilities—will be complex. GAO will also continue to work with other key federal agencies and their auditors to improve internal controls over financial reporting, compliance with selected laws and regulations, and the usefulness and relevance of overall federal financial reporting.



Performance and program outcomes: As the administration and the Congress work to address fiscal imbalances, the effective monitoring, measurement, and evaluation of performance and program outcomes will take on heightened importance, especially as strategic decisions will have to be made about allocating scarce resources during the federal budget process. Forward-looking information will be needed that helps assess the fiscal, economic, and social implications of possible changes to long-standing or entrenched government programs and policies. Against a backdrop of uncertainty and rapid changes in the economy and nation's fiscal condition, GAO will work to recommend ways federal agencies can find opportunities and build a culture for effective risk management in critical program areas, including financial regulation, health care, defense, and homeland security.

Revenue: Dealing with the longer-term fiscal challenge will also require examining the revenue side of the budget. Short-term revenue fluctuations are normal and may be a countercyclical force. For example, during periods of economic strain and higher unemployment, without changes in policy, tax revenue will likely be lower at the same time that public expenditures and demand for public services increase. However, in the longer term, both the amount of revenue to be raised to finance federal expenditures and how that revenue is raised will need to be carefully considered.

Tax policy and the economy: In addition to affecting revenue, tax policy will profoundly affect the economy as a whole and the decisions that individuals and businesses make about working, saving, and investing in the coming years:

- The federal tax system includes numerous tax provisions intended to influence taxpayers' behavior throughout the economy, but still little is known about the effects of many of these provisions.
- These tax expenditures—the special tax credits, deductions, deferrals, exclusions, and preferential tax rates provided under the tax code that either reduce the flow of federal income taxes from individuals and corporations or that require higher tax rates on other taxpayers to make up for lost revenue—need particular attention. The number of tax expenditures reported by the Treasury has more than doubled since 1974, and the sum of revenue-loss estimates for tax expenditures was nearly \$981 billion in 2009.
- Given the size and complexity of the federal tax code, tax reform will continue to be an area of particular interest for the Congress and the federal government.

Taxpayer compliance: Federal revenues also are reduced to the extent that taxpayers do not fully comply with paying their tax liabilities. The most recent estimate of these net tax gaps is \$290 billion. The IRS faces pressures to improve its taxpayer service to spur voluntary compliance, enforcement efforts to catch noncompliance, and collections of tax debts. Significant improvements to compliance also will depend on innovative solutions involving external parties, such as paid tax return preparers, and legislative changes, such as those to simplify the tax code or mandate electronic filing. Enforcing tax laws and modernizing IRS business systems continue to be included in GAO's High-Risk List. GAO's work will seek to ensure IRS improvement and inform other solutions to shrinking the tax gap.

Financial information: With the federal government facing serious fiscal challenges, the need is greater than ever for timely and accurate financial information to measure and control costs, manage for results, and make fully informed program and resource allocation decisions:

- Routinely generating timely and reliable financial information will require transforming federal financial management systems to focus on accounting for the full cost of programs and operations; integrating program, budget, and financial information; and accounting for performance against established metrics.
- It is essential that federal financial information be presented in a form that is useful for deliberating on the nation's budget, debt, and long-term fiscal challenges.

- Financial information must be presented with a view toward better recognizing the unique elements of government operations, such as the extent of the federal government's social insurance commitments.

GAO plans to focus its efforts on near- and longer-term opportunities to improve the accuracy, timeliness, and usefulness of federal cost and other financial performance data; federal financial management operations; and accounting, auditing, and internal control standards. The worsening fiscal position and outlook calls for improvements in both congressional and agency information and processes to better illuminate the short- and long-term value and costs of decisions and provide the context to help decision makers consider difficult trade-offs.



To support efforts by the Congress and the federal government to address these issues, GAO has established the following performance goals and key efforts:

Performance Goal 3.1.1
Analyze the implications of commitments, information, processes, and controls on the federal budget outlook and on agencies' budget decisions and operations

Key Efforts

- Continue to perform long-term fiscal simulations and analyses of federal deficits and debt levels, and the state and local sector under varying policy assumptions.
- Analyze transparency and the implications of current and emerging longer-term commitments on the federal budget and debt.
- Explore the effects of congressional budget processes and controls—including information, incentives, and exceptions—on decision making.
- Assess implications of the information used in agencies' budget processes on resource decisions, operations, and accountability.

Performance Goal 3.1.2
Monitor and examine the federal government's response to the states' short- and long-term fiscal condition

Key Efforts

- Determine how federal policies and economic trends affect the short- and long-term fiscal capacities of states and localities to pursue national objectives.
- Assess and review how states and localities are using federal funds, including Recovery Act funds.

- Evaluate the efficacy of federal funding to help create economic growth or close fiscal gaps in states and localities, including Recovery Act fund recipients.

Performance Goal 3.1.3
Assess the reliability of financial information on the government's fiscal position and financing sources

Key Efforts

- Annually audit the U.S. government's financial statements, related internal controls, and compliance with legal requirements.
- Audit financial statements and related control and legal compliance of federal entities charged with economic recovery responsibilities.
- Annually audit Treasury's revenue collections and federal debt management.
- Address opportunities to improve auditing and reporting on federal agency and consolidated U.S. government's financial operations.

Performance Goal 3.1.4
Monitor and assess the use of risk management, performance measurement, and program evaluation tools to help improve the efficiency, effectiveness, and accountability of government operations and to help inform the budget process

Key Efforts

- Assess the use of metrics and performance measures to help make government policy and programs more effective and efficient.
- Assess the use of evaluation evidence, performance measures, and program evaluation tools in the federal budget decision-making process.

- Identify opportunities and evaluate efforts to implement risk management tools and techniques in federal agencies to manage outcomes more effectively.
- Provide forward-looking analysis and foresight to help policymakers make informed decisions about trade-offs and implications of changes to government policies and programs.

Performance Goal 3.1.5 **Contribute to congressional deliberations on tax policy**

Key Efforts

- Evaluate the government's oversight of tax expenditures as a whole and the effectiveness of individual tax expenditures and their aggregate impacts, such as those on tax revenue, taxpayers and the economy.
- Analyze how the tax code affects business decisions, such as where to locate and how to structure operations.
- Analyze how changes in the tax system affect objectives, such as equity, economic efficiency, simplicity, revenue, and administratability.

Performance Goal 3.1.6 **Identify specific opportunities to reduce the tax gap by improving taxpayer voluntary compliance and IRS's ability to pursue noncompliance**

Key Efforts

- Identify opportunities to improve IRS's service to taxpayers through, for example, easier tax return filing; faster refund processing; and more informative, interactive communications (including telephone, Web site, and written communications).

- Identify opportunities to improve IRS's enforcement programs in light of a changing U.S. and international economy, evolving technology, and the tax gap.
- Identify opportunities to better use third parties, such as paid preparers, tax preparation software companies, and information return reporters, to ensure tax returns are filed accurately and on time.
- Evaluate IRS's efforts to modernize its systems, particularly its expenditure plans.
- Assess IRS's crosscutting efforts to improve agencywide management, including re-engineering efforts, budget formulation, human-capital management, and use of research and data analyses to enhance service and enforcement programs.

Performance Goal 3.1.7 **Identify ways to improve financial management infrastructure capacity to provide useful information for managing results and costs day to day**

Key Efforts

- Assess whether efforts to improve federal financial management are effectively focused on providing useful cost and other financial data.
- Analyze federal agencies' progress in implementing legislation directed at improving federal financial management infrastructure.
- Identify best practices in federal financial management organizations, operations, and governance structures.
- Serve as a catalyst for improving the usefulness of federal accounting, auditing, and internal control standards.

STRATEGIC OBJECTIVE 3.2

Identify Fraud, Waste, and Abuse

No one knows how much fraud, waste, and abuse cost the federal government each year, but evidence suggests the total is in the hundreds of billions of dollars annually. GAO's work over the past several years has demonstrated that improper payments are a long-standing and widespread problem. Federal agencies' estimated improper payments in fiscal year 2009 totaled about \$98 billion and involved over 70 programs, or 5 percent of the \$1.9 trillion of reported outlays for those programs. On the revenue side, the IRS estimated that, in 2005, the net annual tax gap—or the difference between the amount of tax that taxpayers should pay and the amount they pay voluntarily and on time—was about \$290 billion. GAO will continue to perform audit work, including cutting-edge forensic audits and special investigations, targeted at programs across the government that are duplicative or highly vulnerable to fraud, waste, and abuse, and improper payments. To identify and locate individuals and businesses involved in fraud and abuse of federal programs, GAO uses data mining, covert testing, and law enforcement research tools that include the Financial Crimes and Enforcement Network and the National Crime Information Center.

GAO's focus on preventive controls is integral to GAO's efforts in other strategic areas as well. For example, as discussed under Performance Goal 3.3.2, GAO will seek to identify, and annually report on, programs, agencies, offices, and initiatives with duplicative goals and activities. Further, as discussed under Strategic Objective 1.1, GAO will continue to examine

vulnerabilities in the nation's health care programs, including controls in place to prevent improper payments associated with programs such as Medicaid. Also, under our Goal 2, GAO will continue to focus on Departments of Defense and State programs and areas at high risk of fraud, waste, and abuse. Across all of these areas, GAO will recommend concrete steps that can be taken by agencies and the Congress to implement effective fraud prevention programs.

Forensic audits and investigations:

GAO's ability to conduct forensic audits and investigations of programs across the government puts the agency in a unique position. For example, in recent years, GAO has used its forensic audits and special investigations to identify governmentwide fraud and abuse in areas such as:



- first- and business-class travel by government employees,
- the use of government purchase cards,
- the transit benefit program,
- small business procurement programs, and
- contractors and health care providers with billions of dollars of unpaid federal taxes.

Consequences resulting from investigations: An important element of the federal government’s ability to deter fraud is to have consequences for those who fail to pay taxes or who commit fraud against the federal government. Forensic audits are designed to identify ineffective controls and vulnerabilities to expose areas of fraud, waste, and abuse and, in some cases, matters of security that clearly demonstrate the “real-world” effects of broken or inadequate controls. The audits get the attention of the Congress and the public and result in positive change.

Through forensic audits, GAO has identified tens of thousands of cases of potential fraud and abuse and has referred these cases to the appropriate law enforcement agencies and others for criminal investigation and administrative action. For example, after Hurricanes Katrina and Rita, GAO identified over 23,000 cases of potential individual disaster assistance fraud and referred them to the Katrina Fraud Task Force and law enforcement agencies. Although most individuals who committed disaster-benefit fraud may never be prosecuted, over 70 of the cases that GAO referred to the task force resulted in prosecution, with convicted individuals receiving prison sentences as long as 6 years. These prosecutions and convictions vividly highlight the consequences of fraudulent activity and help deter future fraud against the government.

GAO’s future efforts: GAO will continue to coordinate and, where appropriate, work closely with law enforcement agencies from federal, state, and local governments in conducting its investigations and developing cases of fraud and abuse. GAO will also continue to work with the Congress to identify programs across the government that are vulnerable to fraud, waste, and abuse, including those on GAO’s High-Risk List, to maintain accountability over hundreds of billions of dollars in federal assets and program payments. The need for effective accountability controls over federal grants has increased with the dramatic growth of grant awards—in 2009 alone, federal grants increased by an estimated 50 percent. Medicare and Medicaid—which together provide health insurance for one in four Americans—were estimated to have made improper payments totaling about \$54 billion for fiscal year 2009, which is about 55 percent of the total \$98 billion in reported improper payments for that fiscal

year. GAO's work across the government has shown that fraud prevention—including controls that prevent the improper and fraudulent disbursement of federal dollars—is the most efficient and effective means to minimize fraud, waste, and abuse. Once federal dollars are disbursed fraudulently or improperly, the government is likely to recover only a few pennies on the dollar.

Thus, GAO will continue to focus its work on identifying vulnerabilities in agency preventive controls and providing recommendations to improve them. Key areas of focus for the next 5 years include health care, the tax gap, procurement, entitlement programs, and the Recovery Act. To support this work, GAO will use tips it receives on its FraudNET hotline, an Internet-based operation that provides a secure means for individuals to confidentially communicate their concerns about possible fraud, waste, abuse, mismanagement, and criminal activities in federal programs.

To support efforts by the Congress and the federal government to address these issues, GAO has established the following performance goals and key efforts:

Performance Goal 3.2.1 **Perform forensic audits to identify and address vulnerabilities to fraud, waste, and abuse**

Key Efforts

- Evaluate and investigate Medicare, Medicaid, and other health care programs.
- Evaluate and investigate Recovery Act outlays.
- Evaluate and investigate the tax gap, entitlement programs, and federal procurement.

- Evaluate and investigate fraud, as requested by the Congress and the Comptroller General.
- Refer cases of fraud and abuse identified to the relevant federal, state, and local law enforcement agencies or other authorities.

Performance Goal 3.2.2 **Conduct special investigations and security and vulnerability assessments**

Key Efforts

- Evaluate and investigate specific allegations of consumer fraud or other program mismanagement as requested by the Congress and the Comptroller General.
- Perform overt and covert testing of security-related systems and controls.

Performance Goal 3.2.3 **Investigate allegations received through FraudNET**

Key Effort

- Evaluate and investigate the 2,000-plus allegations made annually through FraudNET.

Performance Goal 3.2.4 **Identify ways to strengthen accountability for the federal government's assets and operations**

Key Efforts

- Assess federal agencies' internal controls to identify opportunities to reduce risk of fraud, waste, and abuse, including improper payments.
- Analyze federal agencies' high-risk and other critical programs to identify opportunities to improve accountability for assets and operations.
- Review audit oversight of federal programs, grants, and other funds.

STRATEGIC OBJECTIVE 3.3

Support Congressional Oversight of Major Management Challenges and Program Risks

The U.S. government is one of the world's largest and most complex entities, and its performance—especially given the nation's long-term fiscal outlook—is central to effectively and responsibly addressing issues of major concern to the American public, including public safety and security, the creation of jobs, the oversight of financial markets, and the response to emergencies and disasters. Given the public's demand for a more transparent and accountable federal government, federal agencies will need to improve their performance and focus on effective, efficient, and results-oriented management.

Key issues to be addressed: As systems and programs become more complex, government managers and policymakers will have to address a variety of issues that no longer fit neatly within the boundaries of individual agencies, departments, or offices:

- Individual programs or agencies can have significant effects in other parts of government. For example, the decennial census is not simply a count of the nation's population; census data affect the funding formulas for billions of dollars in federal government assistance in areas as diverse as health, highways, education, and housing.
- Emerging challenges will require a more strategic and crosscutting approach. Issues related to human-capital management, IT, cybersecurity,

data management, and acquisition and contract management cut across government and must be managed holistically.

- Innovations in science and technology also cut across government and can have rapid, far-reaching, and even disruptive effects on what government does and how it does it.
- Numerous high-risk areas—such as the U.S. Postal Service, DOD program management, National Aeronautics and Space Administration (NASA) procurement, surface transportation funding, food safety, and oversight of toxic chemicals—will require agencies to address a host of crosscutting issues in order to ensure program or agency effectiveness.

Transformation: The next 3 years will see the 20th anniversary of the Government Performance and Results Act of 1993 (GPRA). Although GAO's work has shown significant growth in the percentage of managers reporting that they have GPRA results-oriented performance measures, a crucial challenge remains for agencies to build organizational cultures in which managers actually use performance information and evaluation in their decision making. Congressional leadership will continue to be vital in achieving a broad transformation of the government, especially at DOD and DHS, which are in the midst of major organizational transformations. GAO will work to help

inform congressional oversight as agencies continue to build their fundamental management capabilities, resolve high-risk areas, and address major management challenges to effectively address the nation's most pressing issues.

The federal government relies increasingly on complex networks and partnerships—often including multiple federal agencies, state and local governments, domestic and international nongovernmental or quasi-governmental organizations, and for-profit and not-for-profit contractors—to achieve national objectives. As state and local governments grapple with major budget gaps, the intergovernmental system will continue to be tested by a complex array of short- and long-term economic, fiscal, and social challenges. Effective coordination of and response to these challenges by all levels of government and their partners will be crucial as governments work to balance service delivery with increased pressure on budgets.

Furthermore, the federal government has adapted over time to new needs and problems by creating new organizations and programs or adding new roles, responsibilities, and functions to existing agencies and programs. This could result in overlap and fragmentation of responsibilities and activities within and across agencies. Some of this overlap may be merited—for example, to have surge capacity to respond to a national emergency. However, overlap and fragmentation can also adversely affect the economy, and the efficiency and effectiveness of the federal government. Recognizing this through recently enacted legislation, the Congress has directed GAO to identify programs, agencies, offices, and initiatives with duplicative goals and activities—within

agencies and governmentwide—and to report annually on the effects and ways to reduce duplication.

High-Risk List: GAO's High-Risk List continues to be an important tool for the Congress and policymakers to call attention to the agencies and program areas that are vulnerable to fraud, waste, abuse, and mismanagement or are most in need of broad reform. Our High-Risk List currently identifies 31 high-risk areas, as shown in [table 2](#), that focus on:

- strengthening the foundations for efficient and effective government;
- transforming DOD business operations;
- ensuring public safety and security;
- managing federal contracting;
- assessing tax administration efficiency and effectiveness; and
- modernizing insurance and benefit programs, including Medicare, Medicaid, and the Pension Benefit Guaranty Corporation.

Modernizing the U.S. financial regulatory system, also on the High-Risk List, will be a critical step to ensuring that financial challenges can be met. Determining how to create and implement a regulatory system that reflects new market realities is key to reducing the likelihood that our nation will experience another financial crisis.

Finding lasting solutions to issues in these high-risk areas could save billions of dollars, improve service to the American public, and strengthen public trust in the federal government. GAO will persistently monitor and report on progress in the High-Risk List areas and, as developments dictate, identify new high-risk areas warranting attention.

Table 2: GAO’s High-Risk List as of May 2010

Strengthening the Foundation for Efficiency and Effectiveness

- Modernizing the Outdated U.S. Financial Regulatory System
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
- Funding the Nation’s Surface Transportation System
- 2010 Census
- Strategic Human-Capital Management
- Managing Federal Real Property

Transforming DOD Program Management

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

Ensuring Public Safety and Security

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

Managing Federal Contracting More Effectively

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

Assessing the Efficiency and Effectiveness of Tax Law Administration

- Enforcement of Tax Laws
- IRS Business Systems Modernization

Modernizing and Safeguarding Insurance and Benefit Programs

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

Source: GAO.

Human-capital management: Because people are an organization’s most important asset, they must be the centerpiece of any serious effort to transform government agencies. However, many of today’s strategies—designed for a workforce of an earlier era—are not suited to meet 21st century challenges. The federal workforce, like the nation’s, is aging, and increasingly large percentages are becoming eligible to retire. It remains unclear when the expected retirement wave will peak, but eventually baby boomers will leave the workforce, and when they do, they will leave behind gaps in leadership, skills, and knowledge due to the slower-growing pool of younger workers. Notably, by 2025, overall labor force growth is expected to be only one-fifth of what it is today.

Faced with an aging federal workforce, agencies will need to strengthen their efforts and use of available flexibilities to acquire, develop, motivate, and retain

talent. More focus will be needed in such areas as:

- strategic planning,
- knowledge transfer,
- pay and reward systems,
- recruitment and retention, and
- performance management.

The Office of Personnel Management and federal agencies should be held accountable for the continued monitoring and refinement of approaches to strengthen their workforces.

Information technology: Information technology (IT) systems are key to management reform and have the potential to help dramatically reshape government to improve performance, reduce cost, and enhance transparency. Today, the government spends over \$70 billion annually on IT to support virtually all government operations and assets. With increased attention to budgets and the efficiencies that IT can provide, additional focus will be needed to ensure effective management of IT efforts.

The rapid pace of technological change and innovation, including the prevalence of advanced Internet and Web 2.0 technologies, means government agencies will have unprecedented opportunities to use IT to enhance government service to citizens, improve performance, and reduce costs. These opportunities, however, create significant challenges, such as the need to apply a wide range of complex, new electronic technologies effectively; interconnect diverse networks and systems securely and reliably; and strengthen technical capacity of personnel.



Addressing these challenges will require strong and effective IT management leadership. At the same time, federal agencies will need to continue to reduce the risk of making poor IT investment decisions and costly mistakes that result in wasteful spending and lost opportunities for improving performance and delivery of services to the public. Further, without proper management and safeguards, computer systems are vulnerable to those with malicious intentions who can obtain and manipulate sensitive information, commit fraud, disrupt operations, or launch attacks against other computer systems and networks.

Acquisition management: Effective acquisition management also plays a key role in creating and sustaining high-performing organizations. Because federal agencies depend increasingly on contractors to accomplish their missions—with procurement spending totaling more than \$500 billion—the government urgently

needs to improve its acquisition business processes and workforce.

Achieving desired outcomes is a challenge GAO will continue to monitor, especially at agencies with high-risk designations for contracting or management transformation, including DOD and DHS. Poorly defined requirements, ill-suited business arrangements, or poorly structured incentives, as well as inadequate oversight of contractor performance, can place the government at risk of not getting what it contracted for and paying more than necessary.

The government needs a fully capable acquisition workforce to ensure that it obtains the best value on all its contracts, but it still faces challenges in developing and maintaining a knowledgeable, skilled, and adequately sized workforce. Further, agencies continue to struggle with determining the right mix of, as well as proper roles and responsibilities for, government and contractor employees to



avoid overreliance on contractors. Our authority to resolve government contract formation disputes by providing an objective, independent forum for resolving bid protests and by recommending actions to correct procurement law violations, further enhances government accountability.

Science and technology: Science and technology investments are critically important in improving quality of life—especially in areas such as health care, telecommunications, clean energy, and the environment—and in providing the engine of future economic growth. Each year, the federal government spends over \$90 billion on research and development and grants, issues about 300,000 patents and trademarks, and registers about 500,000 copyrights. The resulting intellectual property has helped fuel the U.S. economy.

However, as the pace of innovation is quickening, global competition is accelerating, and other nations are increasingly able to commercialize technological advances, educate highly skilled workforces, and offer world-class research opportunities. Congressional oversight is critical to ensuring that the substantial federal investment in science and technology is allocated effectively and that intellectual property rights are protected here and abroad.

Further, questions posed by the Congress about government programs increasingly require a capability to independently assess the veracity of the science claims of those programs. The increased development and use of new technologies presents challenges to the Congress in evaluating their potential and assessing the effects on security, safety, privacy, and economic

growth. For example, as an ever-growing number of products that contain nanosized materials enters the marketplace, concerns arise that the federal government may not focus adequate resources on research to determine their environmental, health, and safety effects. GAO will conduct assessments of technologies to provide the Congress with information regarding the effects of scientific and technical developments on its legislative process.

Information management: Proper management of vital government information is essential to improving the government’s performance. Information is a critical strategic asset, and agencies will confront unique and sometimes conflicting demands in collecting and providing it. The growing sophistication of electronic government techniques and advances in archival, search, and retrieval technologies are creating greater opportunities to provide citizens with improved public access to government records and information.



However, agencies are being asked not only to make information more readily available to the public, but also to collect and share data far more extensively than they have in the past. These trends have the potential to overwhelm agencies and are raising concerns about agencies' ability to manage information and knowledge in such an evolving environment.

The growth in IT, networking, and electronic storage has made it ever easier to collect and maintain information about individuals. An accompanying growth in incidents of loss and unauthorized use of such information will likely lead to a continued focus on protecting the privacy of individuals' personal information, whether on federal systems or from private-sector sources such as data resellers that specialize in amassing personal information from multiple sources.

Census: The demographic statistics and information collected from the U.S. Census Bureau's decennial census informs major decisions by the U.S. public and the private sector. Population data are used for congressional apportionment and redistricting; economic indicators are used by the Federal Reserve Board to set monetary policy; and population and other data are used to allocate federal aid to state and local governments.

In the next 5 years, managing the 2010 Census and preparing for the 2020 Census will be crucial. For example, each of the 10 largest federal assistance programs—totaling \$478.3 billion in 2009 and representing about 84 percent of total federal assistance when including about \$122.7 billion funded by the Recovery Act—relies at least in part on census or related data.

Additional improvements to the decennial census, including a fundamental re-examination of the nation's approach to conducting the enumeration, might be required because the current approach may no longer be financially sustainable—one reason why GAO has designated the 2010 Census as a high-risk area. If past rates of cost escalation continue into 2020, the nation could soon be looking at a \$30 billion census.

Further, with major reforms in such areas as health care and energy policy possible in the coming years, it is important that agencies begin to collect data to help determine whether new programs and instruments are working. GAO's review of the data it uses from the U.S. statistical system, including the identification of gaps in data sources, will enhance an understanding of the value of such information and help provide insights toward improving it.



To support efforts by the Congress and the federal government to address these issues, GAO has developed the following performance goals and key efforts:

Performance Goal 3.3.1
Highlight high-risk federal programs and operations and monitor progress of executive branch management reforms

Key Efforts

- Update progress in addressing high-risk areas with every new Congress and identify areas to be newly designated high risk.
- Assist congressional and presidential transitions by highlighting key challenges and recommendations to improve the performance and accountability of the federal government.
- Monitor the progress and continuing challenges related to governmentwide management reform initiatives, including risk management.

Performance Goal 3.3.2
Assess efforts to improve results-oriented management across the government

Key Efforts

- Conduct targeted reviews and assessments of transformation efforts, management, and leadership at selected agencies, and other organizations to improve effectiveness and identify efficiencies.
- Annually assess overlap and duplication among government programs and activities within and across federal agencies, and identify opportunities to reduce or eliminate it so as to improve government operations.
- Monitor and evaluate efforts by agencies and the Office of Management and

Budget to develop and use information to improve performance.

- Facilitate congressional use of performance information in decision making.
- Identify and disseminate useful strategies and methodological tools for strategic planning, performance measurement, and program and policy evaluation.
- Identify opportunities to improve the coordination, collaboration, and governance of networks of governmental and nongovernmental organizations addressing complex national issues.

Performance Goal 3.3.3
Analyze and support efforts to improve the federal workforce infrastructure, key to successfully transforming the government

Key Efforts

- Assess the leadership, management, and delivery of human-capital products and services that agencies need to carry out their current and emerging missions effectively.
- Evaluate the federal government’s effort to attract, develop, and retain a workforce that is flexible, resilient, and capable.
- Identify ways that policies, programs, and practices can enhance individual performance and contributions toward agency outcomes.
- Assess policies that create an inclusive environment by leveraging diversity.

Performance Goal 3.3.4
Identify ways to improve federal agencies’ acquisition of goods and services

Key Efforts

- Enhance agencies’ acquisition business processes and workforce.

- Improve agencies' knowledge of the supplier base and use of sound contract management.
- Maximize quality acquisition outcomes and mitigate risk at major agencies, including DOD, DHS, and NASA.
- Assess the government's strategy for managing its reliance on contractors and ensuring contractor integrity.
- Assess protested procurements.

Performance Goal 3.3.5
Assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property

Key Efforts

- Evaluate the impact of federal policies and funding on national competitiveness and technological advancement.
- Conduct technology assessments to evaluate the status and implications of science and technology for public policy and congressional decision making.
- Assess implementation and coordination among efforts of federal science agencies to advance the federal science and research agenda.

Performance Goal 3.3.6
Assess the government's planning, implementation, and use of IT to improve performance and modernize federal programs and operations

Key Efforts

- Assess and promote the application and use of IT investment management best practices across the government.
- Promote adopting sound enterprise architectures and assess government enterprise architecture efforts to engineer business processes for

implementing IT systems that optimize mission performance.

- Review federal agencies' management and effectiveness in carrying out systems acquisition, development, and integration efforts—including complex, multiyear modernizations.
- Review the management of government telecommunications and interconnected systems and federal agencies' effectiveness in providing secure, reliable, and fast Internet and Web connections.
- Review government progress in developing effective IT human-capital.

Note: Key efforts related to computer security, cybersecurity, and protecting the nation's critical infrastructure are included under Performance Goal 2.1.7.

Performance Goal 3.3.7
Identify ways to improve the collection, dissemination, and quality of federal information

Key Efforts

- Assess the government's ability to protect the privacy of individuals' personal information in an era of rapidly evolving technology.
- Review the government's progress in using electronic technology to store, preserve, and share public records.
- Examine the use of electronic technologies to improve public access to federal records and enhance the collecting, using, and disseminating of government information.
- Identify ways to improve the management and cost-effectiveness of the decennial census.
- Assess the quality and use of statistical and other U.S. data.

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GOAL 4

Maximize the Value of GAO by Enabling Quality, Timely Service to the Congress, and by Being a Leading Practices Federal Agency

With the growing and rapidly changing list of challenges facing the United States and the world, GAO's work—and how GAO communicates the results of its work—has never been more important. To successfully carry out its responsibilities to the Congress for the benefit of the American people, GAO's work must be professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced. To sustain high-quality and timely service, the agency must process its work efficiently and effectively while ensuring client and customer satisfaction. Key to achieving these goals is aggressively leveraging technology and enhancing quality assurance processes. Importantly, GAO must continually modernize how it delivers the results of its work, including refining its product line and presenting content more concisely and in real time. To ensure GAO continues to address the many issues facing the government, the agency will need to enhance how it manages its workload. Maintaining adequate resources for a broad range of work is particularly critical to GAO's efforts to apprise the Congress of high-risk issues and challenges of national and international concern.

The talent, creativity, and dedication of GAO's staff are the bedrock of the agency's ability to provide high-quality products and maintain its credibility. GAO's workforce is composed of highly trained professionals with degrees in many academic disciplines, including accounting, law, engineering, public administration, economics, statistics, and information technology (IT), among others. To sustain the quality of its services, while remaining responsive to increased demands, GAO must be able to recruit, develop, retain, and reward its high-performing diverse workforce. The agency strives to strengthen its recruiting and hiring programs by, among other things, incorporating leading practices. GAO must also



ensure that its performance and compensation systems are fair, provide equitable and targeted developmental support and opportunities, and enable staff to maximize their contributions to agency goals. Strengthening agency programs for staff development and providing clear career paths will not only help the agency meet its goals, but will also enable staff to have a line of sight for their individual goals and the support needed to achieve them. GAO also remains committed to embracing diversity and taking steps to ensure the agency develops and supports a fair and unbiased work environment that values opportunity and inclusiveness.

In light of the increasingly complex, interdisciplinary, and global issues facing the government, GAO must expand its relationships with other entities to promote professional auditing standards and auditing capacity, as well as enhance its own knowledge, agility, and responsiveness. GAO's leadership roles in the professional auditing and accounting community will help ensure that U.S. funds, in particular, are not subject to waste, fraud, and abuse. In addition, GAO seeks to enhance its information-sharing and collaborative efforts with other accountability organizations, agencies, and professional organizations to tap into their expertise. Partnerships also help GAO remain aware of changing governance and management practices, so that it can continue to improve internal operations and implement leading practices.

As a reviewer of how other agencies manage federal resources, as well as a recipient of taxpayer dollars, GAO must responsibly manage its resources. Even though GAO is not subject to many of the laws applied to executive branch agencies for operations and management, it endeavors to maintain consistency with the requirements and spirit of those laws because the agency audits the executive branch's compliance with these laws and implementing regulations. Thus, GAO will proactively address and expand on statutory and regulatory requirements for mission support functions to ensure that it is adhering to the highest standards as the agency audits others. Physical and information security remain high-priority areas, as do enhancing GAO's privacy program, implementing environmental initiatives, and optimizing internal control reviews to ensure accountability. GAO will continue to leverage technology to improve its business processes, particularly as related to its financial, human-resource, and travel systems. It will also pursue integration of many of these systems to enable timely decision making. Also key to operational excellence is ensuring the appropriate management of administrative processes. Since people are GAO's primary asset, establishing a human-capital governance structure that ensures the strategic use of staff is essential, as is continuing to work constructively with GAO employee organizations to address employee concerns. Other areas of focus include strengthening the agency's strategic planning, facilitating collaboration across units, and ensuring consistent internal communications.

For 2010 through 2015, GAO has reoriented its strategic objectives and performance goals to focus on discrete areas of product support and business and management operations. To accomplish GAO's goal of enabling quality, timely service to the Congress and implementing leading practices, GAO has established four strategic objectives:

- 4.1: Improve Efficiency and Effectiveness in Performing GAO's Mission and Delivering Quality Products and Services to the Congress and the American People
- 4.2: Maintain and Enhance a Diverse Workforce and Inclusive Work Environment through Strengthened Recruiting, Retention, Development, and Reward Programs
- 4.3: Expand Networks, Collaborations, and Partnerships That Promote Professional Standards and Enhance GAO's Knowledge, Agility, and Response Time
- 4.4: Be a Responsible Steward of GAO's Human, Information, Fiscal, Technological, and Physical Resources

STRATEGIC OBJECTIVE 4.1

Improve Efficiency and Effectiveness in Performing GAO's Mission and Delivering Quality Products and Services to the Congress and the American People

To continue to provide timely, high-quality products and services to the Congress, GAO must enhance its support for planning and managing engagements. While the processes GAO uses to support its core values of accountability, integrity, and reliability have been refined over the years, the basic way in which engagements are planned and managed remains unchanged. With the availability of advanced technology tools and the pressure to continually do more with less, GAO must undertake more than incremental improvements in its processes and support systems. GAO needs to better utilize integrated technology support and collaborative tools, and re-evaluate and refine processes in its quality assurance framework.

Knowledge and expertise: To enhance audit quality, GAO must better identify and capitalize on its own knowledge and expertise in a range of agency operations and management areas. It must also bring together interdisciplinary teams more efficiently to evaluate the many crosscutting issues facing the nation.

Agency relationships: Collaborative working relationships with audited agencies are essential to accomplishing GAO's work efficiently and effectively. While GAO generally receives all of the data it needs from federal agencies, there are certain occasions when ready access to

agency data is not always consistent across or even within agencies. Therefore, GAO needs to focus on improving relationships and, if necessary, re-evaluate and revise its protocols for working with audited agencies, and seek additional legislative authorities as necessary.

Product delivery: Rapid technological innovations and trends during the last several years have substantially changed the way individuals receive information. As a service agency whose primary product is information, GAO must modernize and adjust how it delivers that information, both in terms of the physical construct, level of detail, and appearance of its products and in the venues through which it delivers them. GAO has recently expanded the audience for its products and information through selected social media outlets and must continue to explore other forums and formats for sharing information, especially as they expand knowledge and awareness of the critical issues facing the country. (See [fig. 41.](#))

Resources: In light of the increasing complexity of the challenges facing the government, GAO must ensure that it devotes its resources to the highest priority issues. Specifically, GAO must expand internal processes for assigning priorities to requested and mandated work and for identifying emerging issues to which resources should be devoted. Working

Figure 41: GAO Is Utilizing Technology to Expand the Audience for Its Products and Information



Sources: GAO, Twitter, iTunes, YouTube, and PhotoDisc.

closely with congressional clients will be essential to ensuring GAO continues to meet their needs. In addition, monitoring changing events and emerging issues is essential to inform updates to strategic, workforce, and budgeting plans, as well as to ensure the agency maintains the agility to quickly reprioritize work, shift resources across goals and teams, and hire staff with needed expertise.

To improve GAO's efficiency and effectiveness in performing the agency's mission and delivering quality products and services to the Congress and the American people, GAO has established the following performance goals and key efforts:

Performance Goal 4.1.1
Enhance support for planning and managing engagements while maintaining or enhancing quality and client and customer satisfaction

Key Efforts

- Leverage IT and business process re-engineering to streamline engagement services and eliminate rework.
- Design and implement a modular approach for engagement management that consolidates and centralizes engagement functions.
- Enhance GAO's quality assurance framework to address internal and external peer review suggestions and to ensure the highest quality possible in the agency's work.

Performance Goal 4.1.2
Enhance support for conducting and reporting on GAO work while maintaining or enhancing quality and client and customer satisfaction

Key Efforts

- Enhance communication and outreach to audited agencies to promote effective and productive working relationships.
- Seek additional legislative access authorities and remedies as warranted.
- Facilitate collaboration across GAO's mission and mission support units to more efficiently and effectively share relevant knowledge and expertise to increase the quality of engagement work.
- Revise the agency's product-line and communication-delivery strategies to make GAO's message more concise and available in multiple, easy-to-access formats.
- Review and revise methods for measuring client and customer satisfaction to ensure GAO obtains timely, meaningful feedback.

Performance Goal 4.1.3
More efficiently prioritize and manage GAO's workload and staff resources to ensure the agency responds most effectively to the highest priorities

Key Efforts

- Enhance GAO's processes for managing its workload.
- Enhance processes to monitor workload, shift resources across goals, and create matrixed teams to ensure efficient and effective responses to the highest-priority work.
- Monitor factors impacting the federal government and demands for GAO work to ensure strategic and workforce plans reflect emerging issues and changing demands.

STRATEGIC OBJECTIVE 4.2

Maintain and Enhance a Diverse Workforce and Inclusive Work Environment through Strengthened Recruiting, Retention, Development, and Reward Programs

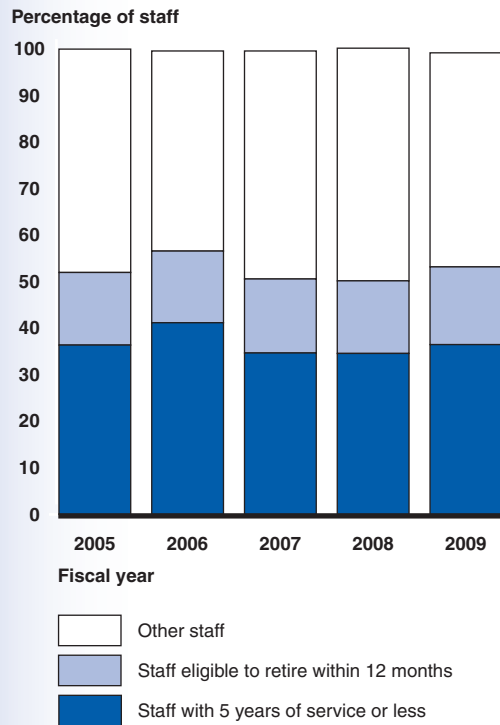
As GAO's most important asset, the workforce defines the agency's character and capacity to perform. Thus, recruiting a high-performing, diverse workforce is critical to ensuring that GAO has the talent it needs now and in the future:

- In fiscal year 2009, GAO began an assessment of its recruiting practices and determined that while it was successful in attracting highly qualified candidates, it needed additional structure and oversight to ensure the best return for its recruiting efforts. GAO has now set an overarching goal for its recruiting program and will continue to refine its strategy for recruiting a capable, diverse workforce.
- GAO also needs to improve its hiring process to make it more efficient and transparent for applicants and to remain competitive with other employers. GAO will leverage technology to enhance communication, simplify the application process, and reduce the length of time needed to finalize a hiring decision once a vacancy announcement has been posted.
- While GAO's attrition rate has historically been low, the agency is experiencing the impact of changing demographics and workplace expectations. Currently, more than 35 percent of GAO staff have fewer than 5 years of agency experience, while about 15 percent of all GAO



staff are eligible to retire, including about 35 percent of its executive corps. (See [fig. 42.](#)) Thus, improving staff-development and career-progression opportunities will be important to enhance institutional knowledge and succession planning.

Figure 42: GAO's Workforce Profile, Fiscal Years 2005-2009



Source: GAO.

Note: A small number of employees are eligible to retire within 12 months and have less than 5 years of service with GAO (typically less than 0.5 percent).

Performance and compensation systems:

To sustain a high-performing diverse workforce, GAO must ensure fairness and equity in its performance and compensation systems. Several internal and external studies have been done of GAO's performance programs that identify areas for improvement. GAO will continue its own studies and will develop initiatives to address suggested areas of improvement:

- GAO's goal is to ensure that all staff are assessed fairly and that they are appropriately rewarded for their contributions.
- GAO must also ensure that it is providing staff with meaningful and targeted developmental experiences, training, and coaching, so that staff can feel valued and the agency can maximize their contributions to GAO goals.
- GAO will ensure that its managers and supervisors are equipped with the requisite skills, authorities, and incentives that are essential to developing staff effectively.
- GAO will provide a range of workplace and work-life balance programs to enhance employee retention, and will continue to evaluate its programs in these areas and work with staff to identify improvements.

Diversity: A constant influence that will guide decisions about GAO's human-capital practices is the agency's Workforce Diversity Plan. GAO will continue to make diversity and inclusiveness a priority and will hold all managers accountable for taking actions that support a fair and inclusive work environment. Having a diverse workforce at all levels is an organizational strength that contributes to the achievement of results by bringing a wider variety of perspectives and approaches to policy development and implementation, strategic planning, problem solving, and decision making. GAO is committed to cultivating and sustaining an inclusive organizational culture that embraces diversity in all of its forms and emphasizes both agency and individual integrity and accountability (see [fig. 43.](#))

Figure 43: Strength in Unity—GAO Is Committed to Fostering a Diverse, Inclusive Work Environment



Source: PhotoDisc.

GAO management will continue ongoing dialogue and engagement with GAO employee organizations, including the International Federation of Professional and Technical Engineers (IFPTE), Local 1921; the Employee Advisory Council—which is composed of headquarters and field Administrative, Professional, and Support Staff, as well as Assistant Directors in analyst and analyst-related positions, and attorneys; and the Diversity Advisory Council—composed of diversity representatives of IFPTE, Local 1921, and employee liaison groups for employees who

are disabled, Asian-American, African-American, Hispanic, veterans of the armed forces, people over 40, and advocates for nondiscrimination based on sexual orientation or gender identity—to hear and consider employee needs, concerns, and suggestions as they arise.

To achieve a more diverse workforce and inclusive work environment through enhanced recruitment, retention, development, and reward programs, GAO will implement the following performance goals and key efforts:

Performance Goal 4.2.1
Strengthen recruiting and hiring initiatives to attract a diverse workforce

Key Efforts

- Incorporate leading practices into GAO’s recruiting program to attract a diverse workforce.
- Develop a comprehensive institutional perspective for recruiting and hiring to ensure a strategic and consistent approach.
- Improve the efficiency and effectiveness of GAO’s hiring process.

Performance Goal 4.2.2
Improve performance management and compensation systems

Key Efforts

- Implement recommendations from the GAO performance appraisal study to ensure fairness and equity.
- Strengthen performance management practices to ensure consistent application.
- Support and promote implementation of designated performance managers’ responsibilities to more effectively develop and coach staff.
- Review and improve compensation systems to ensure fairness and equity.

Performance Goal 4.2.3
Enhance efforts to engage and develop the workforce

Key Efforts

- Support formal and informal initiatives to promote continuous learning and development.
- Develop career-progression opportunities and enhanced training for all pay plans and levels to build institutional capacity and enhance succession planning.

- Enhance staffing practices across the agency to ensure staff are fully utilized and obtain meaningful developmental experiences.
- Monitor employee satisfaction with human-capital policies and practices to inform decision making.

Performance Goal 4.2.4
Promote an environment that is fair and unbiased and that values opportunity and inclusiveness

Key Efforts

- Expand training and initiatives to enhance awareness and promote an inclusive workplace culture that values and appreciates diversity.
- Review human-capital practices and outcomes to ensure employees are fairly and equitably treated and receive the support and assistance they need to succeed.

STRATEGIC OBJECTIVE 4.3

Expand Networks, Collaborations, and Partnerships That Promote Professional Standards and Enhance GAO's Knowledge, Agility, and Response Time

In light of the grave fiscal challenges facing the nation and countries around the globe, continual refinement of professional accounting and auditing standards is more important than ever, and GAO will continue to embrace its leadership role in this area. (See [fig. 44.](#)) Using its domestic and international networks, the agency will facilitate dialogue about strengthening professional standards, as well as explore new technologies and efficient communication methods to expand its reach across the accountability profession.

Capacity: It is also important for GAO to expand its efforts to enhance capacity across all levels of audit offices in the United States and abroad to help address the daunting challenges governments face. GAO supports various capacity-building programs and initiatives that help ensure the billions of taxpayer dollars being spent in domestic and international programs are not subject to waste, fraud, and abuse. GAO continually re-evaluates these programs

to identify ways to expand the reach and depth of its capacity-building efforts. To enhance the efficiency and effectiveness of these efforts, leveraging technology and expanding partnerships will be key.

Knowledge sharing: GAO must expand its knowledge-sharing collaborations with auditing, accountability, and other entities to minimize duplication of effort and to leverage resources in the shared task of conducting valuable research on a range of public policy issues. GAO should continue to expand and enhance important information-sharing efforts, training, and collaboration on key legal issues, such as procurement and appropriations law, for federal agencies and practitioners. Given the increasing complexity of fiscal and other challenges facing the nation, expanding GAO's partnerships—both within existing networks and with other entities in the nonprofit and private sectors (e.g., academia, auditing and consulting firms, and good government organizations)—will help ensure the agency stays abreast of emerging

Figure 44: GAO Works with Many Nations to Improve Audit Standards, Capacity, and Awareness



Sources: Brand X Pictures and PhotoDisc.

issues and enhance the agency’s knowledge, agility, and responsiveness.

Partnerships: Partnerships are also critical to help GAO track changing government practices and governance; effectively react to technology, governance, and societal shifts; and ensure the agency maintains excellence in operations.

Achieving this will require GAO to outreach to organizations domestically and internationally, such as professional standards-setting organizations, good government organizations, and research entities, and to identify opportunities that can leverage GAO’s resources and expand its knowledge base. By enhancing its partnerships, GAO will be better able to identify lessons learned, leading practices, and emerging trends that benefit government and agency management. To expand networks, collaborations, and partnerships that promote professional standards and enhance its knowledge, agility, and response time, GAO has established the following performance goals and key efforts:

Performance Goal 4.3.1
Enhance professional accounting and auditing standards and communicate with the accountability community

Key Efforts

- Coordinate with domestic and international standards-setting organizations to strengthen public sector accounting and auditing standards.
- Enhance GAO staff knowledge of professional accounting and auditing standards to improve audit quality.
- Enhance the domestic and international accountability community’s knowledge of

professional standards to improve audit quality.

- Prepare the domestic audit and accountability community for international convergence of public sector accounting and auditing standards.
- Leverage technology to help ensure a consistent knowledge base of updated professional and accounting standards.

Performance Goal 4.3.2
Enhance the capacity of the domestic and international accountability community to do quality work in auditing programs involving U.S. funds

Key Efforts

- Help strengthen the strategic plans of the International Organization of Supreme Audit Institutions (INTOSAI) and the National Intergovernmental Audit Forum to facilitate effective use of resources.
- Advance and support implementation of the INTOSAI Donors Funding Initiative and Capacity Building Goal to expand capacity building in the international accountability community.
- Enhance GAO’s current business model for providing capacity building to the domestic audit and accountability community to improve efficiency and effectiveness.
- Enhance GAO’s current business model for providing capacity building to the national audit offices in developing countries to improve efficiency and effectiveness.
- Leverage technology to assist in capacity-building efforts in the domestic and international accountability community to improve efficiency and effectiveness.

Performance Goal 4.3.3
Enhance information sharing and collaborate with accountability organizations, advisory groups, sister agencies, and professional organizations to promote expanded audit and legal knowledge, expertise, and partnerships

Key Efforts

- Participate in domestic and international forums, task forces, and work groups to expand knowledge of audit approaches, legal issues, and emerging issues.
- Explore potential partnerships and collaborations with additional organizations in the public, private, and nonprofit sectors, including such entities as academic institutions, research centers, and foundations to leverage GAO’s knowledge base.
- Enhance and strengthen networking activities of our senior executives to broaden their professional networks within their respective disciplines and to expand GAO’s reach.
- Enhance communication and coordination with stakeholders, such as inspectors general, to minimize duplication of effort and ensure effective and efficient use of resources.
- Promote dialogue and action through leadership on critical international accountability issues, such as the global financial crisis.
- Expand use of Comptroller General Forums and Roundtables to inform GAO’s strategic planning process and promote a continuous learning environment.
- Enhance education and outreach on procurement and appropriations law to promote a common understanding of and compliance with legal requirements.

Performance Goal 4.3.4
Enhance information sharing and collaboration with sister agencies, professional organizations, and others to improve internal operations and implementation of leading practices

Key Efforts

- Expand collaboration with other legislative branch agencies to share information and expertise on operational issues and leading practices.
- Enhance participation in government networks to share information and expertise on operational issues and leading practices.
- Expand relationships with professional organizations and the private and nonprofit sectors to access information on nongovernmental leading practices.

STRATEGIC OBJECTIVE 4.4

Be a Responsible Steward of GAO's Human, Information, Fiscal, Technological, and Physical Resources

Proactively addressing operational and management requirements is essential to maintain excellence in internal operations:

- GAO will continue to enhance its already strong internal control program by increasing its focus on risk and making the control program an integral part of planning, budgeting, management, accounting, and internal auditing activities.
- GAO has embraced federal “greening” initiatives to contribute to federal efforts to increase energy-efficiency and prevent environmental degradation, among other things.
- The safety and security of GAO’s employees and their environment is also of paramount importance, especially in light of domestic and international events and technological changes. Specifically, the agency will continue to take action to ensure the personal safety of staff, asset protection, and continuity of agency operations.
- GAO will also step up efforts to conduct privacy impact assessments and other actions necessary to ensure that information on individuals in its systems, databases, and other records is adequately protected.

Business operations: To continue to be a leading-practices agency, it is essential that GAO’s business operations are efficient and effective and that agency systems provide

the data needed to inform timely decisions. (See [fig. 45](#).) To meet this goal, GAO is in the process of implementing a number of new core business systems:

- The agency will take steps to fully use the capabilities of the shared service provider of its financial system to ensure integration across all business operations and to improve data integrity, efficiency of operations, and financial decision making.
- Completing initial deployment of the agency’s new travel and human-resource systems is also important to reduce administrative burdens on mission and support staff, improve processing times, increase transaction accuracy, and support timely decision making.
- Leveraging technology to improve remaining manual processes will also help reduce workloads and increase program-efficiency when tracking international requests and correspondence and obtaining passports and visas.
- In light of the many new responsibilities placed on the agency in fiscal year 2009 and the need to shift resources quickly, identifying requirements and technical solutions for an integrated workforce planning and budgeting system will also be a priority.

Figure 45: Enhanced Integrated Planning and Budgeting Enables Improvements in Core Business Processes and Support



Source: GAO.

Administrative functions: Consistent management of and cohesive policies and practices for key administrative functions are important for effective agency leadership and management:

- To ensure it can meet its most pressing needs, GAO will develop a human-capital governance structure that requires senior managers to be involved in key decisions.
- GAO will continue to enhance its budgeting and workforce-planning processes and capabilities to ensure maximum flexibility in responding to changing and emerging needs and requirements.
- GAO will strengthen its strategic planning process so that it reinforces management’s long-term vision for the organization and provides a line of sight for all employees.
- GAO will institutionalize processes for sharing the considerable knowledge and expertise of its analysts to improve internal operations and to “walk the talk,” ensuring that GAO practices are consistent with recommendations made to other agencies.
- GAO will institutionalize practices for using various internal communication methods to ensure that a strategic and consistent approach is applied across the agency.

- In addition, to ensure agency needs are effectively met, GAO will revisit how it uses its headquarters workspace in light of changing factors, such as new entrants into its workforce, greater use of matrixed work teams, expanded teleworking, and the agency’s rotational development program.

Employee organizations: As a knowledge-based people organization, GAO embraces the full engagement of all employees. In 2007, GAO Band I and Band II analysts, auditors, specialists, and investigators, and staff in the Professional Development Program, elected to be represented by a union and established GAO Employees’ Organization, IFPTE, Local 1921. In 2008, GAO and IFPTE, Local 1921, reached an interim collective bargaining agreement. GAO is committed to continuing to work constructively with IFPTE, Local 1921, to finalize and implement a master term

collective bargaining agreement. In addition, GAO has a number of employee organizations that represent various minority groups and other populations at GAO. These various employee organizations—including IFPTE, Local 1921; the Employee Advisory Council; and the Diversity Advisory Council—are the primary mechanisms for fostering collaboration and open communication between GAO management and staff. GAO management works cooperatively with employee organizations to obtain employee comments, concerns, and potential solutions regarding GAO policies, procedures, and practices.

To ensure GAO continues to be a responsible steward of the agency’s human, information, fiscal, technological, and physical resources, GAO has established the following performance goals and key efforts:



Performance Goal 4.4.1
Proactively address and expand on statutory and regulatory requirements for security, facilities, financial management, and other mission support areas

Key Efforts

- Enhance physical security in headquarters and field offices to be consistent with relevant Homeland Security Presidential Directive-12 (HSPD-12) guidelines and to ensure protection of people and assets.
- Enhance emergency preparedness measures and monitor developments in pandemic flu and other possible threats in order to protect and inform staff.
- Improve information security in headquarters and field offices to protect GAO information and systems by continuously monitoring for threats and implementing protective measures.
- Implement and enhance GAO’s privacy program to protect important information on individuals.
- Implement initiatives to support federal environmental sustainability goals to reduce costs and waste.
- Optimize GAO’s internal control reviews to make them more risk-driven, responsive, adaptable, and accountable.

Performance Goal 4.4.2
Leverage technology to achieve business process improvement and efficiency gains and enable timely decision making

Key Efforts

- Leverage existing technology solutions in fiscal operations to fully integrate financial systems and incorporate human-capital data to improve business processes.

- Implement an electronic travel management system that is integrated with the agency’s financial management system.
- Identify and implement a workforce planning and budgeting system that interfaces with agency financial management and human-capital systems.
- Leverage technology solutions in human-resources management to achieve business process improvements and efficiency gains.
- Improve the processes for managing international correspondence and requests, and obtaining passports and visas for GAO staff.
- Explore other opportunities to leverage technology to provide improved service and support.

Performance Goal 4.4.3
Improve management and governance of key administrative processes

Key Efforts

- Establish a human-capital governance structure to ensure an integrated and strategic approach to human-capital management.
- Maintain and enhance GAO’s budgeting and workforce planning processes and capabilities to ensure maximum flexibility and responsiveness to changing and emerging needs.
- Strengthen GAO’s strategic planning process by enhancing the documentation of its 3-year planning cycle to ensure transparency and understanding.
- Facilitate collaboration across mission and mission support units to more effectively share relevant knowledge and expertise to improve internal operations.
- Optimize use of workspace based on unit needs and workforce planning goals

to manage physical infrastructure as an asset and improve effectiveness in meeting needs.

- Implement an internal communications plan to ensure collaboration across units on strategic communications.

Performance Goal 4.4.4
Enhance information-sharing and collaboration with internal employee organizations to ensure management and operational outcomes are in the collective best interest of the agency and its employees

Key Efforts

- Work constructively with GAO Employees Organization, IFPTE, Local 1921, to finalize a master term collective bargaining agreement.
- Work constructively with GAO Employees Organization, IFPTE, Local 1921, to facilitate productive working relationships and carry out the collective bargaining agreement that sets forth the agreed-upon working conditions, processes, rights of the parties, and shared values.
- Facilitate productive ongoing discussions with GAO’s Employee Advisory Council and Diversity Advisory Council to ensure employee needs, concerns, and suggestions are understood and taken into consideration during management decision making.

APPENDIX I

GAO's Mission, Responsibilities, Strategies and Means, Organization, Performance Measures, and External and Internal Challenges

MISSION

The United States Government Accountability Office exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

STATUTORY RESPONSIBILITIES

With the Budget and Accounting Act of 1921, the Congress established GAO with the broad role of investigating “all matters relating to the receipt, disbursement, and application of public funds” and to “make recommendations looking to greater economy or efficiency in public expenditures.” Since World War II, the Congress has clarified and expanded the original charter in the following ways:

- The Government Corporation Control Act of 1945 provided GAO with the authority to audit the financial transactions of government corporations.
- The Budget and Accounting Procedures Act of 1950 assigned GAO responsibility for establishing accounting standards for the federal government and carrying out audits of internal controls and financial management.
- The Legislative Reorganization Act of 1970 expressly authorized GAO to conduct program evaluations and analyses of a broad range of federal activities.
- The General Accounting Office Act of 1980 reiterated GAO's authority to obtain agency and other records needed for its investigations and evaluations and added the authority for GAO to enforce its access rights in court.
- The Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 authorized GAO to audit agencies' financial statements and annually audit the consolidated financial statements of the United States. Numerous statutes authorize or require GAO to audit the annual financial statements of federal departments, agencies, and other entities. Several statutes also specifically authorize or require GAO to review a broad range of activities related to the financial management of federal departments, agencies, and other entities.

- Numerous other laws complement GAO's basic audit and evaluation authorities, including the Congressional Budget and Impoundment Control Act of 1974, which provided for GAO review of reported or unreported impoundments; the Inspector General Act of 1978, which provided for GAO-established standards for the audit of federal programs and activities; and the Competition in Contracting Act of 1984, which provided for GAO review of protested federal contracting actions.
- GAO received authority and responsibility for oversight and reporting under the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009, which together authorized over \$1 trillion to stabilize the financial system, support economic activity, and stem job loss during a sharp downturn in the U.S. economy. In addition, under the Patient Protection and Affordable Care Act, enacted in 2010, GAO is responsible for conducting evaluations and providing reports related to the administration of a number of federal health care programs, including Medicare and Medicaid.

At GAO, we implement our statutory responsibilities by engaging in a range of oversight, insight, and foresight activities that span the full breadth and scope of federal activities and programs. We publish hundreds of reports and other documents annually and provide a number of other related services. By making recommendations to improve the practices and operations of government agencies, we contribute not only to the increased effectiveness of and accountability for federal spending, but also to the enhancement of the taxpayers' trust and confidence in their federal government. We also look at national and international trends and challenges to anticipate their implications for public policy.

STRATEGIC GOALS

To accomplish our mission and meet our statutory responsibilities, we use a strategic planning and management framework with four strategic goals:

- Goal 1:** Address Current and Emerging Challenges to the Well-being and Financial Security of the American People
- Goal 2:** Respond to Changing Security Threats and the Challenges of Global Interdependence
- Goal 3:** Help Transform the Federal Government to Address National Challenges
- Goal 4:** Maximize the Value of GAO by Enabling Quality, Timely Service to the Congress and Being a Leading Practices Federal Agency

Each of our strategic goals is further defined by strategic objectives, performance goals, and key efforts. The strategic objectives and performance goals provide progressively more detailed descriptions of what we plan to achieve. Each key effort outlines a body of work that supports a performance goal.

GAO's audit, evaluation, analytic, and investigative work is primarily aligned under the first three strategic goals, which span domestic and international issues, affect the lives of all residents of the country, and influence the extent to which the federal government serves the nation's current and future interests (see [fig. 46](#)).

The fourth goal is GAO's only internal goal. It is aimed at maximizing productivity by investing steadily in information technology to support GAO's work; ensuring the safety and security of GAO's people, information, and assets; pursuing human-capital transformation; and leveraging GAO's knowledge and experience.

Figure 46: GAO's Strategic Planning Hierarchy



Source: GAO.

STRATEGIES AND MEANS

To achieve our strategic goals, we develop and present information in a number of ways, including:

- evaluations of federal programs, policies, operations, and performance;
- audits to determine whether public funds are spent efficiently, effectively, and in accordance with the law;
- investigations of potential illegal or improper activities;
- analyses of the financing for government activities;
- engagements in which we work proactively with agencies to help guide their efforts toward achieving positive results;
- legal decisions and opinions to determine whether agencies are in compliance with applicable laws and regulations;
- policy analyses to assess needed and proposed actions; and
- additional assistance to the Congress in support of its oversight, appropriations, legislative, and other responsibilities.

Most of our work is done at the request of congressional committees or is mandated by public laws. Congressional, agency, and international protocols (<http://www.gao.gov/congress.html>) establish the criteria GAO considers in accepting, prioritizing, staffing, and conducting its engagements. We also undertake research under the authority of the Comptroller General on government programs and operations we have identified as being at high risk for fraud, waste, abuse, or mismanagement, as well as on emerging trends such as the cost of fighting terrorism and the status of the reconstruction efforts in Iraq.

In brief, we advise the Congress and the heads of executive agencies about ways to make government more efficient, effective, ethical, equitable, and responsive. Our work leads to laws and acts that improve government operations, thereby saving the government and taxpayers billions of dollars.

GAO'S ORGANIZATION

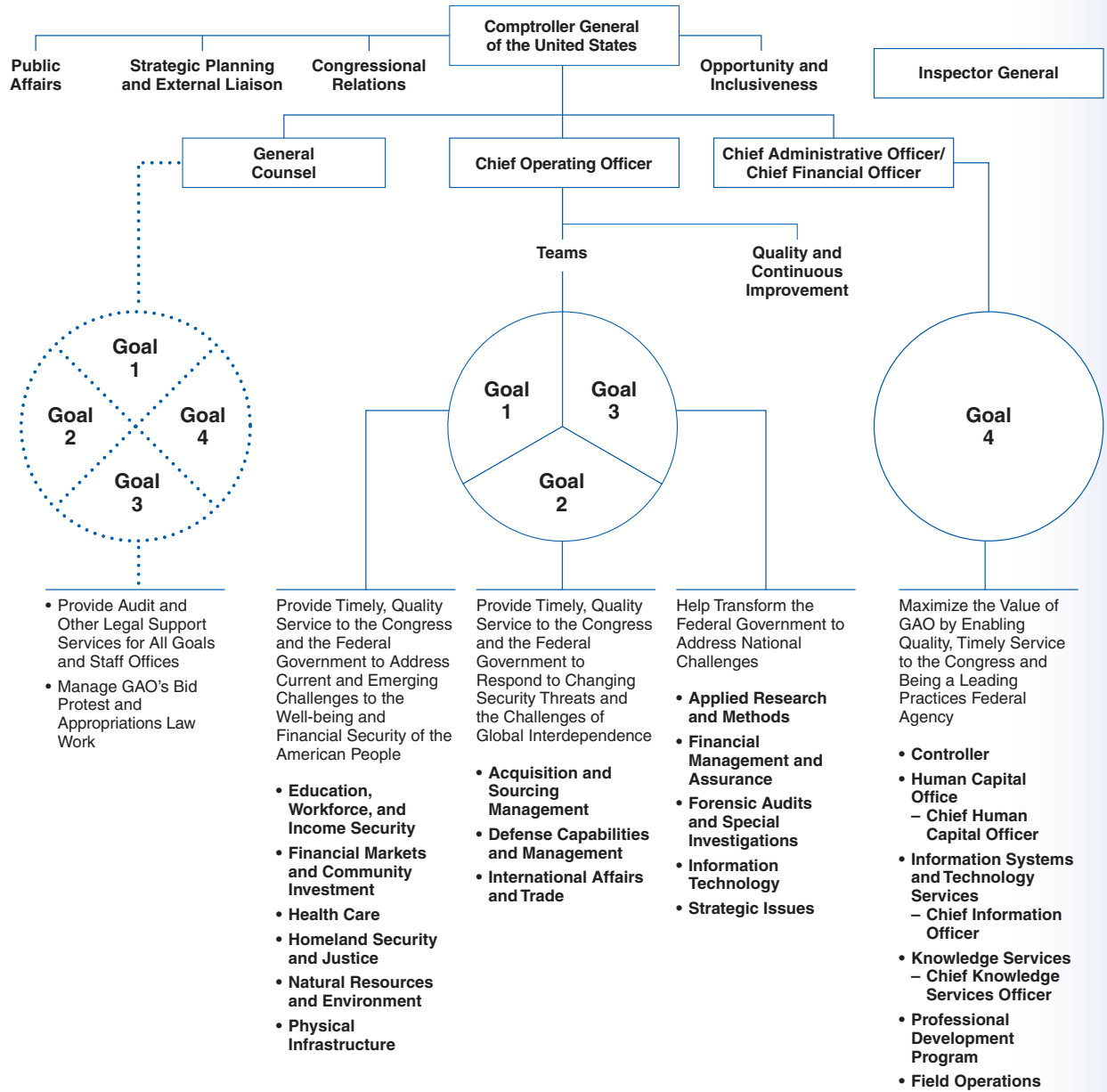
GAO, a relatively small agency, depends almost totally on one type of resource to achieve its strategic goals and objectives: its people. GAO's approximately 3,300 staff work within 14 research, audit, and evaluation teams, as well as in staff offices and mission support units (see [fig. 47](#)).

Because achieving GAO's strategic goals and objectives also requires GAO to coordinate with other organizations with similar or complementary missions, GAO:

- uses advisory panels and other bodies to inform our strategic and annual work planning and
- maintains strategic working relationships with other national and international government accountability and professional organizations, including the federal inspectors general, state and local audit organizations, and other national audit offices.

These two types of strategic working relationships extend our institutional knowledge and experience, leverage our resources, and in turn improve our service to the Congress and the nation. Our Strategic Planning and External Liaison office leads our work with external partner organizations, while our research, audit, and evaluation teams lead with most of the issue-specific organizations.

Figure 47: GAO's Organizational Structure



Source: GAO.

Note: General Counsel's structure largely mirrors the agency's goal structure, and attorneys who are assigned to goals work with the teams on specific engagements. Thus, the dotted lines in this figure indicate General Counsel's support of or advisory relationship with the goals and teams, rather than a direct reporting relationship.

KEY PERFORMANCE MEASURES

GAO uses a balanced scorecard of 15 agencywide measures to assess our performance and ensure we fulfill our mission and deliver results to benefit the nation.

These measures focus on four key areas:

Results: Focusing on results and the processes needed to achieve them is fundamental to accomplishing our mission. GAO uses four annual measures—financial benefits, nonfinancial benefits, past recommendations implemented, and new products containing recommendations—to evaluate the impact of our past work.

Client: Used to judge how well we are serving our congressional clients, GAO’s client measures include the number of times GAO was invited to testify on its current and past work, addressing issues that congressional committees are examining through the hearing process. We also outreach to congressional clients to ensure GAO’s products are provided in the time period agreed to by GAO and our client for particular engagements.

People: As our most important asset, our people define our character and capacity to perform. A variety of data sources, including an internal survey, provide information to help us measure how we are attracting and retaining high-quality staff and how well we are developing, supporting, using, and leading staff.

Internal operations: GAO’s mission and people are supported by internal administrative services, including information management, building management, knowledge services, human-capital, and financial management services. An annual customer satisfaction survey is used to gather information about how well these internal operations help employees get their job done and improve employees’ quality of work life.

Performance targets for all of the measures are set each year. They are based on what we have been able to do in the past—for example, we consider 4-year rolling averages for some measures, as well as discussions by the agency’s top executives with teams and offices about what must be accomplished. The most recent 4-year averages for selected measures are shown in [table 3](#).

Table 3: Four-Year Rolling Averages for Selected GAO Measures, Fiscal Years 2005 to 2009

Performance measure	2005	2006	2007	2008	2009
Results					
Financial benefits (billions)	\$39.2	\$43.0	\$45.1	\$48.7	\$49.5
Nonfinancial benefits	1,139	1,248	1,325	1,376	1,352
New products with recommendations	58%	61%	64%	65%	66%
Client					
Testimonies	200	206	228	248	254

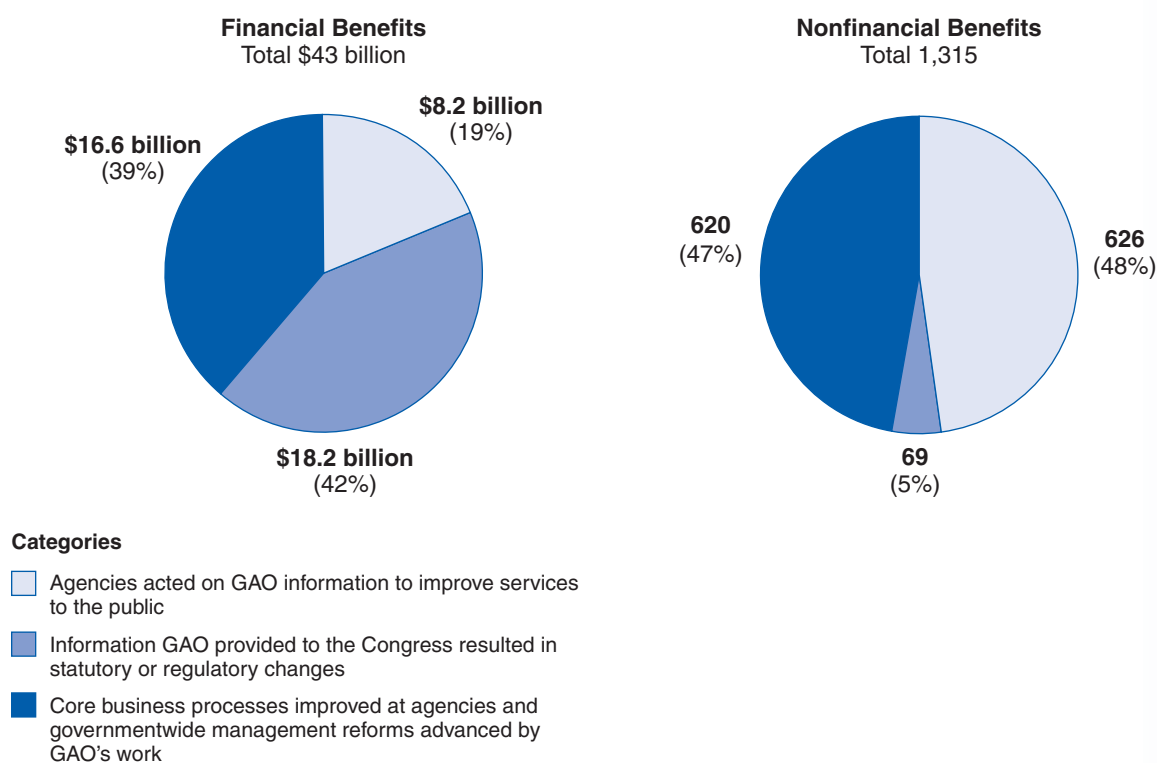
Source: GAO.

Two of GAO’s results measures bear particular attention here:

Financial benefits: As illustrated in [figure 48](#), GAO’s recommendations can produce measurable financial benefits for the federal government after they are acted on by the Congress or agencies. Funds can then be reallocated to other areas or made available to reduce government expenditures.

Nonfinancial benefits: Many benefits produced from implemented GAO recommendations cannot be measured in dollars. In fiscal year 2009, GAO documented 1,315 nonfinancial benefits that covered a wide variety of crucial issues, such as enforcing border security and immigration; strengthening the federal government’s preparedness for an influenza pandemic; and reforming how the government stores, shares, and tracks information on contractors’ performance. Some 620 of these nonfinancial benefits reflected improved core business practices at agencies or in government reforms. (See [fig. 48](#).)

Figure 48: Types of Financial and Nonfinancial Benefits Recorded in Fiscal Year 2009 from Our Work



Source: GAO.

We use GAO's performance and accountability report, issued shortly after the end of each fiscal year, to publicly report on all of our performance measures. See <http://www.gao.gov/sp.html> for our latest report.

INTERNAL MANAGEMENT CHALLENGES

Over the next 6 years, GAO anticipates focusing on three key internal management challenges—physical security, information security, and human-capital.

Physical security challenge: To strengthen our ability to protect our people and our assets, we will constantly assess our physical security profile and continuity of operations programs relative to the domestic and international climate.

Information security challenge: The constantly evolving threats to information and information security assets will continue to be a challenge for us. We will strive to ensure that information protection requirements extend across the life cycle of documentation, from data collection, report production, data transmission, and storage to the eventual archiving and disposal of data.

Human-capital challenge: We depend on a talented and diverse, high-performing, knowledge-based workforce to carry out our mission in support of the Congress. At the same time, the federal government faces new and complex challenges. GAO will continue to identify and implement improvements in human-capital management to promote a work environment that is fair, unbiased, and inclusive and that offers opportunities for all employees to realize their full potential.

EXTERNAL RISKS AND MITIGATING FACTORS

Several external factors could affect the achievement of our performance goals, including the amount of resources we receive, shifts in the content and volume of our work, and national and international developments. Limitations imposed on our work by other organizations or limitations on the ability of other federal agencies to make the improvements we recommend are additional factors that could affect the achievement of our goals.

As the Congress focuses on known challenges facing the nation and responds to unforeseen events, the mix of work we are asked to undertake may change, necessitating that we modify the resources allocated for some strategic objectives and performance goals.

Congressional demand for our analysis and advice is strong. In fiscal year 2009, we received over 900 requests and mandates. The number of new congressional mandates, our highest-priority work, increased from 75 in fiscal year 2007 to 131 in fiscal year 2009. Moreover, in fiscal year 2009, we devoted almost one-third of our audit resources to mandates.

Federal funding and budget constraints could also affect our ability to serve the Congress and meet our performance targets. Almost 80 percent of our budget is composed of people-related costs, and any serious budget situation will have an impact on our staffing and human-capital policies and practices.

Another external factor that affects our ability to serve the Congress is the extent to which we can obtain access to agency information. This access to information plays an essential role in our ability to report in a timely manner on issues of importance to the Congress and the American people. While we generally receive very good cooperation in response to our requests for information, over time GAO has experienced some access issues at certain departments and agencies. We actively pursue access issues as they arise and are engaged in discussions and efforts across the executive branch to enhance our access to information. Legislation pending in the House—the Government Accountability Office Improvement Act of 2009, H.R. 2646—would confirm certain aspects of our access rights, refuting agency interpretations that restrict GAO’s access in particular circumstances. We appreciate the interest of the Congress in helping to ensure that we obtain access to information and the efforts by agencies to cooperate with our requests. (A more detailed discussion about this issue appears on pages 61 and 62 in our full performance and accountability report for fiscal year 2009.)

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