

“Effective Government in a Time of Significant Challenges”

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Good morning. It’s an honor to be here today to deliver the keynote remarks for the Academy’s fall meeting. The meeting agenda reflects many of the difficult and pressing challenges facing our nation.

Long-Term Fiscal Outlook

Central among them is the struggle to place our national government on a more sustainable long term fiscal path. The financial market crisis and the resulting economic downturn occurred against a backdrop of fiscal trends that were unsustainable even before these shocks. For several years, GAO has published long-term fiscal simulations illustrating this structural imbalance. GAO’s most recent update on the government’s long-term fiscal outlook showed the provisions of the Budget Control Act of 2011 have improved the federal government’s fiscal outlook. The Act requires at least \$2.1 trillion in deficit reduction from 2012–2021. But even with the Act, our simulations demonstrate there still is a longer term problem that needs sustained attention.

Moving to a more sustainable, long-term fiscal path will not be easy. We don’t know yet what actions the Joint Select Committee on Deficit Reduction, better known as the “Super Committee,” may take. Additionally, reaching a sustainable path over the long term will require addressing the major drivers of the federal budget--demographics, rising health care costs, and revenues.

The major policy decisions about fiscal policy and the shape and the role of the federal government will—and should—be made by elected officials. That does not mean there is no role for federal, state, and local managers. In fact, managers should look for ways to provide even greater service to elected officials when they face a challenging environment.

The Challenges We Face: Roles for Managers

Let me talk about a few ways in which managers can contribute. First, we must pay attention to people. Budget cuts and workforce reductions can make employees, who came into government because they cared about the public good, feel devalued. Engaging them in the effort to improve government operations will be good both for morale and for government itself.

In addition to keeping up staff morale, there are a number of ways in which managers can help elected officials address the challenges facing our government and the American people. Some challenges are long standing, others are newly emerging.

Globalization

One of the trends we have long included in our strategic plans is global interdependence. As all of you know, economies, politics, information sharing, public health, and many other human activities are now linked in ways that were unimaginable a generation or two ago.

Some of these capabilities have led to significant improvements in the standard of living of U.S. citizens and others around the world. However, some of the more challenging implications of globalization are also apparent, such as the recent problems seen in the U.S. and the world financial markets. In terms of the crisis in the United States, the U.S. financial regulatory system simply failed to keep up with this trend and the systemic risks it posed.

Today, GAO is playing an expanded role in this area. We've issued reports on emergency lending by the Federal Reserve and the costs and benefits of future financial regulation. We also are working on a series of reports on the implementation of rules designed to address some of the earlier weaknesses

In addition, on the international side, we've seen progress on financial regulation and capital standards. Notably, there's the Basel III accord, which strengthens bank capital requirements and introduces new regulatory requirements for bank liquidity and bank leverage. GAO is also working with other national audit offices around the world to increase understanding and cooperation on financial issues and to help shape international auditing and accounting standards.

Of course, it is not just financial markets that have become more global. For example, most countries now ship food and medical products to the United States. From 1998 to 2008, the volume of these imports more than tripled. While these have undoubtedly had benefits to U.S. consumers, risks associated with these products also underscore the regulatory challenge that occurs when these major shifts occur in the patterns of production and trade.

In the case of food, the system for ensuring food safety in this country remains fragmented among 15 agencies that administer more than 30 food-related laws. Many of these systems were designed at a time when imports were not such a significant part of U.S. consumption.

Similar challenges exist in ensuring that drugs and medical devices are safe and effective. According to FDA, as much as 80 percent of the ingredients that go into our prescription drugs come from overseas. At the present time, thousands of foreign drug and medical device manufacturers are registered to market their products in this country. Unfortunately, the FDA has had an uphill battle in addressing foreign production. In 2008, GAO reported that the agency inspected just eight percent of such foreign establishments. At that rate, it would take FDA 13 years to inspect all of them. FDA has made some improvement but has a long way to go.

We believe that these kinds of reports can be a catalyst for greater Congressional and public awareness of the rapid changes in the external environment and the implications for the United States. They can also contribute to discussions on how to address these problems.

Beyond financial and other markets, globalization is also having an effect on how we ensure homeland security. GAO just issued a report on the 10th anniversary of September 11. While the Department of Homeland Security has made real progress in protecting this country from terrorist attacks, a lot more work remains before the Department realizes its full potential. Shortcomings persist in such key areas as border security, airline screenings, and emergency preparedness and response.

Visa overstays are a case in point. While visas issued to enter our country have received increased attention, our government still does not have a comprehensive system to track who leaves the country, when they do so, and to assure people comply with the terms of their visa. We're continuing to work with Congress and DHS to strengthen management and data collection to help mitigate these risks.

In all of these areas, federal managers can bring their experience and expertise to bear to help spur progress. And in a time of fiscal challenges, it is particularly important that federal managers also help address a series of known, long-standing shortcomings in government operations. High on that list are federal contracting, overpayments, and tax administration and the tax gap.

Contract Management

As GAO's High-Risk List pointed out earlier this year, contract management is a government-wide problem. Over the years, GAO has raised concerns about contracting practices at agencies ranging from NASA to the Department of Energy to the Department of Defense. In fiscal 2010, the federal government spent about \$535 billion to acquire goods and services. On far too many of these contracts, significant shortcomings occur.

The Administration deserves credit for its contracting reform initiatives, and I also want to acknowledge the important efforts of the Commission on Wartime Contracting.

When it comes to contract management, GAO has identified four changes that could yield significant cost savings. First, minimize unnecessary duplication among interagency contracts. Second, introduce greater competition in awarding contracts. Third, use award fees more appropriately to promote improved contractor performance. And fourth, leverage the government's vast buying power through greater use of strategic sourcing.

Improper Payments

Reducing improper payments could also yield significant savings. Congress and the Administration have both focused attention on this issue, but now we need to see results.

Estimated levels of improper payments across government have been rising steadily for years. In fiscal year 2010, improper payments jumped an estimated \$16 billion to \$125 billion, largely because of significant increases in the outlays associated with unemployment insurance and the earned income tax credit program, both of which continued to exhibit very high error rates.

Ten programs accounted for 94 percent of the \$125 billion in improper payments. The problems for Medicare and Medicaid were particularly severe.

The Tax Gap

Billions more could flow to the Treasury by closing the difference between taxes owed and taxes paid. IRS last estimated the net tax gap in 2001 at \$290 billion. Many experts believe that the current tax gap is larger than that.

No single approach will fully address the tax gap, but several strategies could boost taxpayer compliance. For example, Congress could simplify the tax code. In addition, IRS and Congress could act to enhance information reporting by third parties, expand compliance checking before refunds are issued, and improve data matching. We'll also need to bring tax expenditures—preferences in the tax code - and the size of their foregone revenue under review.

By themselves, the numbers I've just mentioned won't close our fiscal gap, but they're big numbers. We can't afford to not solve these issues. Such waste and inefficiency undermine confidence in government and the public's willingness to accept needed policy changes in other areas.

Information Technology Investment

It's also time for government to become more consistent and successful in harnessing the power of technology. Wise technology investments can go a long way to help leverage scarce resources and maximize results. The government's planning, implementation, and use of IT all continue to need further attention. Again, federal managers are essential to achieving progress in all of these areas.

Performance Management

Additionally, shortcomings in the government's ability to address issues in a holistic way over time have led to overlap and duplication in federal programs and activities. GAO's recent report on duplication, overlap, and fragmentation cites a number of areas where such a holistic approach is needed. These include teacher quality programs, the military health system, surface transportation, and economic development initiatives. For many of the issues that we cited agencies need to collect more accurate and complete data on program outcomes and use the information to assess and compare programs' effectiveness.

The GPRA Modernization Act of 2010 offers promise because it encourages a more coordinated and cross-cutting approach to achieving common goals. The Act requires the Office of Management and Budget to develop long-term priority goals for the federal government in a limited number of cross-cutting policy or program areas and in areas needing management improvement across government. Many of these management areas can be found on GAO's High Risk List. They include financial management, human capital, information technology, procurement and acquisition, and real property.

For performance information to be useful and used, it must be reliable. Transparency also matters. The Act requires agencies to disclose more on the accuracy and reliability of their performance data. It also requires quarterly rather than annual reporting on priority goals. And that information must be posted on a public website.

Best Practices

In a constrained budgetary environment, adopting best practices is more important than ever. Two years ago GAO issued its first cost-estimating guide to help federal, state, and local officials develop more reliable cost estimates for government projects of all sizes. The federal cost-estimating community in particular has long needed better tools for preparing cost projections. GAO's new manual will go a long way to bridge that gap. Following the broad success of our cost-estimating guide, we plan to also release one concerning best practices in scheduling next year. Our hope is that government agencies will be better able to avoid common problems, such as cost overruns, missed deadlines, and performance shortfalls.

GAO's Experience

In fiscal times like these, leading and motivating agency workforces also takes on a greater urgency and presents a greater challenge. How do you keep your employees focused and motivated in the face of dramatic, sometimes painful, changes? How can you ensure that your agency continues to fulfill its mission and deliver results? Is it possible to lead and alter the discussion from challenges to opportunities?

I offer a few insights from GAO's recent experience in dealing with budget reductions. By looking ahead and being prepared, GAO was able to lessen the impact of these changes on the agency, its mission, and its employees.

Our first priority was to ensure the continued high-quality of our reports and testimonies to Congress. Quality is GAO's trademark. Our credibility depends on the quality of our work and is at the heart of what we do for Congress and the nation.

At the same time, people are key to carrying out GAO's mission. We recognized that the anxiety level at the agency was extremely high and potentially distracting

We identified four areas that we needed to focus on and that ended up being extremely helpful to GAO during this process.

First, employee engagement was essential. We met regularly with our union, employee advisory groups, and staff at all levels of the agency. During this process, we sought everyone's input on the choices we faced and on GAO's future direction and shape. We even set up an internal process where every employee could submit ideas on where we could cut spending.

Second, GAO placed a premium on communications and dialogue with our staff. We kept them informed, listened to their concerns, and tried to counteract the rumor mill. In all our communications, we tried to set forth the principles we would follow and the goals we would strive to achieve.

I also visited every field office and met with GAO's teams. We posted regular notices on GAO's intranet, and answers to a series of frequently asked questions on our intranet page.

These efforts culminated in an Oct. 19 presentation to all GAO employees, which fully outlined GAO's budget challenges and the steps we were taking to deal with them. GAO employees came away with a clear understanding of what was happening, what we planned to do, and how that might affect them.

Third, the choices GAO made were data-driven. We reviewed our budget line by line, expenditure by expenditure.

Fourth, we explored new ways of doing business. We've begun a complete review of GAO's business processes and we are considering two new pilot projects. We're hoping to introduce a much more liberal telework policy in two of our field offices. The pilot will likely include an office-sharing, hoteling model similar to those used by many professional services organizations in the private sector. To help reduce travel costs, GAO is also looking at bringing video conferencing to every worker's desktop.

The Changes That Are Coming

The bottom line is that there is no standard, government-wide approach to the budgetary and other changes that are coming. Agencies will need to tailor their solutions to their specific needs. In some cases, this might involve the use of new technologies or employment strategies to gain efficiencies.

Human capital management is especially important in this environment. GAO has raised concerns about this issue for years. Given the impending wave of federal retirements, strong succession plans are urgently needed. At the same time, the pool of younger workers is shrinking and the federal government faces more competition for the skilled workers it needs.

In difficult times, a broad, strategic perspective is essential to governing well.

Managers will need to take responsibility for developing innovative approaches and creative solutions to many of the challenges I've discussed today. By being proactive, managers can, to a great extent, manage the changes that are coming, rather than letting those changes manage them.

The reality is that lean budgets are likely for some time to come. Clearly, difficult policy choices lie ahead. If our federal workforce is to remain effective and relevant, foresight, innovation, optimism, determination, and strategic thinking must be part of that process. The challenges are squarely before us, and I believe managers are up to the challenges. Our nation's future depends on it.

Thank you all for your time and attention. I would be happy to take some questions.