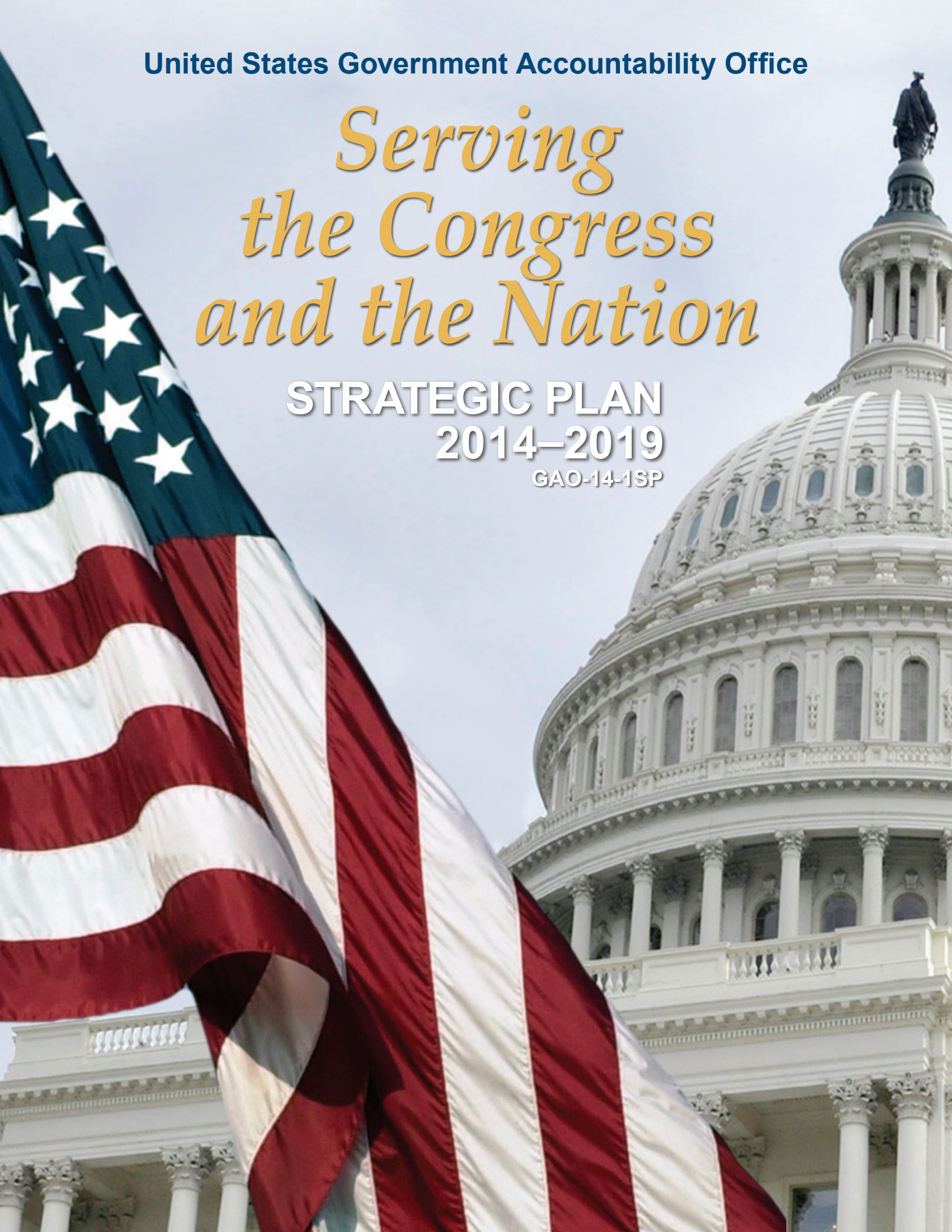


United States Government Accountability Office

*Serving  
the Congress  
and the Nation*

STRATEGIC PLAN  
2014–2019

GAO-14-1SP





# Serving the Congress and the Nation

## GAO's Strategic Plan Framework



### MISSION

**GAO** 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.

### Trends Shaping the United States and Its Place in the World

National Security Trends	Fiscal Sustainability and Debt Challenges	Global Interdependence	Science and Technology Trends	Communication Networks and Information Technologies	Shifts in Governance and Government	Demographic and Societal Changes
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Goals	Objectives	
<p><b>Provide Timely, Quality Service to the Congress and the Federal Government to...</b></p> <p>Address Current and Emerging Challenges to the Well-being and Financial Security of the American People related to...</p>	<ul style="list-style-type: none"> <li>Health care needs</li> <li>Lifelong learning</li> <li>Challenges facing an aging population</li> <li>Effective system of justice</li> <li>Housing finance and viable communities</li> </ul>	<ul style="list-style-type: none"> <li>Stable financial system and consumer protection</li> <li>Natural resources and the environment</li> <li>National infrastructure</li> <li>Benefits and protections for workers, families, and children</li> </ul>
<p><b>Respond to Changing Security Threats and the Challenges of Global Interdependence involving...</b></p>	<ul style="list-style-type: none"> <li>Homeland security</li> <li>Military capabilities and readiness</li> </ul>	<ul style="list-style-type: none"> <li>Foreign policy and international economic interests</li> </ul>
<p><b>Help Transform the Federal Government to Address National Challenges by assessing...</b></p>	<ul style="list-style-type: none"> <li>Government's fiscal position and approaches to address current and projected fiscal gaps</li> <li>Federal government audit and internal control standards</li> </ul>	<ul style="list-style-type: none"> <li>Major management challenges and program risks</li> <li>Fraud, waste, and abuse, and improvements in internal controls</li> </ul>
<p><b>Maximize the Value of GAO by Enabling Quality, Timely Service to the Congress and Being a Leading Practices Federal Agency by focusing on...</b></p>	<ul style="list-style-type: none"> <li>Efficiency, effectiveness, and quality</li> <li>Diverse workforce and inclusive work environment</li> </ul>	<ul style="list-style-type: none"> <li>Networks, collaborations and partnerships</li> <li>Human, information, fiscal, technological, and physical resources</li> </ul>

### CORE VALUES

Accountability	Integrity	Reliability
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# STRATEGIC PLAN 2014–2019

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# ABBREVIATIONS

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<b>3D</b>	three-dimensional	<b>DOE</b>	Department of Energy
<b>ATF</b>	Bureau of Alcohol, Tobacco, Firearms and Explosives	<b>DOJ</b>	Department of Justice
<b>BOP</b>	Federal Bureau of Prisons	<b>EPA</b>	Environmental Protection Agency
<b>CBO</b>	Congressional Budget Office	<b>FAA</b>	Federal Aviation Administration
<b>CBP</b>	U.S. Customs and Border Protection	<b>FCC</b>	Federal Communications Commission
<b>CDC</b>	Centers for Disease Control and Prevention	<b>FDA</b>	Food and Drug Administration
<b>CFPB</b>	Consumer Financial Protection Bureau	<b>FEMA</b>	Federal Emergency Management Agency
<b>CHIP</b>	Children’s Health Insurance Program	<b>FHA</b>	Federal Housing Administration
<b>CIA</b>	Central Intelligence Agency	<b>FY</b>	fiscal year
<b>CMS</b>	Centers for Medicare & Medicaid Services	<b>GAGAS</b>	Generally Accepted Government Auditing Standards
<b>CO<sub>2</sub></b>	carbon dioxide	<b>GDP</b>	gross domestic product
<b>Commerce</b>	Department of Commerce	<b>GPRA</b>	Government Performance and Results Act of 1993
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission	<b>HHS</b>	Department of Health and Human Services
<b>CPSC</b>	Consumer Product Safety Commission	<b>HUD</b>	Department of Housing and Urban Development
<b>CRS</b>	Congressional Research Service	<b>IFPTE</b>	International Federation of Professional and Technical Engineers
<b>DHS</b>	Department of Homeland Security	<b>IMF</b>	International Monetary Fund
<b>DOD</b>	Department of Defense		

<b>INTOSAI</b>	International Organization of Supreme Audit Institutions	<b>SSN</b>	Social Security number
<b>IRS</b>	Internal Revenue Service	<b>State</b>	Department of State
<b>IT</b>	information technology	<b>STEM</b>	science, technology, engineering, and mathematics
<b>K-12</b>	kindergarten through 12th grade	<b>Treasury</b>	Department of the Treasury
<b>NATO</b>	North Atlantic Treaty Organization	<b>UAS</b>	unmanned aircraft systems
<b>NNSA</b>	National Nuclear Security Administration	<b>UN</b>	United Nations
<b>OECD</b>	Organisation for Economic Cooperation and Development	<b>USAID</b>	U.S. Agency for International Development
<b>OMB</b>	Office of Management and Budget	<b>USDA</b>	U.S. Department of Agriculture
<b>OPEC</b>	Organization of the Petroleum Exporting Countries	<b>USPS</b>	U.S. Postal Service
<b>PBGC</b>	Pension Benefit Guaranty Corporation	<b>VA</b>	Department of Veterans Affairs
<b>PPACA</b>	Patient Protection and Affordable Care Act of 2010	<b>WIA</b>	Workforce Investment Act
<b>RATB</b>	Recovery and Accountability Transparency Board		
<b>S&amp;T</b>	science and technology		
<b>SBA</b>	Small Business Administration		
<b>SNAP</b>	Supplemental Nutrition Assistance Program		
<b>SSA</b>	Social Security Administration		



# LETTER FROM THE COMPTROLLER GENERAL

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February 2014

I am pleased to present GAO's strategic plan for serving the Congress for fiscal years 2014 to 2019.<sup>1</sup> This plan describes our proposed goals and strategies for supporting the Congress and the nation as the United States undergoes a period of significant change, one that entails challenging considerations and necessary compromises.

We have identified seven trends that provide context for our plan:<sup>2</sup>

- threats confronting U.S. national security interests;
- fiscal sustainability and debt challenges;
- changing dynamics of global interdependence and multilateral cooperation;
- trends in science, technology, engineering, and mathematics;
- advances in communication networks and information technologies;
- shifting roles in government and governance; and
- demographic and societal changes.

Since we issued our last plan, we find our nation facing a period of great transition, involving both significant perils and unprecedented opportunities. We have completed operations in Iraq and are transitioning efforts in Afghanistan while shifting our military resources and focusing greater attention on Asia and Africa. The Middle East region remains unstable, and fragile economic conditions and high unemployment in some European Union countries are contributing to uncertainty in Europe. Growth forecasts suggest that advanced economies will continue to grow at slower rates than economies of less-developed countries.

In response to the global financial crisis, some major advanced economies undertook unconventional monetary policies, such as large-scale asset purchases. While central banks have pursued these policies to help economies in the near term, they also give rise to potential risks and costs. Phasing out these efforts without destabilizing the global economy will be a major management challenge. Country-specific approaches to restoring growth,

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<sup>1</sup>The GPRM Modernization Act of 2010 modified the delivery date of executive branch strategic plans from every 3 to every 4 years. Although as a legislative branch agency we are exempt from many laws that apply to executive branch agencies, we have chosen to conform to this change to be consistent with the Act.

<sup>2</sup>The economic recovery and job growth trend discussed in our previous plan for fiscal years immediately following the 2007–2009 recession remains important and is now integrated into our other trend papers.

addressing imbalances, and reforming financial regulatory systems will influence how the trend toward open markets and international integration will evolve, and whether reforms to foster global financial stability will be fragmented or harmonized. Federal budget projections for the next few years under current U.S. law have improved, and the U.S. and world economies are expected to grow at a faster pace in coming years; however, the recovery remains fragile, job creation has been slow, and long-term fiscal challenges remain.

The United States faces a challenge shared by many other countries with advanced economies: undertaking unprecedented fiscal efforts to stabilize debt ratios at sustainable levels. Long-term fiscal simulations by GAO and the Congressional Budget Office (CBO) show the federal government continuing on an unsustainable long-term deficit and debt path due to spending pressures caused by an aging population and growing health care costs. Although the deficit has fallen since 2009 to \$680 billion at the end of fiscal year 2013, cumulative debt levels continue to grow. U.S. debt held by the public stood at \$12.0 trillion, or 72 percent of GDP, at the end of fiscal year 2013—the largest share of GDP since 1950. Compounding the federal government’s long-term fiscal outlook are its fiscal exposures in such areas as housing finance and pensions (e.g., government-sponsored enterprises Fannie Mae and Freddie Mac, the Department of Housing and Urban Development’s Federal Housing Administration, and the Pension Benefit Guaranty Corporation). If interest rates rise, the large amount of debt held by the public that the Department of the Treasury must roll over will become more costly as the U.S. government competes in global markets for debt financing. These higher costs could leave fewer resources in the years ahead available to support federal programs and activities.

In the upcoming decade, the United States will face demographic changes that will have significant fiscal impacts on both the federal budget and the economy. The number of baby boomers turning 65 is projected to grow from an average of about 7,500 per day in 2008 to more than 11,600 per day in 2025, driving spending for major health and retirement programs. In the time during and after the 2007–2009 financial crisis, birth rates have decreased. Rates of household formation have also slowed, accompanied by an increase in young adult unemployment and a greater proportion of young adults living with their parents.

Emerging opportunities could affect not only U.S. competitiveness but also that of other countries, and global competition will remain fierce as economic growth remains a central goal for both developed and developing countries. Rapid developments in unconventional and previously unavailable energy sources could provide advantages to countries with significant energy supplies and alter the position of OPEC nations in the global economy. With the sharp rise in production

and diversification of energy supplies, the United States is becoming less dependent on foreign oil. While this could continue to have significant implications for improving the U.S. trade balance, there is considerable uncertainty about longer-term outcomes, due in large part to public health, climate and environmental concerns, regulatory issues, and questions about other countries' ability to replicate similar energy production.

Continued advances in science and technology offer revolutionary possibilities for enhanced quality of life and economic growth, as well as serious implications for health and safety if they are misused. Three major trends include the continued movement of nanotechnology into the manufacturing sector; additive manufacturing technologies and processes; and synthetic bioengineered systems. By some accounts, the global market of products that incorporate nanotechnology is estimated to reach \$1 trillion by 2015. Nanotechnology's entrance has been compared to the advent of earlier technologies that profoundly affected modern societies. Additive manufacturing (building products layer by layer in a process sometimes called "3D printing") could dramatically transform the global supply chain and its logistics since digitized designs can be sent globally—while being produced and delivered locally.

Facilitated by the expansion of social media, the Internet has eliminated the "middle man" in organizations and sectors, and it is fundamentally changing the ways people across the globe create, collaborate, and communicate. The media landscape has been transformed as major professional press organizations must now compete with growing networks of online organizations and individuals who can create and distribute their own content and deliver breaking news and information faster than major news outlets. Some media firms are becoming data analytics firms that sell information and business and consumer intelligence. As the availability and dissemination of data have grown exponentially, information-based organizations will confront questions about how to manage "big data" and analytics, social media, and search tools to provide timely, useful information and even anticipatory intelligence. Technology is also enabling organizations, seeking greater flexibility, productivity, and cost savings, to move their data to the "cloud." However, this consolidation of data and interconnectedness of global systems have increased the risks to individuals and businesses from cyber crime, malicious hacking, and identity theft.

Recent polls of Americans show that while citizen confidence in the federal government is at an all-time low, trust in state and local governments is often higher. Yet state and local governments also face near-term difficulties in funding current programs, as well as long-term challenges driven by health-related costs. Major government activities, such as disaster assistance, and significant legislation, such



as the Patient Protection and Affordable Care Act, transcend and cut across federal, state, and local government boundaries. The federal government also continues to shift program delivery to state and local governments and to the private and nonprofit sectors. These trends pose challenges in terms of “following the federal dollar,” minimizing duplication and overlap, and evaluating program results.

GAO stands ready to serve the Congress and the American people as our nation undergoes this transformative period. To effectively assist the Congress, GAO must not only perform oversight and insight work but it must also conduct foresight work to better position itself to identify the emerging issues that pose significant risks to our nation and our well-being. With a staff level of over 2,800, GAO must work closely with our clients and choose priorities carefully. Because high-quality work is the foundation of our value and credibility, we will safeguard it as we continue striving to operate more effectively and efficiently. Additionally, when members of Congress or their staffs change, GAO provides institutional memory and the program and technical expertise to support the Congress in overseeing the executive branch, evaluating spending priorities, and assessing the information provided by outside parties. GAO is a unique federal entity that can look across the government and follow federal spending internationally and domestically across federal, state, and local government levels. In this globally connected world, we have the domestic and international networks and capabilities to determine what is actually happening on the ground and obtain the information policymakers need.

To make sure GAO’s strategic plan accurately reflects the needs of the Congress, and of the nation as a whole, we invited comments on a draft from Members of Congress and their staffs; our Comptroller General’s Advisory Board as well as other 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.

The detailed strategic plan that follows provides more information about the specific areas of GAO’s work we anticipate—including a description of our 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’s priorities as it looks ahead and is able to respond appropriately. Visit the strategic plan portion of our website 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](mailto:dodarog@gao.gov) or Helen Hsing, Managing Director for Strategic Planning and External Liaison, at (202) 512-2639 or [hsing@gao.gov](mailto:hsing@gao.gov).

Sincerely yours,

A handwritten signature in blue ink that reads "Gene L. Dodaro". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Gene L. Dodaro  
Comptroller General  
of the United States



# GAO AT A GLANCE

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## ABOUT GAO

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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

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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) and the GPRA Modernization Act of 2010. 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

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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

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Gene L. Dodaro, Comptroller General of the United States

## CORE VALUES

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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

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More than 2,800, with academic degrees in accounting, law, engineering, public and business administration, economics, and the social and physical sciences, among other fields.

## PRODUCTS ISSUED

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About 900 products annually, in addition to about 300 to 400 legal decisions and opinions.

## FINANCIAL BENEFITS

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In fiscal year 2013, GAO documented about \$51.5 billion in financial benefits—a return of about \$100 for every dollar invested in us.

## NONFINANCIAL BENEFITS

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In fiscal year 2013, GAO documented over 1,300 nonfinancial benefits resulting from our recommendations.

## OFFICES

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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

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For more than 90 years, GAO has stood at the vanguard of the U.S. government's efforts to ensure government accountability and effectiveness. Key to this role is foresight and the ability to understand evolving trends and evaluate emerging issues.

This agency continues to monitor and address the nation and government's most pressing challenges. For example, in January 2013, GAO launched a new online resource—GAO's "Key Issues" website ([http://www.gao.gov/key\\_issues](http://www.gao.gov/key_issues))—to provide incoming Members of Congress and the American people with quick and easy access to bodies of GAO work on issues of critical importance to the nation.

Accordingly, in framing our work over the next several years, GAO's strategic plan takes into account trends that are shaping American society, the United States' place in the world, and the work of the federal government. These trends provide the strategic context for GAO's mission, goals, and objectives for serving the Congress and the American people.

After conducting a review of external literature, holding discussions with the Comptroller General's Advisory Board and leaders of good government and accountability organizations, and gathering input from our mission teams, GAO has identified seven key trends to watch. Many of these trends underscore the global and interconnected nature of the issues, opportunities, and challenges that the federal government faces today and in the coming years. The seven trends are

**National Security.** Continuing regional and political instability in the Middle East, Africa, and South Asia; the potential for further proliferation of nuclear, biological, and chemical weapons; evolving and growing threats to cyberspace; and shifting dynamics in Asia will necessitate a more strategic approach across a wide array of actors, including military, diplomatic, intelligence, and law enforcement agencies.

**Fiscal Sustainability and Debt Challenges.** In the decade ahead, the United States and the world will face challenges in ensuring continued economic growth and sustainability of government finances. Simulations by GAO and others show the federal government to be on an unsustainable deficit and debt path. Closing the fiscal gap will likely need to touch every part of the budget—entitlement programs, other mandatory spending, discretionary spending, and revenue.

**Global Interdependence.** Regional and global shifts in economic power, extraordinary responses by fiscal and monetary authorities in many advanced economies after the financial crisis of 2007, and highly interconnected global economies and financial markets will have a continuing impact on trade, global competition, multilateral cooperation, and human development in the coming years.

**Science and Technology.** New technologies and scientific progress can improve the quality of life, security, and economic growth; they can also pose new ethical, legal, and social questions to policymakers. Rapid developments in nanotechnology, additive manufacturing and “3D printing,” synthetic biology, the energy sector, and unmanned aircraft systems are important emerging areas. Further, science, technology, engineering, and mathematics education will be a key factor in future U.S. economic competitiveness.

**Communication Networks and Information Technologies.**

Today individuals can rapidly form large, powerful networks and interconnections through social media and other online platforms with “always-on” mobile technologies. This affects not only how people work and interact, but also how they think and what they expect from their government. In the next few years, understanding and managing the implications related to “big data,” privacy, and a more mobile and connected society will be crucial.

**Governance and Government.** Governments in general, and the federal government in particular, face an increasing number of large, complex, and high-risk challenges that cut across multiple countries, levels of government, agencies, and sectors. The federal government will need to improve its capacity to anticipate crises and mitigate risk. Given these challenges, the federal government will need to examine how it works with state and local governments and third parties; finances its operations; and manages evolving technologies to engage with citizens.

**Demographic and Societal Changes.** Significant demographic shifts are under way that affect society and the economy, both domestically and around the world. Declining birth rates, shifting immigration patterns, declining labor force participation, and an aging population will have important implications for our nation’s future economic performance and the federal budget.

Our strategic goals and objectives reflect how we plan to respond to the shifting realities described in these seven trends. Taking into account the uncertainties associated with these trends, the overall 2014–2019 strategic plan is based on the premise that GAO will need to continue to be agile to meet demands arising from the complex and interconnected challenges our nation faces—today and tomorrow.

# Threats Confronting U.S. National Security Interests

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As the United States approaches the end of over a decade of military operations in Iraq and Afghanistan, the nation faces a complex and uncertain national security environment. This environment presents opportunities but also poses several challenges and threats, including international conflicts and regional instability; the potential for further proliferation of nuclear, biological, and chemical weapons; and the growing threat of cyber attacks on the nation's critical infrastructure. Given the nation's fiscal constraints, the national security agencies will need to find affordable ways to address these challenges and threats and capitalize on opportunities.

## Continuing Regional and Political Instability in the Middle East, Africa, and South Asia

Ungoverned areas, ongoing conflicts, and political and security transitions in the Middle East, Africa, and South Asia may increase domestic and international risks from both state and nonstate actors. According to the Office of the Director of National Intelligence and State Department documents, regional instability has led to broader instability by expanding the areas in which terrorists can operate and provoking refugee and other humanitarian crises in the Middle East, Africa, and South Asia.<sup>3</sup>

Ongoing conflicts and instability in several areas could continue to increase risks to U.S. interests. First, according to the Intelligence Community's 2013 *Worldwide Threat Assessment*, these areas may continue to provide a fertile environment for terrorists to establish safe havens, leaving U.S. national interests and the homeland vulnerable to attack. For example, the assessment states that Syria's prolonged civil war has allowed al Qaeda affiliates to establish a significant presence in Syria, and substantially strengthen inside Iraq.<sup>4</sup> Further, according to the State Department's *Country Reports on Terrorism 2012*, violent extremists in some countries—such as Yemen, Somalia, Mali, and the tribal regions of Pakistan—have taken advantage of ungoverned areas to organize, plan, raise funds, recruit, train, and operate in relative security to direct attacks against the United States, its allies, or partners (see [fig. 1](#) for a map of State Department-designated terrorist safe havens).<sup>5</sup> For example, in September 2013, members of Somalia's al Shabab jihadist movement, an affiliate of al Qaeda, attacked a mall in neighboring Kenya, resulting in more than 60 civilian deaths.

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<sup>3</sup>James R. Clapper, Statement to the Senate Committee on Armed Services, *Worldwide Threat Assessment of the U.S. Intelligence Community*, Hearing, April 18, 2013; and Department of State, *Country Reports on Terrorism 2012: Chapter 5: Terrorist Safe Havens* (Update to 7120 Report), (Washington, D.C.: May 2013).

<sup>4</sup>*Worldwide Threat Assessment of the U.S. Intelligence Community*.

<sup>5</sup>Department of State, *Country Reports on Terrorism 2012: Chapter 5: Terrorist Safe Havens* (Update to 7120 Report).

**Figure 1: Map of Terrorist Safe Havens in the Middle East, Africa, and South Asia**



Source: U.S. Department of State; Map Resources (map).

In addition, ongoing political and security transitions may present opportunities for political reform but could also threaten or result in setbacks to U.S. interests in key locations. For example, the Arab Awakening in the Middle East and North Africa, which began in Tunisia and Egypt in 2011, may continue to contribute to unsettling and unpredictable changes in security and governance as regimes change, sectarian and ethnic tensions rise, and civil wars ensue or threaten to ensue.<sup>6</sup> The planned drawdown of U.S. and other NATO forces in Afghanistan may also lead to increased security risks for U.S. military and civilian personnel who remain to continue assistance efforts. To address these uncertain transitions throughout the world and their related security threats, the State Department will be required to continuously monitor and direct resources toward U.S. diplomatic missions in high-threat locations, many of which are located in or near terrorist safe havens or state sponsors of terrorism. Moreover, according to the U.S. Director of National Intelligence, transnational organized crime networks may continue to threaten U.S. interests by supporting drug trafficking and the operations of terrorist organizations.<sup>7</sup>

### **Continuing Proliferation of Weapons of Mass Destruction—Nuclear, Biological, and Chemical Weapons**

While citing the need to maintain the strategic nuclear deterrence capabilities against existing nuclear powers such as Russia and China, The Department of Defense’s (DOD) most recent *Nuclear Posture Review Report* states that nuclear threats from other nation-states

<sup>6</sup>In public statements, the State Department has used the term “Arab Awakening” to refer to the recent unrest in the Arab world.

<sup>7</sup>*Worldwide Threat Assessment of the U.S. Intelligence Community*. Also see the “Changing Dynamics of Global Interdependence and Multilateral Cooperation” trend paper on [page 31](#) for a further discussion of transnational crime.

are a pressing danger.<sup>8</sup> For example, the DOD report states that attempting to reverse the nuclear ambitions of North Korea and Iran through a stronger nonproliferation regime is one element of the U.S. approach to preventing nuclear proliferation and nuclear terrorism. The report also states that the development of nuclear weapons by North Korea and Iran would upset regional balances of power and increase the risk of regional conflicts. The Intelligence Community's 2013 *Worldwide Threat Assessment* also states that North Korea has exported ballistic missiles and associated materials to several countries, including Iran and Syria. If Iran and North Korea continue to disregard global nonproliferation norms, then neighboring countries might feel pressured to consider developing nuclear operations—thereby leading to greater proliferation, according to DOD's *Nuclear Posture Review Report*. The DOD report states that, as a result, a key priority is expanding international efforts to rebuild and strengthen the global nuclear nonproliferation regime.

The proliferation of nuclear, biological, and chemical weapons has the potential to magnify the threats posed by other regional states and nonstate actors, such as terrorists. According to the 2012 national security strategy document *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, regional state actors who acquire weapons of mass destruction have more freedom of action to challenge U.S. interests. The strategy also states that terrorist access to even simple nuclear devices poses the prospect of devastating consequences for the United States. According to the International Atomic Energy Agency, from 1993 to 2011, there have been thousands of confirmed incidents of illicit trafficking in nuclear and radiological materials.

Since the terrorist attacks of September 11, 2001, the United States has made significant investments in aviation, maritime, and border security capabilities and on information sharing and civil response for homeland defense; it will continue to enhance preparedness. Abroad, counterproliferation activities, as well as the war on terrorism, have cost billions as the United States sought to garner support for enforcing nonproliferation treaties, helped secure nuclear materials and warheads in Russia, installed detection equipment in other countries, implemented visa security programs, and embarked on a campaign to put relentless pressure on al Qaeda and its affiliates. Going forward, the U.S. government will need to find an affordable way to balance its nuclear posture and counterproliferation goals against other critical national security missions, given the nation's fiscal constraints.

Because the United States' nuclear arsenal is aging, according to the *Nuclear Posture Review Report*, the United States is also embarking on an ambitious, long-term plan to modernize the nuclear stockpile and its associated research and production infrastructure, and to replace the submarine, aircraft, and intercontinental-range missiles

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<sup>8</sup>DOD, *Nuclear Posture Review Report* (Washington, D.C.: April 2010).



that are capable of delivering nuclear weapons to their targets. GAO's work has shown that successful execution of this plan will require DOD and the Department of Energy (DOE) to work together to evaluate risks and trade-offs and determine the most cost-effective mix of weapons and platforms for the future. DOD has not had to replace its nuclear weapons platforms during the past few decades. In 2013, GAO reported that DOD plans on modernizing the nuclear delivery system at a cost of at least \$118.5 billion between fiscal years 2013 and 2022 in an era of stagnant or declining defense budgets.<sup>9</sup> GAO also reported that DOE plans to spend about \$188 billion between fiscal years 2012 and 2031 to modernize nuclear weapons systems and their associated infrastructure and scientific and engineering capabilities.<sup>10</sup>

## Evolving Cyberspace Threats

Threats to cyberspace are also evolving and growing. As GAO testified in 2013, advanced persistent cyber threats—where adversaries possess sophisticated levels of expertise and significant resources to pursue their objectives repeatedly over an extended period of time—pose increasing risks.<sup>11</sup> GAO further testified that the disgruntled organization insider is a principal source of computer crime. The Director of National Intelligence has also warned of the increasing globalization of cyber attacks, including those carried out by foreign militaries or international organized crime. The Intelligence Community's 2013 *Worldwide Threat Assessment* stated that there is a remote but increasing risk of a cyber attack on U.S. critical infrastructure during the next 2 years that could result in long-term, wide-scale disruption of services, such as a regional power outage.

In addition, the threat assessment stated that foreign intelligence and security services have repeatedly penetrated numerous computer networks of the U.S. government, business, academic, and private sector entities, eroding U.S. economic and national security. Compounding the national security challenge, cyberspace is also increasingly important for conducting U.S. military operations and projecting U.S. forces globally. According to a DOD 2012 joint concept of operations, cyberspace provides the information infrastructure upon which the command and control of practically all military operations depend.<sup>12</sup> Because of this dependency, the concept predicts that cyberspace will become a high-priority area for both state and nonstate adversaries.

GAO has designated federal information security as a high-risk area since 1997. Because of the importance of cybersecurity to our nation's well-being, in 2003 GAO expanded this high-risk area to

<sup>9</sup>GAO, *ICBM Modernization: Approaches to Basing Options and Interoperable Warhead Designs Need Better Planning and Synchronization*, GAO-13-831 (Washington, D.C.: Sept. 29, 2013).

<sup>10</sup>GAO, *Modernizing the Nuclear Security Enterprise: NNSA's Budget Estimates Do Not Fully Align with Plans*, GAO-14-45 (Washington, D.C.: Dec. 10, 2013).

<sup>11</sup>GAO, *Cybersecurity: A Better Defined and Implemented National Strategy Is Needed to Address Persistent Challenges*, GAO-13-462T (Washington, D.C.: Mar. 7, 2013).

<sup>12</sup>DOD, *Joint Operational Access Concept* (Washington, D.C.: Jan. 17, 2012).

include cyber critical infrastructure.<sup>13</sup> The threats associated with cyberspace require collective and concerted action that spans the whole of the U.S. government, in collaboration with the private sector. These threats touch on the missions of all departments—including Defense, Homeland Security, and State—such as diplomacy, intelligence collection and analysis, counterterrorism, homeland security, and defense. The U.S. government will also need to invest in new capabilities and enhance others, such as sharing information and developing a cyber analysis and warning capability.

At the same time, such cyber capabilities have given rise to privacy and civil liberty concerns. For example, the disclosure that the U.S. National Security Agency collected phone records and intercepted electronic communications on a global scale has focused national attention on the appropriate balance between U.S. intelligence surveillance undertaken to protect the homeland and the constitutional rights of U.S. citizens.

### **Changing Economic and Military Trends in Asia**

A major trend that is changing the world is the growing economic and military strength of countries in Asia, China in particular. As countries in Asia become more prosperous, some are also becoming more militarily capable. For example, DOD's *2013 Annual Report on China* shows that China's decades-long economic growth continues to facilitate Chinese military modernization and expansion of its interests abroad.<sup>14</sup> A 2012 study by the State Department found that China's military expenditures ranked 2nd in the world, after those of the United States, with India and South Korea ranking 9th and 10th among the top 10 countries.<sup>15</sup> (See [fig. 2](#).) DOD also stated in its 2013 annual report on China that it is difficult to estimate actual Chinese military expenses; China's reported military budget omits several major categories of expenditures, such as procurement of foreign weapons and equipment; therefore, according to the report, China's actual military budget is likely many billions of dollars higher than the reported budget.

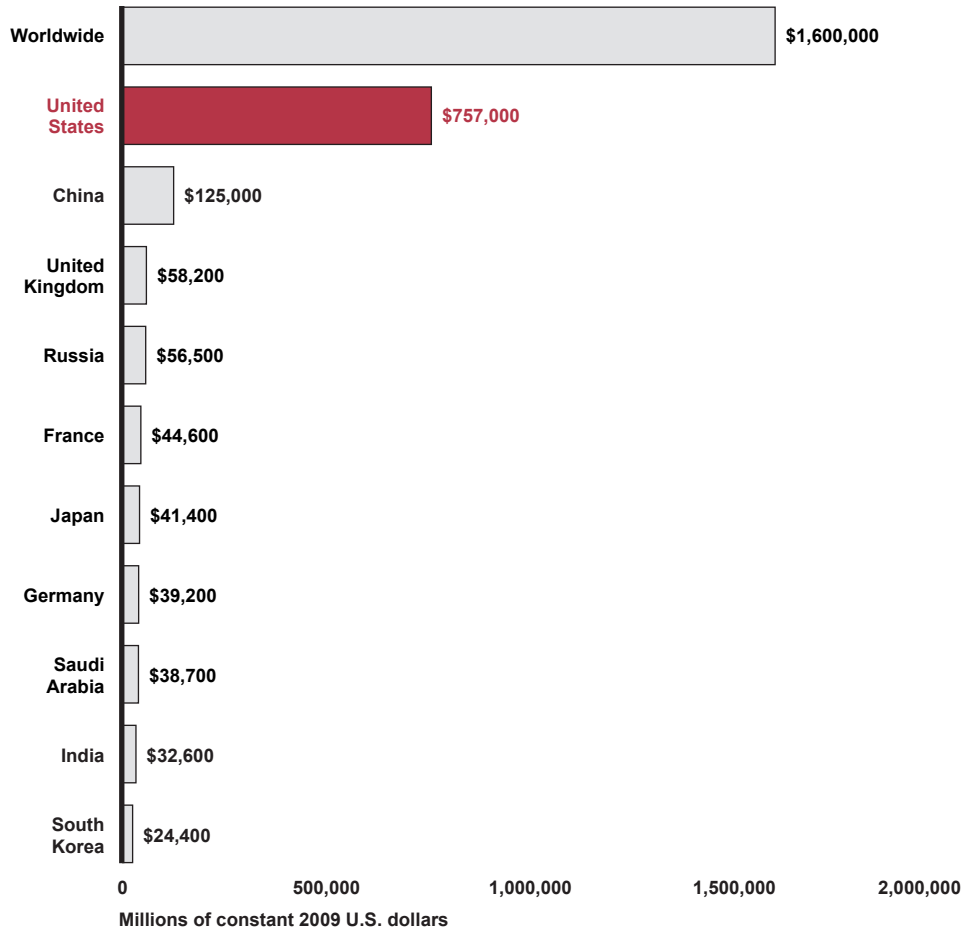
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<sup>13</sup>GAO, *High-Risk Series: An Update*, GAO-13-283 (Washington, D.C.: Feb. 14, 2013).

<sup>14</sup>DOD, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2013* (Washington, D.C.: 2013).

<sup>15</sup>Department of State, *World Military Expenditures and Arms Transfers, 2012 Edition* (Washington, D.C.: 2012).

**Figure 2: Top 10 Countries, Military Expenditures (2009)**



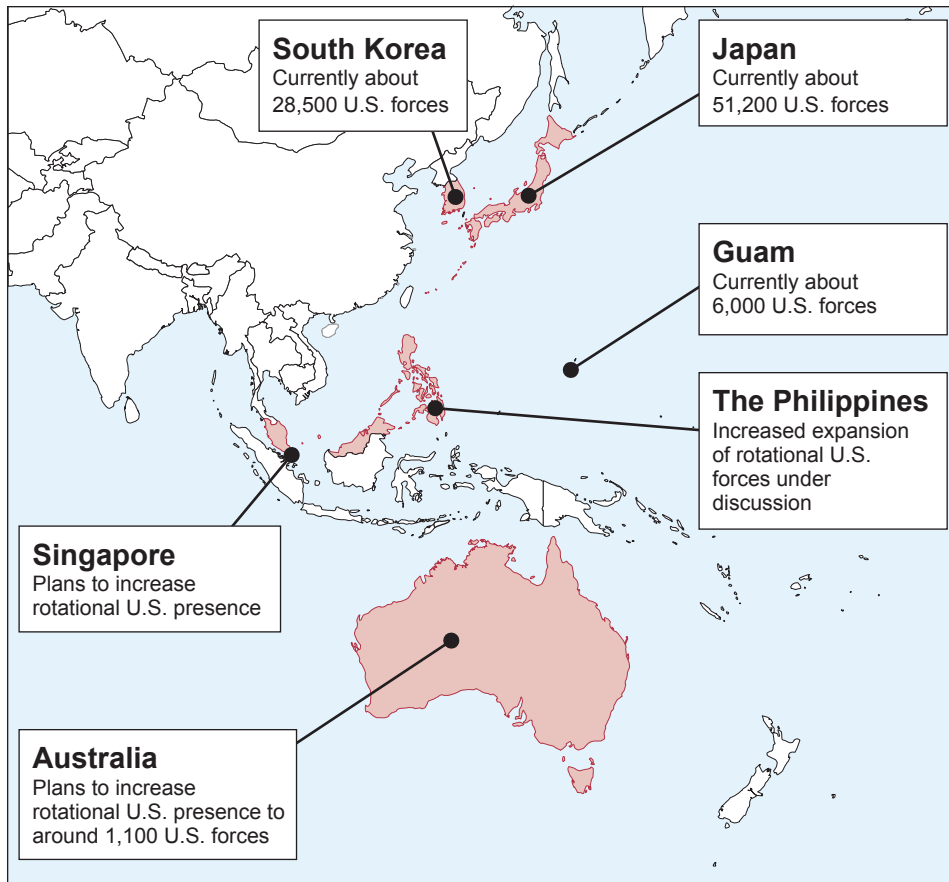
Source: GAO compilation of data from the Department of State, *World Military Expenditures and Arms Transfers, 2012 Edition* (Washington, D.C.: 2012).

Note: The most recent year for which final data were available was 2009.

As a result of these dynamics, the U.S. government announced that it would raise the region’s priority in military planning, foreign policy, and economic policy.<sup>16</sup> As shown in [figure 3](#), the United States has begun and continues to shift its military presence to the Asia-Pacific region as it relocates forces, builds new facilities, and expands DOD’s rotational forces.

<sup>16</sup>The White House Office of the Press Secretary, *Remarks By President Obama to the Australian Parliament* (Washington, D.C.: Nov. 17, 2011) and The White House, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense* (Washington, D.C.: January 2012).

**Figure 3: Map of the Asia-Pacific, Including Selected Current U.S. Overseas Presence and Plans**



Source: GAO.

Managing the U.S.-China relationship in the future will have global repercussions. China is a major U.S. trading partner, a fact that underscores the interdependency between the two economies. The United States seeks to fully integrate China into a rules-based global trading system and expand U.S. exporters' and investors' access to Chinese markets.<sup>17</sup> However, according to DOD's 2013 report on China, the country is also developing asymmetric military capabilities—such as cyber weapons—and anti-access capabilities to deny the U.S. military's freedom of movement or action in certain areas or regions—such as anti-satellite weaponry, ship-to-ship missiles, and ground-based missiles. These capabilities could pose challenges to the United States' military superiority and access to the region in keeping with our treaty obligations with Asian countries, including Japan and South Korea. The fact that China is both partner and competitor illustrates the U.S. *National Military Strategy's* statement that the national security environment is increasingly characterized by shifting, interest-driven coalitions based on diplomatic, military, and economic power, rather than by rigid security competition between

<sup>17</sup>Department of State, *U.S. Relations with China Fact Sheet* (Washington, D.C.: Aug. 16, 2013).

opposing blocs. Therefore, the United States will need to employ a whole-of-government approach to foreign policy in Asia that employs a blend of diplomacy, economic cooperation, development, and defense capabilities.

## Escalating Climate-Related Risks

Climate risks to environmental and economic systems—including agriculture, infrastructure, ecosystems, and human health—present a significant issue for the United States’ and other nations’ national security. The United States Global Change Research Program (USGCRP) has observed that the impacts and costliness of weather disasters are expected to increase in significance as what are considered “rare” events become more common and intense due to climate change.<sup>18</sup> Among other impacts, climate change could threaten coastal areas with rising sea levels, alter agricultural productivity, and increase the intensity and frequency of severe weather events such as floods, drought, and hurricanes.

These impacts could pose significant U.S. national security risks. For example, the Intelligence Community’s 2013 threat assessment states that food security has been threatened partly because the world’s land masses have been affected by weather conditions outside of historical norms, while persistent droughts over the last decade have diminished flows in the Nile, Tigris-Euphrates, Niger, Amazon, and Mekong river basins. The rise in global population and the growing size of the world’s middle class may exacerbate the effects of climate change if they lead to demand for food, water, and energy outstripping supply. The resulting competition for scarce resources could lead to intrastate and interstate conflicts as well as humanitarian crises, potentially resulting in the need for international or U.S. response. A Central Intelligence Agency–funded report, *Climate Extremes: Recent Trends with Implications for National Security* (2012) observed that reductions in sea ice have already triggered fears of a scramble for control of shipping lanes and mineral deposits in the Arctic region.<sup>19</sup>

In addition to national security risks, climate change also poses fiscal risks to the U.S. government, including the national security agencies. For this reason, GAO added limiting the federal government’s fiscal exposure by better managing climate-related risks to its list of high-risk programs and activities.<sup>20</sup> According to DOD’s *FY 2012 Climate*

<sup>18</sup>Thomas R. Karl, Jerry M. Melillo, and Thomas C. Peterson, eds. *Global Climate Change Impacts in the United States* (Cambridge University Press, 2009). USGCRP coordinates and integrates the activities of 13 federal agencies that conduct research on changes in the global environment and their implications for society. USGCRP began as a presidential initiative in 1989 and was codified in the Global Change Research Act of 1990 [Pub. L. No. 101-606, § 103 (1990)]. USGCRP-participating agencies are the Departments of Agriculture, Commerce, Defense, Energy, Interior, Health and Human Services, State, and Transportation; U.S. Agency for International Development; Environmental Protection Agency; National Aeronautics and Space Administration; the National Science Foundation; and the Smithsonian Institution.

<sup>19</sup>Dr. Michael McElroy and Dr. D. James Baker, *Climate Extremes: Recent Trends with Implications for National Security* (Washington, D.C.: October 2012).

<sup>20</sup>GAO, *High-Risk Series: An Update*, GAO-13-283 (Washington, D.C.: February 2013).



*Change Adaptation Roadmap*, the department will need to adapt its facilities, infrastructure, training and testing activities, and military capabilities to address the impacts of climate change.<sup>21</sup> DOD's operational readiness hinges on continued access to land, air, and sea training and test space, all of which are subject to the effects of climate change. GAO also found that the federal government does not budget for the costs of responding to a major disaster and runs the risk of facing a large fiscal exposure at any time. As a result, the federal government is not well positioned to address the fiscal exposure presented by climate change, and will need to develop a government-wide strategic approach with strong leadership to manage related risks.

## **Growing Fiscal Pressures on National Security Agencies**

The unsustainable long-term fiscal path of the federal government and uncertainty over future funding levels are trends that place growing pressures on the entire federal budget, including national security accounts. The combined budgets for all of the national security agencies make up over half of the entire federal budget's discretionary spending; therefore, these agencies will likely face significant budgetary constraints over the next few years as the federal government grapples with reducing the deficit. Over the short term, budgetary uncertainty will make annual fiscal planning and priority-setting increasingly difficult for the national security agencies. Over the long term, the nation will be challenged to balance priorities both across the federal government, including national security agencies, and within these agencies as it addresses the federal deficit or as federal mandatory spending on programs, like Social Security and Medicare, crowds out discretionary spending on other federal programs, including national security.

As the fiscal pressures facing the nation continue, DOD and other national security agencies will need to look across threats and vulnerabilities. They will then need to make difficult decisions on how to reach an affordable balance between investments in current missions and investments in new capabilities to meet future challenges. The national security agencies also will need to enhance the efficiency and management of national security programs in order to achieve cost savings and free up resources for emerging higher priorities. For example, GAO designated the management of the Department of Homeland Security as high risk due to long-standing acquisition, information technology, financial management, and human capital management challenges, and their effect on the department's ability to perform its missions.<sup>22</sup> Although the department has made some progress, more work remains, and failure to effectively address its management and mission risks could have serious consequences for U.S. national and economic security.

<sup>21</sup>DOD, *Fiscal Year 2012 Climate Change Adaptation Roadmap* (Washington, D.C.: 2012).

<sup>22</sup>GAO-13-283.

GAO has also identified several high-risk areas at DOD including its overall approach to business transformation, contracting, financial management, information technology, and weapon system acquisition. Congress has made legislative changes and DOD has made some recent progress to improve how it manages major weapon systems; however, many programs continue to fall short of cost and schedule expectations. Given current fiscal constraints, DOD must get better returns on its weapon system investments and find ways to deliver capability to the warfighter for less cost than in the past. For the same reason, DOD must effectively prioritize which investments to make, balancing such competing demands as large naval vessels versus smaller, shallow-water vessels and information networks versus weapons.

### **Implications for Government and GAO**

As the nation approaches the end of more than a decade of military operations, U.S. national security agencies are facing a changing national security environment of great complexity and uncertainty. These agencies are also facing great budgetary uncertainties as the U.S. government grapples with how to address the deficit and debt trends.

GAO stands ready to assist the Congress in assessing the long-term costs and trade-offs associated with national security agencies' efforts to align national security missions and priorities with available resources. For example, GAO can assist congressional oversight of DOD and DOE programs to modernize the aging nuclear weapons complex by assessing these agencies' analyses, key assumptions, and cost estimates. Moreover, as DOD makes adjustments to the size and composition of its conventional forces, GAO plans to assess the services' approaches to maintaining readiness and mitigating risks in light of changing threats and limited resources. In addition, GAO will build on its previous work assessing U.S. programs to promote regional stability, including efforts to minimize ungoverned areas in which terrorist groups operate, and to counter the proliferation of weapons of mass destruction. GAO will continue to assess U.S. government efforts to improve the federal, state, and local capacity to identify, respond to, and recover from terrorist attacks or natural disasters.

GAO also has a useful role to play in identifying opportunities to improve the operations and management of national security agencies and enhance their efficiency and effectiveness. GAO will continue to highlight opportunities for improvement in the U.S. government's response to the growing threats related to climate change and cyberspace, and make recommendations for improving federal preparedness. GAO will also assess the national security agencies' major acquisition programs as well as their management and oversight of service contracts. In addition, GAO will look for additional or emerging areas of fragmentation, overlap, and duplication in U.S.

national security programs and monitor developments in areas already identified such as the overlap in analytical and investigative support activities for law enforcement and counterterrorism.

Additionally, as elaborated under Goal 2, GAO plans related work to

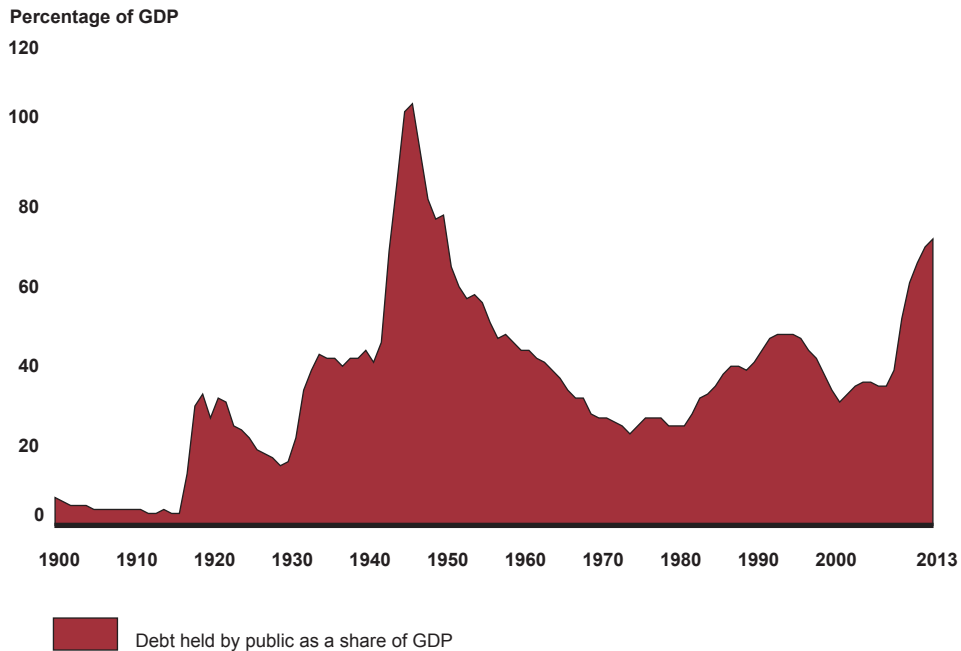
- Review U.S. efforts and programs to secure and stabilize regions in conflict and assess the extent to which such efforts are coordinated among federal agencies in order to achieve unity of effort.
- Assess the national security agencies' efforts to secure the homeland and respond to emerging threats such as the potential use of weapons of mass destruction by terrorists.
- Assess the international effort under the leadership of the United States to identify and secure nuclear materials around the world.
- Assess efforts to strengthen the protection and resilience of the nation's critical physical and cyber infrastructure, and address cybersecurity issues.
- Analyze U.S. initiatives and costs to adapt U.S. overseas presence and programs in Asia and to modify the U.S. presence and activities in other parts of the world.
- Evaluate the implications of climate-related risks for U.S. national security agencies and agencies' plans and programs to address these implications.
- Analyze the extent to which national security agencies have developed and implemented efforts to improve business operations and enhance efficiency, including approaches to contracting for goods and services.

## Fiscal Sustainability and Debt Challenges

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The global recession of 2008–2009 and the federal government's actions to stabilize financial markets and promote economic recovery significantly affected the federal government's financial condition. Since fiscal year 2007, debt held by the public has more than doubled as a share of gross domestic product (GDP) from about 35 percent to 70 percent at the end of fiscal year 2012. While the deficit has fallen considerably since 2009, when it exceeded 10 percent of GDP, to \$680 billion, or 4.1 percent of GDP, in fiscal year 2013, cumulative debt held by the public continues to grow. Debt held by the public reached \$12.0 trillion, or 72 percent of GDP, at the end of fiscal year 2013—the largest as a share of GDP since 1950 (see [fig. 4](#)). The United States is not alone in facing high debt levels. Many advanced countries are facing similar challenges and will need to continue to undertake unprecedented fiscal efforts to stabilize debt ratios at sustainable levels.

**Figure 4: Growth in Debt Held by the Public as a Share of GDP**

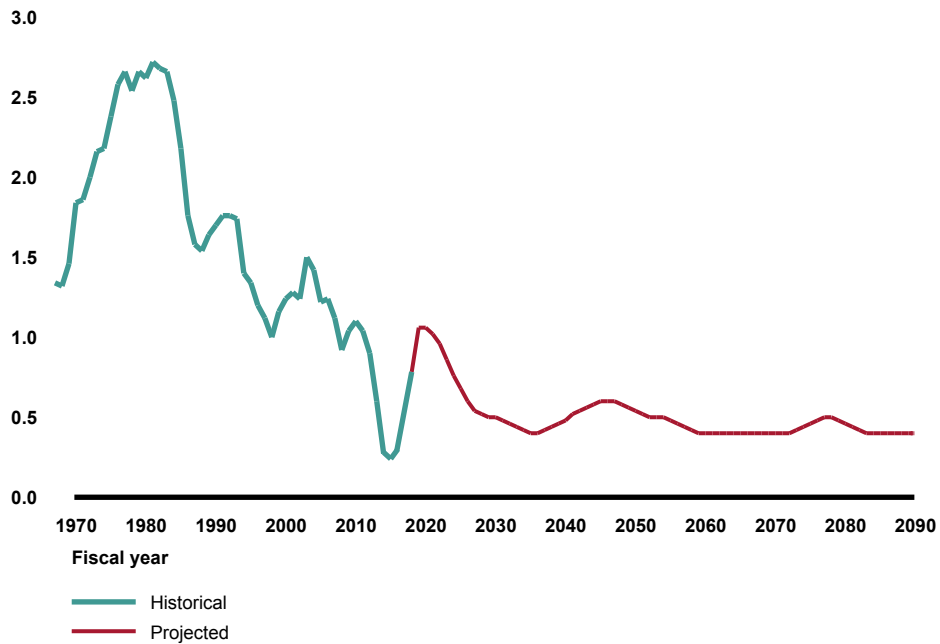


Source: GAO analysis of Congressional Budget Office, Department of Treasury and Bureau of Economic Analysis data.

As the effects of the financial crisis and housing bubble fade, the U.S. economy is expected to expand at a pace faster than the subdued growth experienced since the recession ended in mid-2009. However, in the decade ahead, the United States and the world will be faced with demographic changes that will pose challenges to ensuring continued economic growth and sustainability of government finances. While these demographic trends have been known for a long time, they are beginning to have significant fiscal consequences on the federal budget and economy. As we move into the second half of the decade, CBO projects that real GDP growth will average about 1 percent slower than the average potential growth rate since 1950 due to slowing of growth in the labor force. As shown in [figure 5](#), labor force growth is estimated to fall from about 1 percent in recent years to 0.5 percent in the future. The reasons for this slowdown are the retirement of the baby boomers and an end to the long-standing increase in women's participation in the labor force. This slowing of economic growth will come just as spending on Social Security, Medicare, and Medicaid begins to accelerate.

**Figure 5: Growth in the U.S. Civilian Labor Force Is Projected to Slow**

Percent growth in U.S. labor force (5-year moving average)

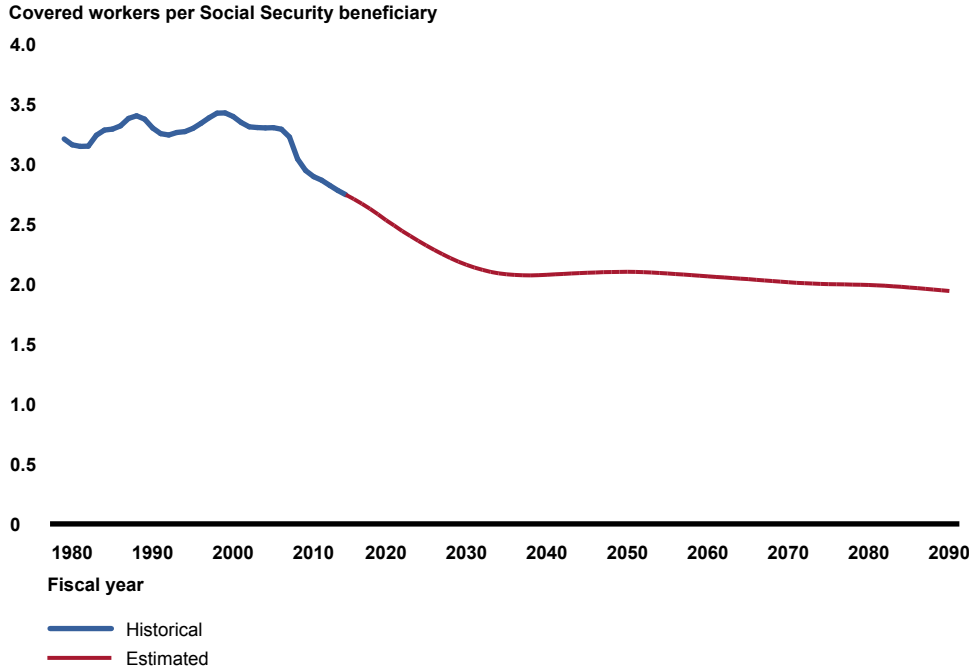


Source: GAO analysis of Social Security and Medicare Boards of Trustees data.

Declining labor force growth will leave fewer workers available to support the growing number of retirees. According to the Social Security Trustees, the number of workers per Social Security beneficiary will decline from 3.2 in 2008 to 2.2 by 2030. (See [fig. 6.](#)) Moreover, the number of baby boomers turning 65 is projected to grow steadily from an average of about 7,500 per day in 2008 to more than 11,600 per day in 2025, driving spending for the major health and retirement programs and putting greater pressure on the rest of the federal budget. These demographic trends (discussed in greater detail in the demographics trend paper) have significant implications for the long-term sustainability and flexibility of the government’s fiscal position.



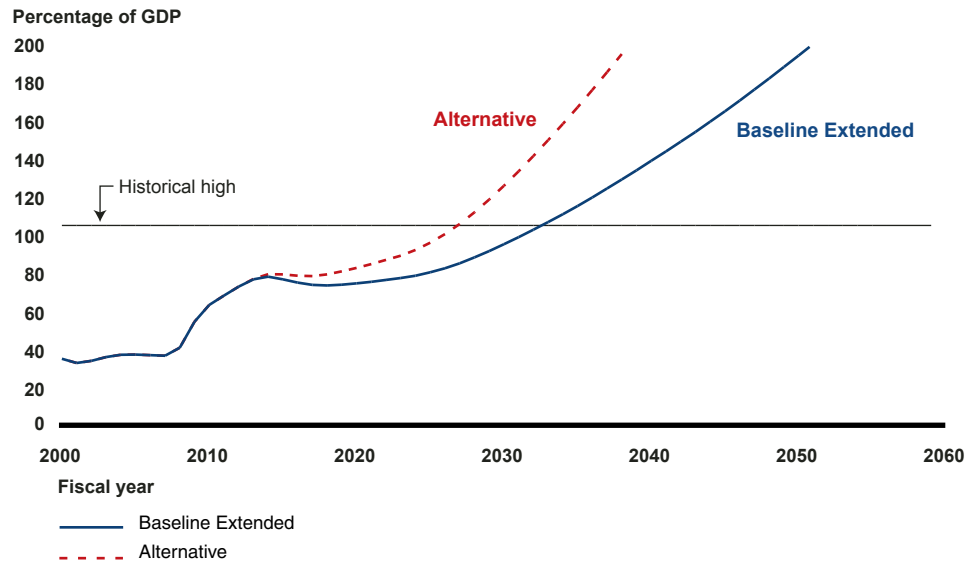
**Figure 6: Fewer Workers Will be Supporting Each Retiree**



Source: Social Security Board of Trustees.

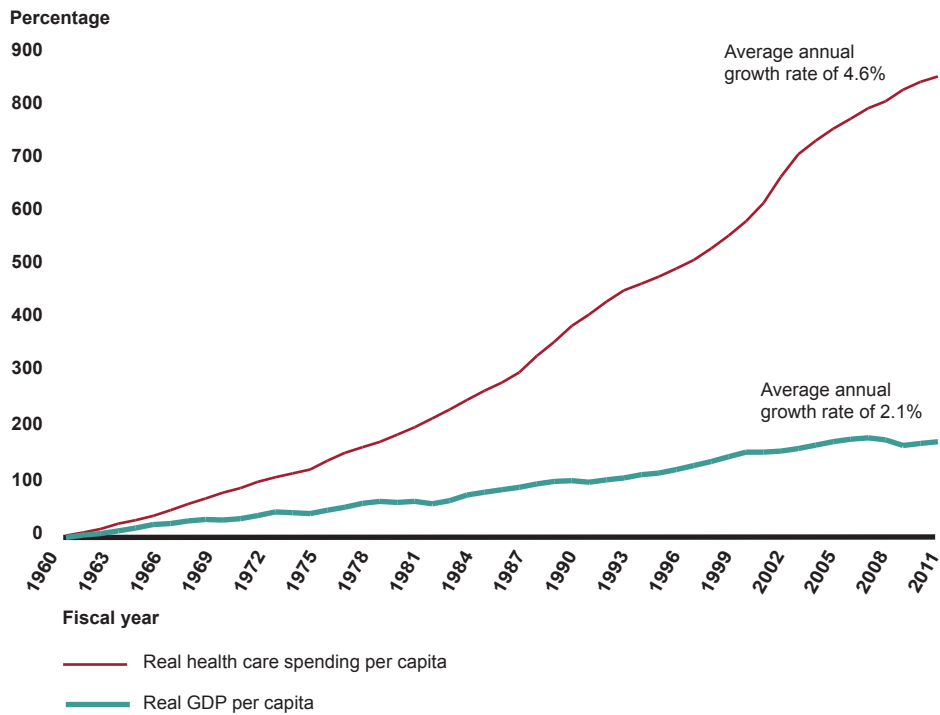
Long-term fiscal simulations by GAO, CBO, and others all show the federal government to be on an unsustainable deficit and debt path due to spending pressures caused by growth in health care costs and an aging population. In GAO's Baseline Extended and Alternative simulations, which cover a range of plausible assumptions, debt held by the public continues to grow as a share of GDP in the coming decades (see [fig. 7](#)). Rising debt in both simulations is driven by a fundamental imbalance between revenue and spending, which, on the spending side, is driven by the aging of the population and rising health care costs. For the first few decades, this spending is driven largely by the aging of the population, while the longer-term outlook depends more heavily on assumptions about growth in the cost of caring for each beneficiary. As shown in [figure 8](#), health care spending per person over the last 50 years has been growing faster than GDP per person, meaning that an ever-growing share of the nation's income is being spent on health care, crowding out spending on other goods and services. While health care cost growth has slowed in recent years, it remains unclear to what degree this represents a temporary event related to the recent recession or a larger change to the U.S. health care system resulting from increased efficiency and coordination that may have a more lasting effect.

**Figure 7: Debt Held by the Public under Two Fiscal Policy Simulations**



Source: GAO.

**Figure 8: Cumulative Growth in Real Health Care Spending Per Capita and Real GDP Per Capita**



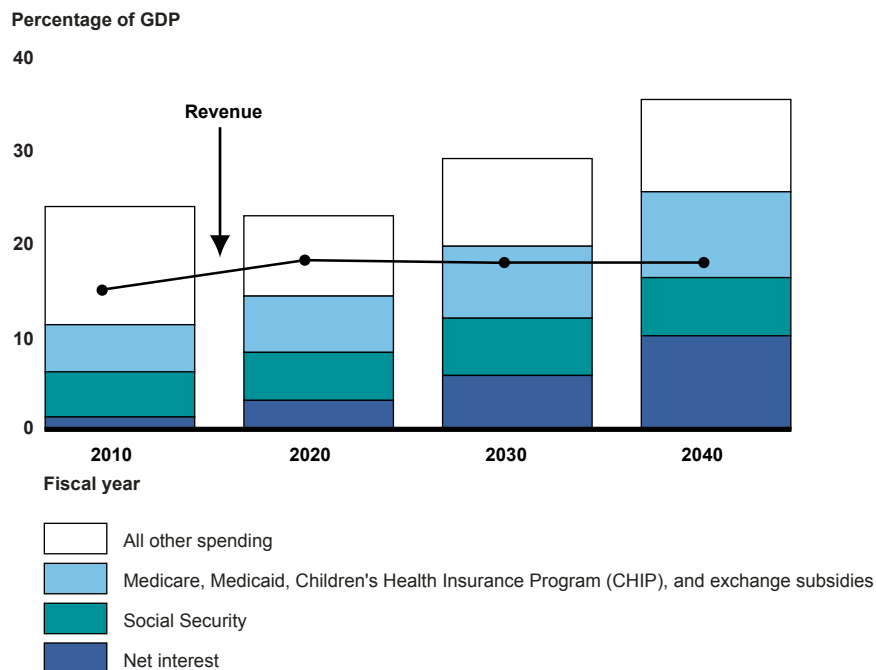
Source: GAO analysis of data from the Centers for Medicare & Medicaid Services, Office of the Actuary, and the Bureau of Economic Analysis.

The federal government and other public payers are not the only ones facing rapidly rising health care expenses. Private payers face the same challenges. Total health care spending is absorbing an increasing share of our nation's GDP. From 1990 through 2012, spending on

health care grew from about 13 percent of GDP to 17 percent, and it is projected to grow to about 20 percent of GDP by 2022. While growth in public spending strains government budgets, growth in private sector health care costs erodes employers' ability to provide coverage to their workers and undercuts their ability to compete internationally. The Patient Protection and Affordable Care Act of 2010 (PPACA) (Pub. L. No. 111-148) has provisions intended to expand health insurance coverage and help slow the growth of health care costs, but the effects of this legislation over the long term are still uncertain.

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 and put greater pressure on the rest of the federal budget. For example, under GAO's Alternative simulation, which assumes historical trends and policy preferences continue, interest costs on the growing debt plus spending on Social Security, Medicare, and Medicaid could absorb all federal revenue in 2030 (see [fig. 9](#)). When "all other spending"—or what many think of as "government," such as national defense, homeland security, highways and mass transit, and smaller entitlement programs—is included, deficits approach 12 percent of GDP.

**Figure 9: Potential Fiscal Outcomes: Revenues and Composition of Spending in the Alternative Simulation**



Source: GAO.

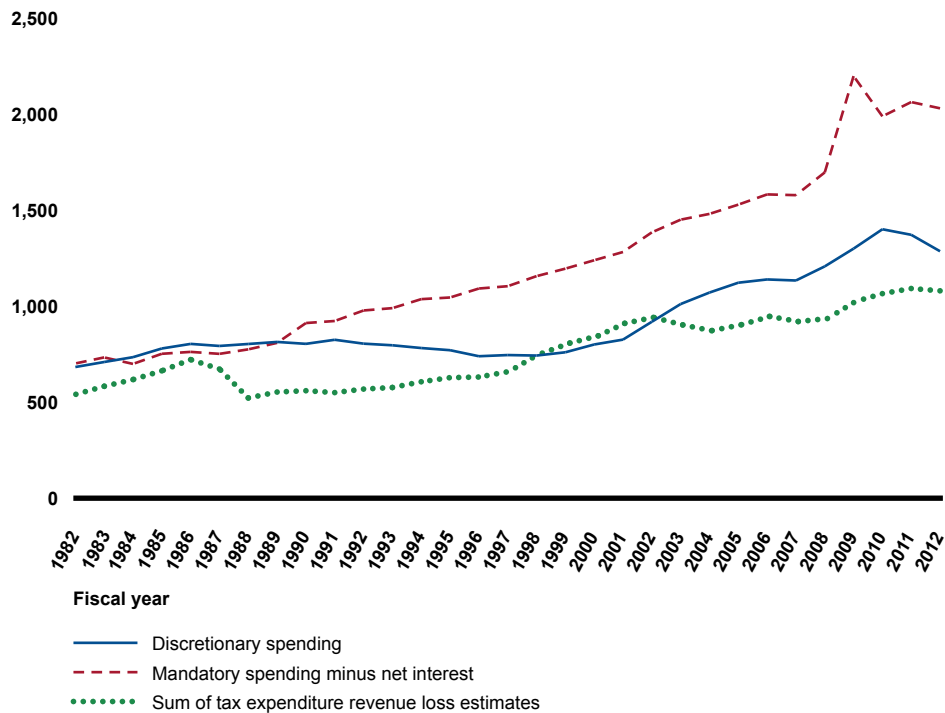
Closing the fiscal gap will likely need to touch every part of the budget—entitlement programs, other mandatory spending, discretionary spending, and revenue. Tax expenditures<sup>23</sup>—sometimes

<sup>23</sup>Tax expenditures are reductions in a taxpayer's tax liability that are the result of special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates.

referred to as “spending through the tax code”—also merit scrutiny. The revenue the federal government forgoes from tax expenditures reduces the tax base and requires higher tax rates to raise any given amount of revenue. In recent years, tax expenditures have approached the size of federal discretionary spending (see [fig. 10](#)). However, tax expenditures do not compete with other priorities in the annual appropriations process, and many are not subject to congressional reauthorization. Instead, many tax expenditures operate like mandatory spending, such as Medicare, with eligibility rules and formulas that provide benefits to those who are eligible and wish to participate.

**Figure 10: Tax Expenditures Approach the Size of Discretionary Spending**

Dollars in billions (in 2012 dollars)



Source: GAO analysis of Treasury estimates and OMB historical data.

Note: Summing tax expenditure estimates is a useful gauge of size but does not take into account possible interactions among individual tax expenditures.

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 sluggish growth in 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. Future pension liabilities could also affect the sector’s long-term fiscal position. While most large state and local government pension plans have assets sufficient to cover benefit

payments over the coming decade, plans face challenges over the long term due to the gap between assets and liabilities. Underfunding, unfunded benefit increases, and investment losses during the economic downturn have led to steady increases in the actuarially required contribution levels needed to sustain pension plans. At the same time, state and local governments face challenges funding 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.

Significant action to change the federal government's long-term fiscal path must be taken soon to minimize the risk that eventual policy changes will be disruptive to individuals and the economy. Across the globe, progress in reducing budget deficits in major world economies and a gradually improving fiscal environment have lowered short-term fiscal risks. However, the global economic outlook remains subdued and many countries face a lengthy, difficult, and uncertain path to fiscal sustainability. While many countries are now close to achieving primary surpluses that will allow them to stabilize their debt ratios, it is only a first step. High debt—even if stable—retards potential growth, constrains the scope for future discretionary policy, and leaves economies exposed to further market shocks. Although sharp increases in public debt have not led to high interest rates in most countries, including the United States, lower rates are unlikely to persist indefinitely, in part because they reflect relaxed monetary conditions that cannot continue forever. As the economy strengthens, and interest rates rise, the large amount of the debt held by the public that the Department of the Treasury (Treasury) must roll over becomes more costly. Treasury has been taking steps to increase the average maturity of its outstanding debt securities, not in response to any one interest rate environment, but consistent with its goal of funding the government at the lowest cost over time.

Compounding the federal government's long-term fiscal sustainability challenges are the aftereffects of the economic downturn and financial crisis in the form of increased long-term fiscal exposures of the federal government. These include federal support for large institutions, such as Fannie Mae and Freddie Mac, and the expansion or increased exposure of federal housing, insurance, and guarantee programs—such as the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) and the Pension Benefit Guaranty 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, as shown with the following examples:

- Several initiatives undertaken during the last 5 years by the Board of Governors of the Federal Reserve System to stabilize financial markets have led to a significant change in the composition and

size of reported securities on the Federal Reserve's balance sheet. Total assets of the Federal Reserve have increased from about \$870 billion in 2007 before the crisis to more than \$3.7 trillion at the end of fiscal year 2013. The securities acquired by the Federal Reserve have also been of longer maturity, and the value of these assets, which include treasury securities and mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac, and the Government National Mortgage Association, are subject to interest rate risk and may decline or increase depending on interest rate changes. If the Federal Reserve sells these securities at a loss, future payments of Federal Reserve earnings to the federal government may be reduced.<sup>24</sup>

- FHA reported that its liabilities exceeded its assets by about \$15 billion as of September 30, 2012, and that the capital ratio for its Mutual Mortgage Insurance Fund fell below zero during the fiscal year. In addition, the ultimate roles of Fannie Mae and Freddie Mac in the mortgage market may further affect FHA's financial condition.
- The federal government reported that PBGC liabilities exceeded its assets by about \$36 billion as of September 30, 2013. PBGC is subject to further losses if plan terminations that are reasonably possible occur. As a consequence, PBGC could be forced to seek federal assistance, dramatically cut benefit payments to participants, or raise premiums significantly to meet its benefit commitments.
- The U.S. Postal Service (USPS) continues to face a deteriorating financial situation with a net loss of \$5 billion for fiscal year 2013, raising its total net deficiency to nearly \$40 billion.

GAO's High-Risk List includes some of the issues discussed above such as the USPS, FHA, and the PBGC insurance program. It also includes a discussion of the potential impacts of climate change and the associated financial risks for the federal government, which owns extensive infrastructure, insures private property through federal flood and crop insurance programs, provides technical assistance to state and local governments, and provides emergency aid in response to natural disasters. Every 2 years, GAO provides the Congress with an update on its High-Risk series, which highlights federal entities and program areas that are at risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement or are most in need of broad reform.

## 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. Understanding the challenges of controlling health care spending and identifying opportunities to address drivers of health care cost growth, such as

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<sup>24</sup>Under Federal Reserve System policy, excess Federal Reserve Bank earnings are paid to the federal government. The federal government reported such net earnings of about \$76 billion for fiscal year 2013, still well above its historical levels.



technological change, while maintaining or improving quality, will be paramount to addressing the long-term fiscal challenge. 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. As part of this effort, agencies need to look for opportunities to minimize duplication, overlap, and fragmentation, re-order priorities, determine how and in what areas to make trade-offs, and evaluate the immediate and long-term effects of these decisions.

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 examining the entire range of federal activities as well as the structure of the tax system and the level of revenue generated. 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, GAO plans to

- Identify elements to **help address the nation’s fiscal challenges**, including retirement, health, and disability program reforms; opportunities to reduce spending; tax reform; and reducing the gap between taxes owed and collected. This will be done in part by analyzing the effectiveness of programs (spending, credit, and tax expenditures).
- Perform **financial statement audits**, including those of the Internal Revenue Service, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac.
- 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 and recommend ways to reduce **overlap and duplication** among federal programs and agencies.

# Changing Dynamics of Global Interdependence and Multilateral Cooperation

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## Shifts in Power and Global Competitiveness

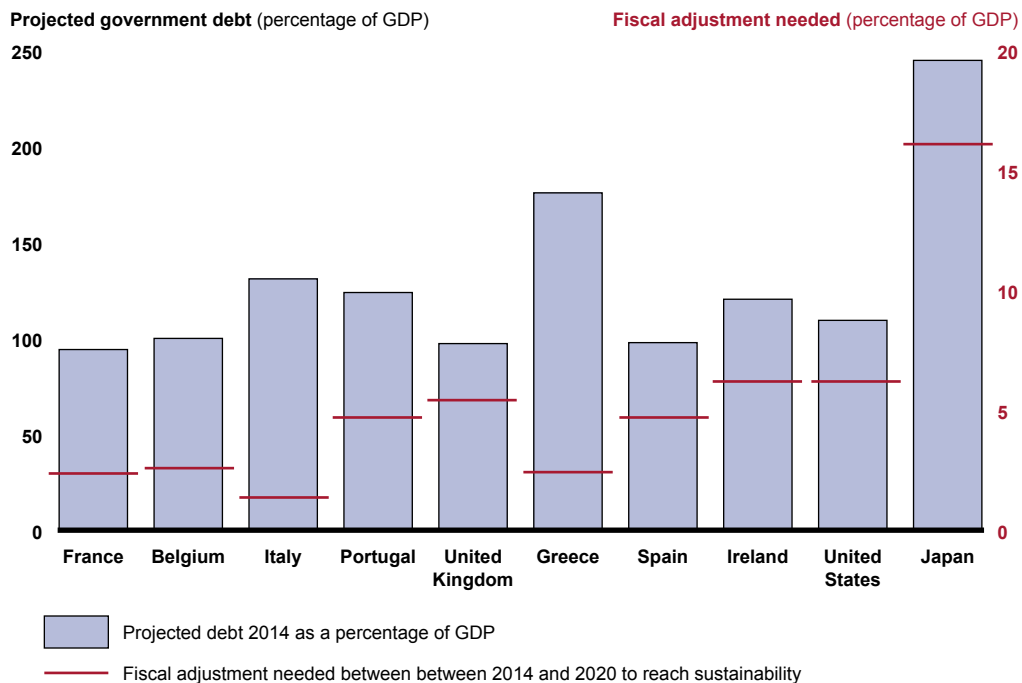
While the world economy has generally stabilized from the recent financial crisis, long-standing debt issues in advanced countries may delay full recovery. The financial crisis-induced recessions in advanced economies have contributed to already strained government finances and long-term debt problems. Although the U.S. economic recovery appears to be strengthening, job creation has been slow and uncertainty persists regarding the long-term U.S. fiscal challenges.

To cope with fiscal imbalances, some advanced economies, including the United States, have taken austerity measures. According to the International Monetary Fund (IMF), many countries will need to run sizable primary budget surpluses over the next 6 years to bring the public debt down to sustainable levels (see [fig. 11](#)). Austerity programs, while beneficial for economies in the long run, can deepen and prolong recessions, with contractionary effects on the economy and the job market. As a result, government resources available to conduct defense and diplomacy and to support international development are likely to be more limited in the years ahead. In addition, the simultaneous reduction in private and public debt in several key countries and regions of the world will constrain domestic consumption and import demand needed to stimulate aggregate production. Moreover, continuing fiscal problems in some European Union countries are contributing to political instability. As a result, the outcome of recent attempts to coordinate fiscal policy in the European Union remains uncertain. Forecasters typically assume that advanced economies will not have trouble financing their deficits and debt, yet changing investor sentiment still threatens stability in Europe, with potentially severe consequences for many economies within and outside the region.

The financial crisis that began in 2007 prompted extraordinary responses by fiscal and monetary authorities in many advanced economies. While these policies are generally viewed as having helped advanced economies recover, by offsetting declines in other sources of international liquidity, the monetary policies also entail potential risks to financial stability. For example, years of low interest rates increase risks of financial bubbles as investors seek higher yields and impose significant risk throughout the economy if interest rates were to rise rapidly. Moreover, the downsizing of central banks' balance sheets may have some uncertain and undesirable direct and indirect effects on domestic and international financial markets. Further, although concerns have been focused more on the threat of

deflation, concerns have also been raised about the potential longer-term inflationary consequences of expansionary monetary policies. The future of free trade and open markets will depend critically on whether countries continue to use fiscal and monetary policy to pursue domestic objectives without attempting to gain competitive advantage by weakening currencies. For example, recent policies in some Asian countries have contributed to the weakening of their currencies against the dollar, which could hurt U.S. firms that compete with relatively cheaper Asian imports and affect Trans-Pacific Partnership trade negotiations.

**Figure 11: Projected Debt and Fiscal Adjustment Needed in Advanced Economies**



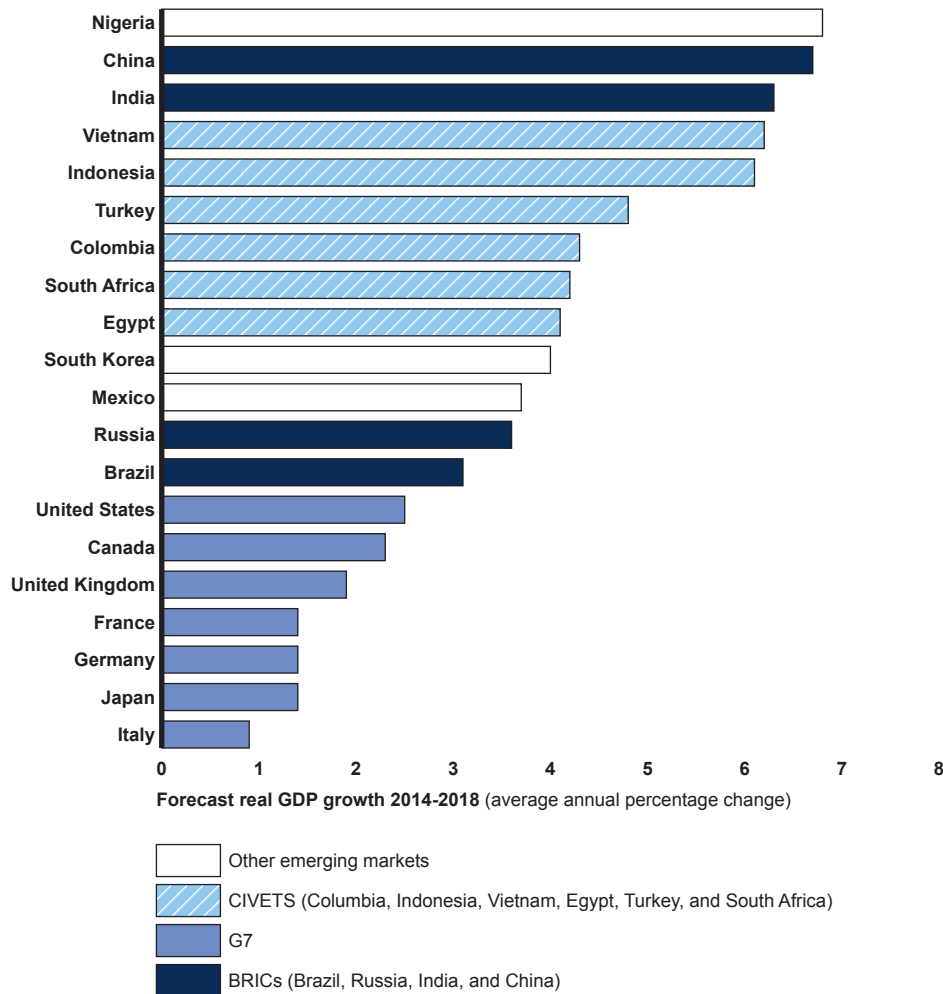
Source: IMF staff estimates and projections.

Note: Countries included in this graphic represent the advanced countries with the 10 largest adjustment needs according to IMF estimates and projections.

At the same time, emerging and developing economies continue to grow in size and importance. For example, in 2012, the combined output of Brazil, China, and India was slightly larger than the combined GDP of several major industrial powers—the United States, United Kingdom, and Canada. Additionally, growth forecasts suggest that less-developed countries will continue to grow at faster rates than advanced countries (see [fig. 12](#)). Moreover, the U.S. Bureau of the Census projects that by 2025, 60 percent of the world population will live in Asia, with 35 percent of that number in China and India. As a result of simultaneous growth in both output and population in emerging and developing economies, forecasters predict that average per capita GDP will be a little less than \$14,000 per year in Brazil, Russia, India, China, and South Africa during 2013–2018. For the

same period, forecasters predict that average per capita GDP in the United States, European Union, and Japan will be close to \$45,000 per year. However, it is important to note that many developing and emerging countries face slowdowns or have not undertaken the reforms necessary to fully emerge as advanced economies. Importantly, financial markets, essential for the efficient allocation of capital, remain underdeveloped in these countries.

**Figure 12: Five-Year Economic Growth Forecast for Select Countries**



Source: GAO analysis of Economist Intelligence Unit data.

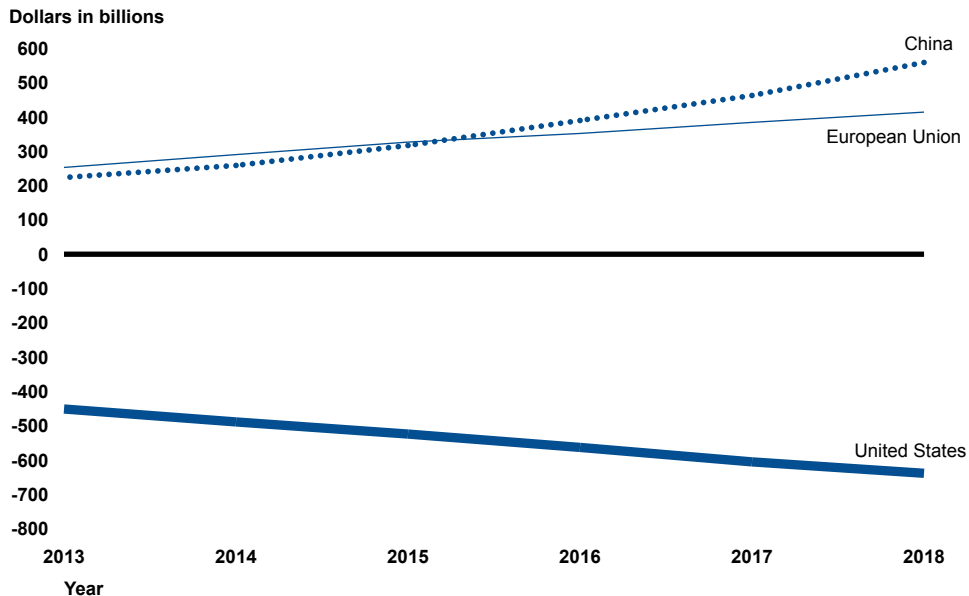
Note: Real GDP growth for all countries is the average percent change, 2014–2018.

Emerging and developing economies have forged a growing role in global economic policies and priorities. For example, Brazil, Russia, India, and China agreed to establish a development bank in 2013 to focus on infrastructure and development in emerging markets and announced an intention to create a currency stabilization fund aimed at defending their local currencies. They have widened the focus of their cooperation over the years to encompass topical global issues ranging from international terrorism, climate change, and food and energy

security, to the international economic and financial environment. Moreover, the new leader of the World Trade Organization is from Brazil, the first full-term appointment of a Latin American leader in that role. The United States and other advanced countries will need to adjust to accommodate a larger number of nations and regional powers in global decision making and economic governance.

Trade volumes among less-developed countries have increased significantly. Imports among developing and emerging countries were more than 50 percent of their total imports in 2011. In contrast, trade among developing and emerging economies was about 15 percent of their total imports in 1960. Despite regional trade integration, emerging Asia continues to rely heavily on exports to advanced economies as the collapse in global demand in 2008–2009 and 2011–2012 illustrated. Generally, emerging and developing economies have pursued policies of export-led growth, which has enabled them to accumulate foreign currency and debt instruments of advanced economies. Given the role of the U.S. dollar as the key reserve currency, the bulk of these holdings are in U.S. dollars and U.S. sovereign debt. Key developing and emerging economies such as China are projected to continue to run significant current account surpluses in 2013–2018 while the United States runs large deficits (see fig. 13). As a result, China and other key developing economies are expected to add to their accumulated stocks of foreign exchange reserves, currently held in more than 40 sovereign wealth funds, 10 of which have assets of \$100 billion to \$627 billion.

**Figure 13: Forecast of Current Account Balances, 2013–2018**



Source: International Monetary Fund, World Economic Outlook Database, October 2013.

Important to these shifts in economic power are energy developments that have had a positive effect on the U.S. economy and may alter global competitiveness. Recent technological advances have resulted in a boom in the production of oil and gas, which has affected international energy markets and may have more significant implications in the future. The rapid developments in unconventional energy sources could provide advantages to countries that possess significant natural gas supplies, and change the position of OPEC nations in the global economy.

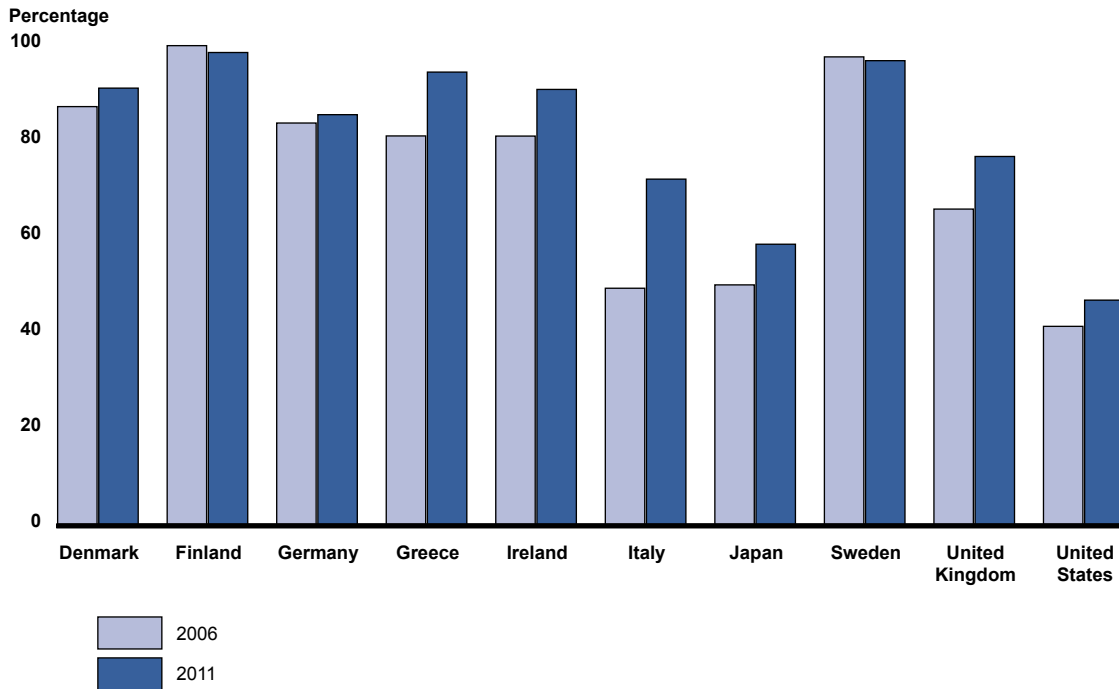
U.S. natural gas and oil production has increased in recent years, driven largely by the commercialization of horizontal drilling and hydraulic fracturing technologies that facilitate drilling in shale rock. In its most recent *Annual Energy Outlook*, the U.S. Energy Information Administration suggests that U.S. production is likely to be higher through 2040 than the current level. The International Energy Agency has forecast that the United States could become the world's largest oil producer by 2020 and could be energy self-sufficient by 2035. The United States is becoming less dependent on foreign oil; in 2012–2013 the energy trade deficit has already narrowed. Traditional energy suppliers, such as Russia, Venezuela, and nations in the Middle East and Africa, could experience reductions in wealth and influence, particularly those that have not successfully diversified their economies. However, there is considerable uncertainty in forecasts of the unconventional production of oil and gas, largely due to public health and environmental concerns, regulatory issues, and questions about the scalability of shale gas and the ability of other countries to replicate the shale exploitation in North America. Recent IMF simulations suggest that the macro-economic benefits for the United States may be modest.

## **Global Threats and Cooperation**

Combating existing and emerging global threats will require multilateral cooperation to ensure sustained effectiveness. At various multilateral regulatory forums such as the G20, the Financial Stability Board, and the World Trade Organization, countries continue the work of developing global regulatory principles and standards. For example, in 2007, the world financial system experienced the worst shock since the Great Depression. As a result, regulatory reforms aimed at preventing another major financial crisis will continue to drive priorities for financial regulation at the national and international levels. Over the past decade, financial institutions have extended their global reach, resulting in benefits from diversification and enhanced competition—but also increasing the potential for negative spillovers, as the recent crisis exemplified. Since the onset of the financial crisis, banks have grown bigger in many major advanced economies, even as the financial sector shrank. The share of total bank assets held by the five largest global banks (the five-bank asset concentration ratio) highlights concerns about institutions that are too important to fail (see [fig. 14](#)). In light of these concerns, addressing the systemic risk posed by large and interconnected financial institutions will be a priority.



**Figure 14: Share of Banks' Assets Held by the Five Largest Commercial Banks in Select Advanced Economies**



Source: World Bank Global Financial Development Database.

Note: Percentages reflect the five-bank concentration ratio for each country in 2006 and 2011. As a measure of concentration, these estimates may overestimate concentration in countries in which other types of institutions undertake bank-like activity.

A new global financial architecture is taking shape, but post-crisis regulations at the national level are developing at different speeds within countries. Unresolved issues related to the financial crisis have contributed to fragile recoveries, with economies growing below potential. Efforts to introduce international financial regulatory reforms are intended to restrain the riskiest activities, but such reforms may have effects on GDP growth. Countries have agreed on international principles and made progress on implementing reforms designed to make the financial system safer. However, reforms are being implemented differently within countries, which creates opportunities for financial institutions to move activity to regions with looser regulatory standards and could result in conflicts between home- and host-country regulators. Monitoring efforts to ensure financial regulation consistency are limited. In addition, despite efforts of international organizations and individual country regulators, prospects for effectively establishing arrangements to deal with failing institutions across borders are still uncertain. These difficulties in implementing regulations consistently across countries raise the risks of an unlevel regulatory playing field emerging that could undermine financial and economic stability.

Vulnerabilities to financial crimes and money laundering, among other activities, will continue to be exposed. Global financial markets have created new opportunities for investors, businesses, and consumers,

but illicit networks are also empowered by interconnectedness. The ability to shift locations in response to the increasingly borderless economy allows bad actors to exploit political, legal, and regulatory differences across countries and move operations to safe havens for illicit activity and exploit vulnerabilities across the globe. Accordingly, transnational criminal networks and other perpetrators of financial crime will continue to exploit outdated or weak anti-money-laundering controls and other gaps, compromise the integrity of the world's financial system, and pose a significant international threat. The intersection of money laundering and terrorist financing implies that these illicit flows can further contribute to conflict and instability. Moreover, global security threats also necessitate cooperation in imposing trade and financial sanctions, such as those imposed on Iran and North Korea.

Similarly, increased trade integration and industry interdependence present economic opportunities but also raise risks, which cannot be tackled by a single country. Global supply chain risks, as well as other risks such as effects of climate change, could potentially be influenced by collective international action. Continued harmonization in international standards for medical products and consumer goods is crucial to ensuring medical product and food safety in the United States.

### **Addressing Human Development Challenges**

Income inequality, constrained local capacity, and poor governance remain key factors limiting human development. Growth in emerging and developing countries continues to be uneven between and within emerging and developing countries. Labor mobility and migration present opportunities for citizens from emerging and developing countries. Alongside increased labor productivity, urbanization, strengthened trade links, and foreign direct investment, mobility has been an important factor contributing to the decline in global poverty. However, without sufficient safeguards, global mobility can also increase vulnerabilities to human trafficking and labor exploitation.

According to the United Nations (UN) High Level Panel, since 2000, half a billion fewer people have been living below an international poverty line of \$1.25 a day, the fastest reduction in poverty in human history. In addition, the number of people considered middle class—earning between \$10 dollars and \$100 per day—has grown significantly. Currently there are roughly 1.2 billion people earning less than \$1.25 a day, and this group accounts for only 1 percent of world consumption, while the billion richest consume 72 percent. Efforts to end extreme poverty and promote shared prosperity will dominate the development agenda. For example, in setting the post-2015 development agenda, the UN High Level Panel and the World Bank have identified the eradication of extreme poverty by 2030 as a central development target. Countries and international organizations will

continue to work to combat internal corruption as a key element of the effort to alleviate poverty. Job creation, establishing good governance and accountable public institutions, food security and good nutrition, universal access to water and sanitation, sustainable management of natural resource assets, and rule of law are among the many issues developing countries will need to address to further economic development. Countries and international organizations will continue to work to combat internal corruption as a key element of the effort to alleviate poverty.

### **Implications for Government and GAO**

GAO proposes to build on past work that allows it to flexibly respond to issues affected by these trends. As the world continues to grapple with harnessing the benefits of, and mitigating the challenges associated with, interdependence, key policy initiatives will require difficult choices and coordination with international partners. GAO can help evaluate how federal agencies work across borders and adapt to international challenges. For example, GAO will continue to review the effectiveness of U.S. trade and development programs aimed at global health issues, global disease surveillance, food security, climate change-related assistance, and humanitarian aid. Moreover, GAO can assess efforts to identify more efficient, cost-effective approaches to world poverty alleviation and proposed reforms of international organizations such as the United Nations and IMF. Furthermore, new public diplomacy efforts represent evaluation opportunities for GAO, as well as oversight and accountability of various forms of funding. Given the ongoing threat of protectionism, GAO will continue its efforts to assess programs designed to promote U.S. exports and develop foreign markets for U.S. products and examine issues related to free trade agreements.

In addition, GAO will continue to conduct work in the areas of nonproliferation, counterterrorism, foreign affairs management, and international security. GAO plans to continue its work examining the progress and efficacy of international financial regulatory reforms and general efforts to produce a more stable financial system, including work examining systemically important financial institutions. GAO will also assist in efforts to understand the threats posed by illicit actors and thwart criminal attempts to exploit vulnerabilities across the global financial system, including commercial tax evasion, corruption, fraud, and money laundering. Moreover, GAO will continue its efforts to evaluate U.S. government activities in the areas of terrorist financing and economic sanctions.

GAO also stands ready to analyze, among other things,

- U.S. government activities to advance and protect U.S. foreign policy and international economic interests;
- U.S. government efforts to improve standards of imported foods and medical products;
- recent developments in energy markets and environmental regulations;
- national fiscal and monetary policies aimed at resolving the sovereign debt crisis in the U.S. and global economies;
- global supply chain risks for U.S. companies; and
- global efforts to improve regulation of financial institutions and markets and counter threats to the financial position of the United States, including the dollar as the reserve currency.

## Science and Technology Trends

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Science and technology (S&T) trends will continue to profoundly affect the nation's quality of life, security, and economic growth. These trends point to concurrent technological revolutions with significant performance increases such as incredibly strong, lightweight materials; economic grid-scale energy storage systems; and customized, targeted advanced medical treatments, among many others. Thus, S&T will remain central to the prevailing issues of our day: economic competitiveness; energy sustainability, independence and related environmental impacts; biotechnology and medical advances; space and Earth exploration; and national and homeland security capabilities. S&T advances can also raise complex ethical and regulatory issues, such as those associated with synthetic biology or the domestic use of unmanned aerial vehicles, among others.

In today's globalized, technologically advancing economy, enhancing competitiveness is a central goal for developed and developing nations alike.<sup>25</sup> Competitiveness is also tied to innovation—the translation of ideas or inventions into goods or services that create value. This value creation is increasingly derived from intellectual capital inputs of knowledge and design (for example, the value creation associated with smartphones and tablet computing). Thus, the innovation and manufacture of scientifically and technologically intensive products such as tablet computers and smartphones, among others, often represent an increasing share of national GDP.<sup>26</sup>

Key S&T trends include (1) the continued movement of nanotechnology into the manufacturing sector, (2) additive manufacturing technologies and processes (e.g., 3D printing), and (3) synthetic bioengineered

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<sup>25</sup>GAO defines national competitiveness as the productivity with which a nation utilizes its set of institutions, policies, and human capital and natural endowments to produce goods and services for the prosperity of its people.

<sup>26</sup>See also "Advances in Communication Networks and Information Technologies," p.47.

systems. Key considerations of the federal government in the advancement of these and other trends include science, technology, engineering, and mathematics education; energy and the natural resources nexus; and the growing use of unmanned aircraft systems. The above emergent and emerging S&T trends can have ethical, legal, or social dimensions that raise key challenges for the federal government.

**Nanotechnology and manufacturing:** Nanoscale S&T results in the invention of material technologies that can make materials stronger, lighter, more durable, more reactive, or more conductive of electricity.<sup>27</sup> Specifically, today's refinements of nanoengineered systems achieve efficiencies in performance in computation, communication, sensing, and other physical processes. Examples include the revitalization of infrastructure (e.g., nanotechnology-based concrete for building bridges with life spans of a century or more); the customizing and targeting of cancer vaccines and drug delivery systems for substantially improved treatment outcomes; and dramatic improvements in renewable energy systems such as hybrid or fully electric vehicles and photovoltaic solar panels.

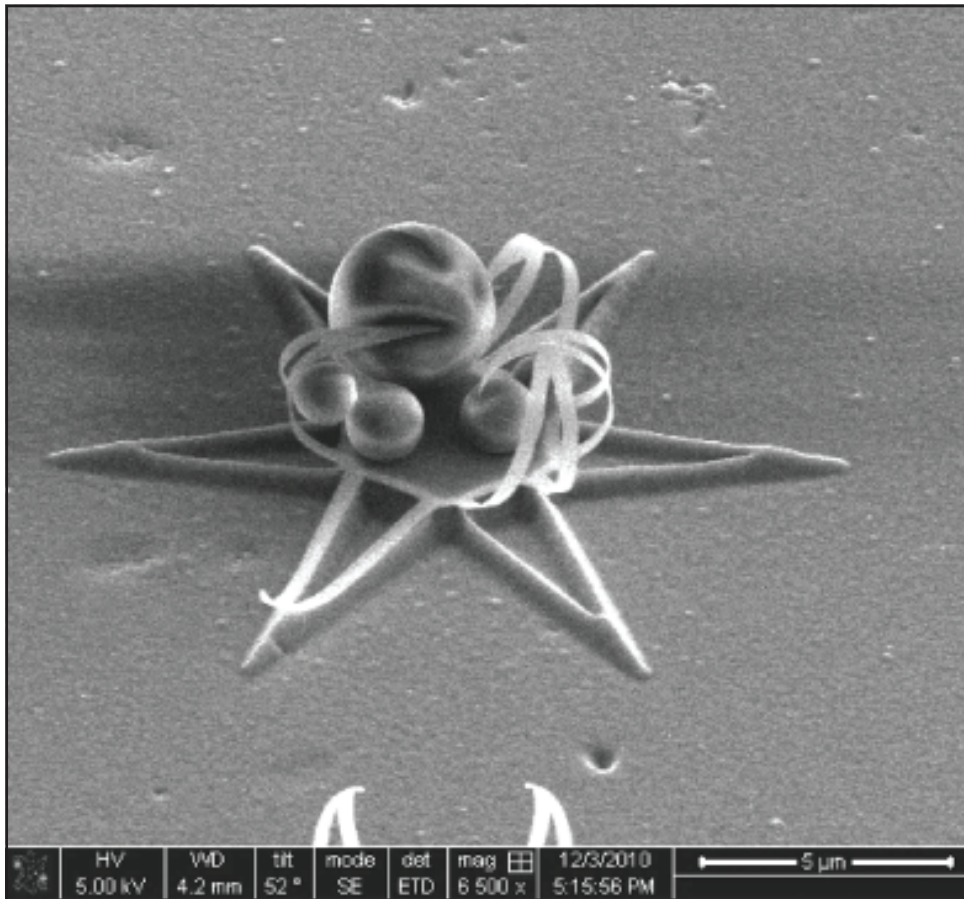
The global market for nanomaterials and related products is growing fast. According to one set of estimates, the global nanomaterials market in 2010 was expected to reach about \$1.3 billion, but the market for products enhanced by nanotechnology was expected to be much larger—estimated to be more than \$300 billion in 2010.

Nanotechnology's entrance into manufacturing has been compared to the advent of earlier technologies that profoundly affected modern societies, such as plastics, semiconductors, and even electricity. [Figure 15](#) shows an example of a complex, three-dimensional nanoscale structure. Among the key challenges for the government with respect to nanotechnology are the potential health and safety risks of nanoparticles—particles so small that they can easily be inhaled or simply pass through the natural skin barrier.

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<sup>27</sup>Nanotechnology has been defined as the control or restructuring of matter at atomic and molecular levels in the size range of about 1 to 100 nm. A nanometer (nm) is one billionth of a meter or about the width of an atom. To further illustrate differences in size, the width across a DNA molecule is 2 nm, the width of a red blood cell is 10,000 nm, and the width of a hair is 75,000 to 100,000 nm.

**Figure 15: An Example of a Complex Three-dimensional Nanoscale Structure**



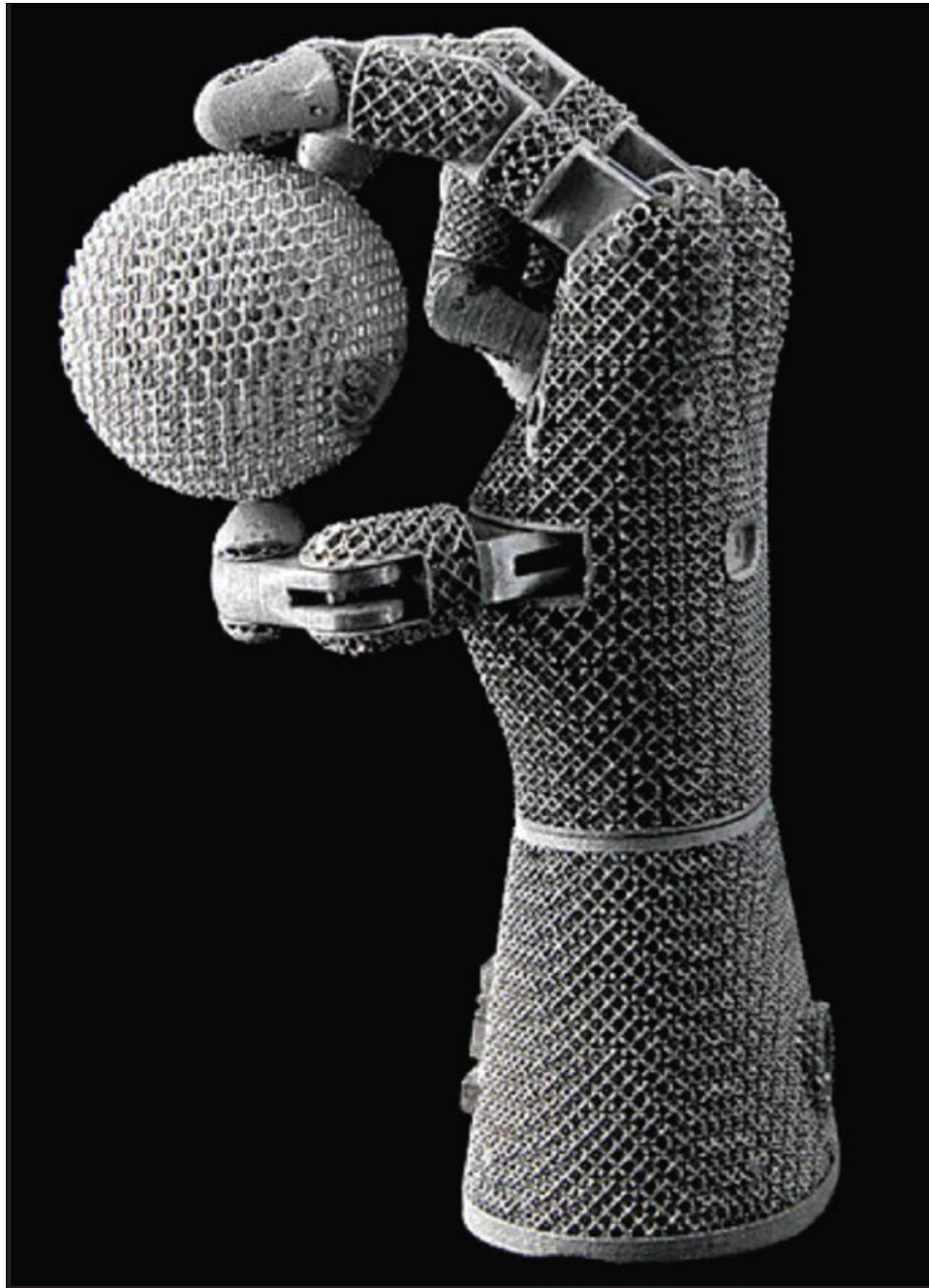
Source: Aalto University.

**Additive manufacturing:** Additive manufacturing, or 3D printing technologies, builds products layer by layer (that is, additively) rather than beginning with a larger bulk material and using conventional machine tools and methods to subtract from it. An example of a disruptive innovation, this technology uses a computer-based three-dimensional model of an object created by software or a physical scan of an existing object.<sup>28</sup> To build the object, the additive manufacturing tool “prints” layer by layer to create the resulting product in three dimensions. Similar to inkjet printing technology, materials such as metals and plastics can be mixed and chemically hardened to achieve intended structures and physical properties for the resulting object, at times in ways that could not be replicated using conventional methods. [Figure 16](#) shows an additively manufactured titanium prosthetic hand.

<sup>28</sup>A disruptive innovation is an innovation that helps create a new market and value network, eventually disrupting an existing market and value network (over a few years or decades), thereby displacing an earlier technology.



**Figure 16: A Titanium Prosthetic Hand Produced via Additive Manufacturing**



Source: Aalto University.

Although additive approaches do not compete economically with traditional methods of meeting large-scale demand, their key advantages include highly customized production capabilities, dramatically reduced cycle times for design and initial prototyping, more efficient use of raw materials and reduced waste streams, and smaller energy and carbon footprints. Moreover, the change they represent holds the potential to dramatically simplify global supply

chains and logistics since digitized designs can be sent all over the world from local production and delivery points at a fraction of the cost of current, more centralized paradigms.

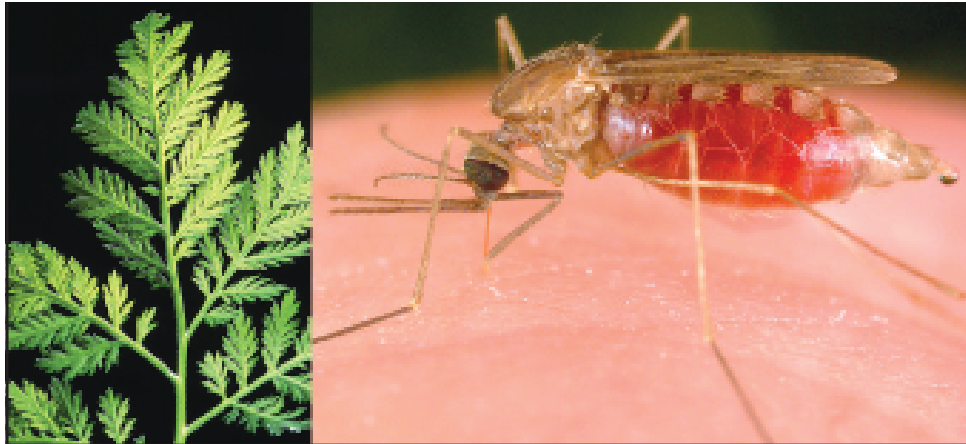
One area in which such systems are already helping to dramatically improve the quality of life covers biomedical and dental applications. For example, replacement bones and tissues have been fabricated and are already being used by patients ranging from injured war veterans to children needing to overcome disabling conditions. Key challenges such disruptive innovations present to the U.S. federal government include managing and protecting intellectual property as well as regulating international traffic in weapons—for example, additive manufacturing technology has already made it possible to produce functional firearms additively from plastic material alone.

**Synthetic biology:** In synthetically bioengineered systems, new biological parts, devices, and systems are purposefully designed or redesigned and constructed from existing natural ones. The more recent advances in biotechnology have enabled scientists to make new sequences of DNA from scratch. By combining these advances with the principles of modern engineering, scientists can now use computers and laboratory chemicals to design or redesign organisms to do new things or enhance those they do now—such as support biofuels production or help derive advanced medical drugs. For example, some start-up companies are designing specialized bacteria to do difficult jobs like detecting pathogens in food processing plants or producing automotive ethanol from carbon dioxide (CO<sub>2</sub>), wastewater, and sunlight. Moreover, scientists and engineers are now able to reliably combine various pieces of genetic code to produce a range of new capabilities, from advanced cancer treatments to organisms designed to consume toxic chemicals in water or soil. One recent major milestone of synthetic biology was the production of the antimalarial drug called artemisinin—a drug once derived solely from a plant subject to natural growth cycles but which now can be made through synthetic processes in a lab.<sup>29</sup> Figure 17 shows a female mosquito and the naturally occurring plant *Artemisia annua*, from which anti-malarial treatments have been derived. Meanwhile, based on its potential to be used in both beneficial and nefarious ways, the advent of synthetic biology research and practice has raised significant ethical, legal, social, environmental, and homeland and national security implications that will require thoughtful, balanced, and holistic consideration by the federal government as this field continues to evolve.

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<sup>29</sup>Malaria remains a threat to the world's population. According to the World Health Organization, in 2010, 219 million cases of malaria and an estimated 660,000 malaria-related deaths occurred globally.

**Figure 17: The Antimalarial Drug Artemisinin Is Derived from the Plant *Artemisia Annua* (left). Female Mosquito as a Transmission Mechanism for Malaria (right).**



Source: USDA (left photograph); CDC (right photograph).

**Science, technology, engineering, and mathematics education:**

A critical consideration for moving U.S. economic competitiveness forward is the teaching of science, technology, engineering, and mathematics (STEM) from grade school through professional schools. GAO reported in 2010 that it had found that the United States has historically promoted advances in STEM through public and private sector investments of about \$284 billion annually. Given 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 a crucial enabler in this area. Economists have noted that a highly educated and skilled workforce became critical with the rise of the digital age not only to individual opportunity but also to the overall success of the nation's economy. Even with the continued deployment of robotic and autonomous systems in manufacturing and industry, a STEM-trained workforce could still help increase per capita productivity and efficiency by using easily trained and programmed robots that work alongside humans doing light manufacturing and packaging tasks, among many other things. Nevertheless, whether the United States trains skilled workers domestically or attracts expertise from abroad, an increasingly globalized economy means increasing competition from highly skilled workforces abroad.

**Energy and the natural resources nexus:** Advances in the energy sector have raised new challenges for the federal government as it considers the implications of such advancements on the environment. For example, technological improvements have allowed increased extraction of oil and natural gas from unconventional onshore reservoirs such as shale, tight sandstone, and coal bed methane

formations, resulting in dramatic changes in global energy markets. Specifically, advances in horizontal drilling techniques combined with hydraulic fracturing (pumping water, sand, and chemicals into wells to fracture underground rock formations and allow oil or gas to flow) have increased the domestic development of oil and natural gas from these unconventional reservoirs. The increase in such development means that even as the United States becomes a net energy exporter of some carbon-based sources, concerns about the potential effects on the environment and public health, including the nature, rate, and extent of changes to the global climate system, will nevertheless remain.

Similarly, in the context of a changing global climate system and resource stresses, awareness of the water-energy-food-climate nexus is rising. This interdependence links freshwater resources throughout the energy life cycle—from extraction to the generation and delivery of electricity—with food production, safety, and security. Freshwater resource management is increasingly important because of greater population stress, periods of extended drought in parts of the United States, and threats to ecological biodiversity.<sup>30</sup>

The design of advanced carbon management and mitigation systems to reduce carbon emission loading for both oceans and the atmosphere will remain important. This includes the continued development of carbon capture technologies to mitigate atmospheric CO<sub>2</sub> loading at the point of emission, climate remediation technologies to lower the overall amount of CO<sub>2</sub> in the atmosphere, and the safe storage and disposal of the resulting waste streams.<sup>31</sup> Moreover, to better understand and assess the risks of changes in the global climate system, research continues in the maintenance of observation satellites and the development of vastly more capable Earth system computer models. This will enable scientists and policymakers alike to better understand climate dynamics and sensitivities and to determine risk in the short and long terms.

**Unmanned aircraft systems:** Another important development in S&T is the emergence and increased use of unmanned aircraft systems (UAS)—sometimes commonly referred to as drones. UAS are generally recognized as key technical platforms, as DOD has used them in Afghanistan and elsewhere. Domestically, too, such systems are increasingly being considered and deployed for operational support by homeland security and other law enforcement agencies as well as the Department of Homeland Security’s (DHS) U.S. Customs and Border Protection (CBP), the Federal Bureau of Investigation, and an array of local law enforcement entities on the northern and southern borders of the United States (see [fig. 18](#)).

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<sup>30</sup>Other trends in the energy sector include the potentially favorable improvements economically in energy storage systems, such as very high energy-density batteries for electric vehicles, as well as higher-performing, lower-cost photovoltaic solar power systems that augment the electricity production and distribution demands of the conventional grid system.

<sup>31</sup>See, for example, [GAO-11-71](#), [GAO-10-675](#), and [GAO-08-1080](#).

Additionally, the Congress has set September 30, 2015, as the deadline by which the Federal Aviation Administration's UAS integration plan will provide for the integration of civil UAS into U.S. airspace. The technical capabilities of these systems continue to evolve rapidly under limited federal, state, and local laws governing their safe and legal use. Further, as governments, private sector actors, and individuals take an interest in deploying drone technologies, observers cite real or perceived threats to privacy and individual civil liberties, in addition to national and homeland security concerns such as terrorism and advancing military capabilities. Accordingly, technologies such as UAS will likely require simultaneous consideration of ethical, legal, and social issues beyond their stated technical capabilities alone.

**Figure 18: U.S. Border Patrol Agent Using a Remote Control to Steer an Unmanned Aircraft System**



Source: CBP/DHS.

### **Implications for Government and GAO**

The dramatic advancements in these areas and others hold both significant promise and risk. They are disruptive by nature to the status quo of a broad array of federal missions and will require a more agile, flexible, and responsive government to manage both benefits and risks. Regulation, intellectual property protection, and environmental, health, and safety frameworks (among others) may require revision, updating, and implementation, even as such advances promise significant improvement in the efficiency, cost, and performance of various government agencies, departments, and operations. Accomplishing such transformations will be essential if



the United States is to maintain not only the overall well-being of its citizens but also its position as the preeminent innovation economy on the global stage. To assist the Congress, GAO intends to expand its knowledge of and expertise in S&T trends, including the complex and controversial issues that may arise because of them. To support the increasing number and sophistication of congressional requests with S&T dimensions, GAO will need to continue to

- strengthen its networks in the scientific and technical communities;
- support and participate in Comptroller General forums and expert meetings convened in partnership with the U.S. National Academies; and
- collaborate with other national and international institutions dedicated to science and technology development.

As S&T continues to provide new opportunities and challenges to the nation and the Congress, GAO will continuously adapt its capabilities to help meet them. For 2014 through 2019, GAO's portfolio of S&T assessments could encompass a wide range of topics, including

- assessing the management and results of the federal investment in science and technology and the effectiveness of efforts to transform and expand energy and agriculture, enhance U.S. homeland security, support national competitiveness in a globalized economy, and manage and protect intellectual property;
- reviewing federal STEM education efforts, including student and teacher evaluations, compensation programs, and the extent to which they shape the workforce to compete and succeed in high-technology and manufacturing domains; and
- conducting technology assessments and specialized studies of a wide range of science and technology issues, such as nanotechnology, additive manufacturing systems, synthetic bioengineered systems, advanced nuclear reactors, and freshwater resource technologies, among others.

## **Advances in Communication Networks and Information Technologies**

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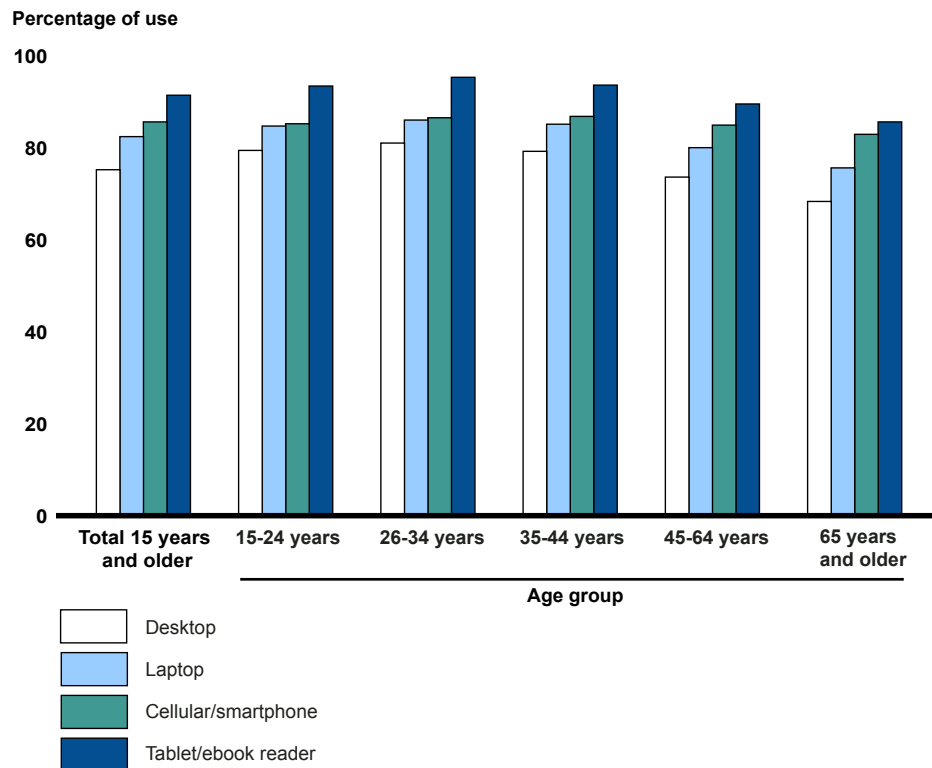
Information and communications technologies are critical to the daily operations and interactions of society, business, and government. Access to affordable broadband communications is increasingly viewed as vital to long-term economic growth and improved quality of life. The Internet has changed the way people communicate, gather and disseminate information, and conduct business. The result has been a workforce and society that are no longer defined by physical proximity. Today, video conferencing and content sharing solutions are widely available that facilitate business meetings and project collaboration among colleagues and business partners in multiple



locations around the country or world just as easily as they once did in an office environment. Telework is increasingly being used to promote more effective and efficient operations and to allow for a more flexible human capital approach.

Mobile devices are becoming the primary means by which individuals access the Internet. While U.S. Census Bureau data show that in 2011 desktop and laptop computers were still the most common devices to access the Internet, mobile devices were more frequently used. As seen in figure 19, among both the overall U.S. population 15 years and older and in individual age groups that access the Internet, mobile devices are more likely to access the Internet daily than desktops. In all age groups, tablets or ebook readers are most likely to be used on a daily basis, followed by cell phones or smartphones. The near ubiquity of wireless networking in the United States, in combination with the increasing power and functionality of mobile devices, has led to increasing societal demands to be connected to the Internet at all times and to be able to communicate using text, voice, and video at almost any time and in any place.

**Figure 19: Device Usage for Daily Access to the Internet, in 2011**



Source: GAO analysis of Census Bureau data.

Further contributing to the increased usage of the Internet is the constant development and implementation of new applications and content. Many initial efforts to conduct government business electronically focused on simplifying and automating what were

formerly paper-based processes. Electronic government efforts have led to wider and quicker access to government information and facilitated efforts by members of the public to interact with their governments. The use of applications such as health information technology and online education are becoming more prevalent.

Now, new business processes and applications are being enabled by the Internet and developments in information and communications technologies. In some cases, such as smart power grids, proprietary networks are being migrated to the Internet. In other cases, networks are being created where none previously existed. One example is the “Internet of Things,” in which everyday objects like appliances, manufacturing equipment, or medical devices are connected to the Internet. Through the use of networked sensors and controls, the Internet of Things enables remote monitoring and control of property and systems. For example, home networking solutions are already available that allow the control of lights, appliances, and door locks from any Internet-connected device. Businesses are beginning to use such techniques to monitor and control all aspects of their production and manufacturing processes. Further, the massive growth in the use of smartphones and tablet computers has led to new mobile applications that utilize the new platforms and allow businesses to continue to reach current and potential customers.

Social networking is profoundly changing how people communicate and build relationships. Individuals or groups who were previously isolated can rapidly form large, powerful networks and interconnections by combining the use of social media platforms with “always-on” mobile technologies. Social networking facilitates the building of online communities where individuals with common interests work together to create, learn, solve problems, or make decisions. In an instant, individuals can create and share information with a large number of people. Social networking sites are becoming one of the primary means of societal interaction. Businesses are using social networks to reach out to customers as well as to carry out business operations, and social networks have even shown their potential for influencing markets.

Politically, the use of social networking and immediate communications has empowered individuals to connect with others with unprecedented speed and ease, thereby raising awareness of issues of local, national, and global concern. In some cases, individuals are using social networking as an additional means to communicate with governments to encourage them to address issues that are important to citizens or are constraining human development. In other cases, individuals are using social networking to quickly organize themselves to take political action. For example, the use of online media and social networking sites helped to enable the recent mass mobilizations of protests and demonstrations in the Middle East and North Africa.

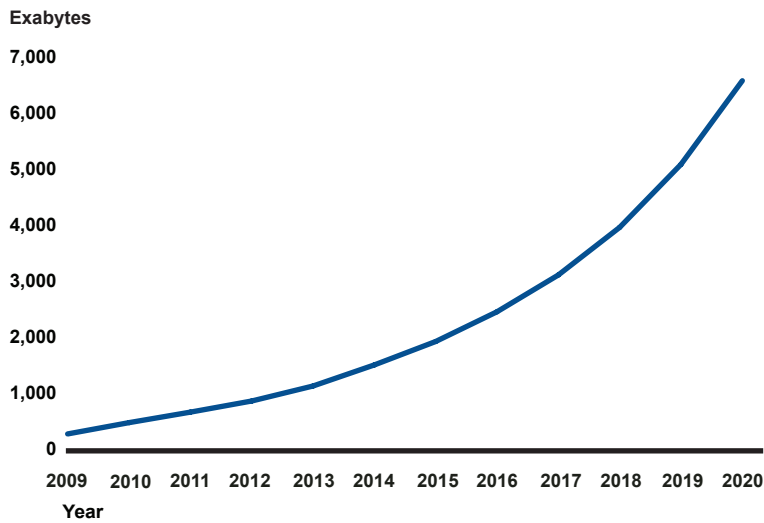
While government and businesses historically provided the entire information and communication technology infrastructure for their operations and workforce, today they are adapting to an environment where workers are using their own devices—ranging from traditional personal computers and laptops to tablet computers and smartphones. Further, instead of buying and maintaining their own infrastructure, government and businesses are turning to service providers that use cloud computing and network virtualization techniques to offer a range of information and communications services. These range from software as a service, such as the use of web-based electronic mail, to infrastructure as a service, where hardware platforms and networks are made available for customers to host their software solutions. Acquiring information and communications functionality as a service allows government and business to focus on their core mission functions by limiting their involvement in the complexities of provisioning, operating, and maintaining their own infrastructure. Further, being able to acquire more computing or networking capacity on demand allows for more flexible and efficient incorporation of technology into their daily operations.

The increased usage of information and communications technologies has led to vast increases in the amount of data being stored and available online. Today, almost all forms of communication are stored as digital data. What were once discrete ways to communicate—telephone, television, and data—have been converging to use the Internet, among other means. The differences among phone companies, cable companies, and Internet service providers are less distinct. Today, using computers and the Internet to have voice and video conversations or to view television programs or movies is becoming common. According to the research firm IDC, in 2012, 898 exabytes of data—each exabyte is the equivalent of 1 billion gigabytes—were created, replicated, or consumed in the United States. IDC projects that amount to double about every 3 years (see [fig. 20](#)).<sup>32</sup> While the United States has been one of the leaders in driving Internet growth, IDC projects worldwide data to grow at a more rapid pace, and U.S. data will gradually become less of a factor in worldwide data growth (see [fig. 21](#)).

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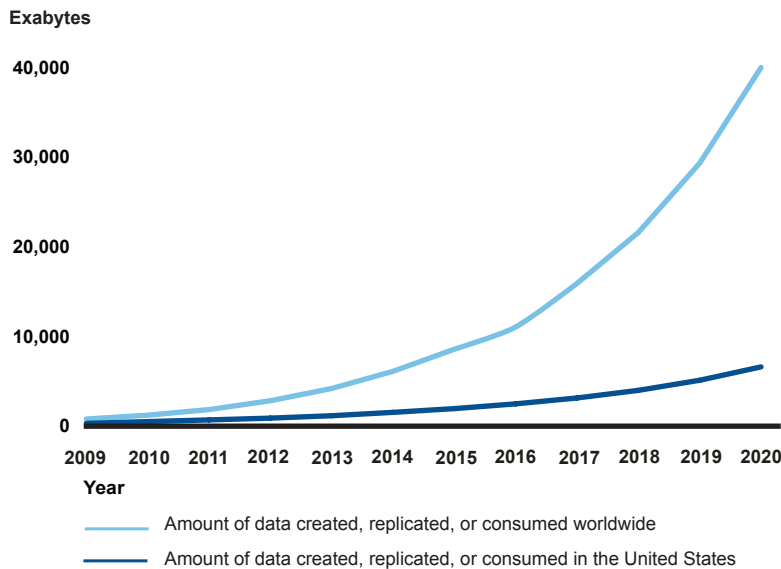
<sup>32</sup>IDC Digital Universe Study, sponsored by EMC (Dec. 2012).

**Figure 20: Data Created, Replicated, or Consumed in the United States**



Source: GAO analysis of EMC – IDC Digital Universe Study.

**Figure 21: Data Created, Replicated, or Consumed in the United States and Worldwide**



Source: GAO analysis of EMC – IDC Digital Universe Study.

Individuals are increasingly being defined by the data that are collected about them. In some cases, individuals are placing more data about themselves online through social networking sites. In other cases, through the course of providing services to their customers, businesses are collecting vast amounts of transactional data about them. For instance, mobile telephone service providers collect data about the locations of mobile phones so that they can provide basic services and deliver voice and data traffic to the intended devices. Further, to allow for emergency response through enhanced 911

services, mobile phones are required to provide location information. Telephone service providers also collect key information about voice calls, such as the phone number called, the date and time of the call, and the duration of the call. Internet service providers and webpage owners collect data about who visits webpages. Several webpage owners even use readily available tools to determine what other websites their users are visiting.

The amount of individual data being collected has focused attention on providing adequate privacy protections and ensuring that individuals are adequately informed about data collection and protection practices. The volume of data breaches being reported particularly indicates the need for business and government to place greater emphasis on their data protection practices to ensure the privacy of personally identifiable information.

Further, the increasing reliance on information and communications technologies has increased the potential consequences of a successful cyber attack. In the 2013 assessment of threats facing the United States, the Director of National Intelligence identified cyber attacks as the top concern. Particular concern has been raised about the risks to the nation from a potential cyber attack that could disrupt the functioning of our critical infrastructure, such as our financial markets or the electrical grid. Cyber espionage that targets sensitive and proprietary business and government information has the potential to threaten our economic and national security. Society's increasing reliance on mobile devices to access the Internet also highlights the need to better secure such devices. For example, a broad range of threats and vulnerabilities increase the risks to the proper functioning of these devices and the confidentiality of any data stored on the devices.

### **Implications for Government and GAO**

The growth in the use of information and communications technologies has affected not only how people work and interact, but also how they think and what they expect from their government. Understanding and managing the implications of a more mobile connected society and massive data collection will be crucial for the government. A more mobile and geographically distributed workforce could allow for certain efficiencies, but it will be important to ensure that the necessary tools are in place to facilitate work group collaboration and communications to maintain or improve the performance of government operations. While the large amounts of data now available can provide immense opportunities for improving government decision making and operations, understanding and managing the cybersecurity and privacy implications of the storage and use of this data will be vital. As society, business, and the government become more reliant on the Internet to carry out mission-critical functions, securing such systems becomes more vital to ensuring our economic and national security.

To fully leverage the use of diverse and complex “big data” sets, new data analytical methods are needed to identify key trends and anomalies to better understand causality of events and better enable predictions to improve government decision making. In particular, new tools are needed to analyze and develop meaningful information for audits and investigations to prevent and detect fraud, waste, and abuse in government programs.

The government needs to adapt to the public’s growing use of mobile devices and social networking and develop new ways to interact with the public to carry out key government services. For instance, the government could use social networking to disseminate key information such as weather warnings and evacuation instructions. The public’s use of social networking could also provide a means for the government to enhance its situational awareness of emerging events, such as natural disasters, pandemics, and social unrest.

As threats to systems supporting critical infrastructure and federal information systems continue to evolve and grow, the government will need to focus increasing resources to ensure that these systems are secure. The movement toward shared services and cloud computing is further changing the dynamics of cybersecurity. The government’s ability to handle the increasingly complex cybersecurity challenges from nation states and certain nonstate actors will be critical, particularly when dealing with threats to national security.

As more data and information are made available online, ensuring the privacy of personal and proprietary data and addressing the risks of identity theft will become increasingly challenging.

GAO is well prepared to support the Congress in understanding the implications of the rapid growth of networking and information technologies and in overseeing their use in the federal government. In its High-Risk List, GAO has highlighted the need to better manage and protect information and communications systems that support the federal government and the nation’s critical infrastructure. GAO plans to perform work in the following areas:

- Continue to examine government-wide approaches and individual agency programs to secure federal systems and the effectiveness of public-private partnerships to protect critical infrastructure.
- Continue to assess the government’s ability to protect the privacy of individuals’ personal information and other data that the federal government and the private sector collect and store. In particular, GAO will examine the effects on privacy of massive data collection and storage.
- Examine the use and potential benefits of analyzing massive data sets to detect fraud, waste, and abuse and to improve the efficiency and effectiveness of programs and operations.



The increasing volume of users, applications, and data is straining the current information and communications technology infrastructure. In this area, GAO plans to perform the following work:

- Continue to review government programs to enhance the networking infrastructure to support future demands. In particular, GAO will assess efforts to efficiently broaden the availability of broadband access throughout the country, and specifically to underserved communities.
- Continue to review the government's spectrum management policies and the challenges it faces in making more efficient use of spectrum to accommodate increasing demands from emerging telecommunications technologies and services.
- Examine the progress of efforts to move toward shared services and cloud computing models for networking and information technology services within the federal government and the effects on the efficiency and effectiveness of program operations.

## Shifting Roles in Governance and Government

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Governance in the 21st century poses a series of evolving challenges to policymakers and governments alike. The United States must operate in an increasingly interconnected and complex world that is characterized by the free flow of capital, goods, services, people, and information, as well as intricate monetary, fiscal, and economic systems. If important national policy initiatives—such as protecting the security of citizens, reforming national tax laws, modernizing outdated financial regulatory systems, and assuring public safety in the areas of medical products, food, and consumer goods—are to be effective, then they must account for local and global risks, deep interconnections, complex supply chains, and unintended consequences. Further, the government's fiscal exposures now cut across multiple geographic boundaries, government programs, levels of government, and sectors. Hence, the management of fiscal risks is becoming at once more important and more difficult.

Exercising foresight and strategic planning in this environment will be essential and requires rethinking the role of government, governmental missions, and programs. New collaborations, networks, and partnerships across global and domestic boundaries will be vital to achieving national policy objectives.

Policymakers at all levels are striving to enable growth, attract investment, and create jobs in a domestic economy that faces substantial headwinds. Economic challenges facing policymakers also include growing income inequality; a labor force that is not expanding enough to replace its retirees; an increase in the numbers of elderly

citizens who need expensive health care and social services; and a greater dependence on the social safety net by individuals, including the young.

At the national level, the federal government faces the challenge of scaling back the fiscal stimulus, managing its public debt, and diversifying an economy that is highly dependent on the housing and financial sectors. In addition, many government entities face flat or decreasing budgets for the foreseeable future. Meeting citizen expectations may become difficult, thereby raising concerns about the basic capacity of government to deliver missions, programs, and services. Moreover, to implement public policy initiatives and programs, the federal government is increasingly reliant on both third parties and on state and local governments, which themselves are constrained and face serious long-term fiscal challenges.

Citizens' faith in the federal government is, according to recent polls, at historic lows. To restore public confidence, the federal government must find new approaches to communicate and interact with an increasingly diverse citizenry and global community, operate with greater efficiency, embrace innovation, and recruit and retain those with the skills and talent to help solve the complex problems facing government. Finding the revenues to finance the federal government will require adapting a long-standing system to new global economic realities, in addition to reimagining the tools government uses to achieve public policy objectives.

### **Complex Issues Require Foresight and Planning**

Governments in general, and the federal government in particular, face an increasing number of large, complex, and high-risk challenges that cut across multiple countries, levels of government, agencies, and sectors. Some of these issues are known and long-standing; others give little time to react, where failure can have grave or unintended consequences. For example, preventing or responding to terrorist attacks, natural disasters, pandemics, and financial crises—as well as coordinating efforts on economic development, food safety, health care reform, and education policy—require close coordination across local, state, national, and even international levels of government.

The federal government will need to improve its capacity to anticipate crises and mitigate risk. To do so, policymakers and program administrators must work across the government enterprise and hone and adapt management tools—such as foresight, strategic planning, risk management, and performance measurement systems—in order to better manage uncertainty, tailor policies, prioritize responses, and allocate scarce resources in the coming years.

Analysis and evaluations based on foresight can provide a way for policymakers and administrators to prepare for future events, consider scenarios, analyze potential implications, imagine alternatives, ask the unasked questions, and ultimately reduce risks and take advantage

of opportunities. The financial crisis of 2007–2009 illustrates the enormous cost to governments—fiscally, politically, and socially—when regulatory breakdowns occur and warning signs are ignored.

Governments must continually identify high-risk areas that can create significant fiscal exposures or are vulnerable to fraud, waste, abuse, and mismanagement. Governments will also need to systematically integrate the identification and management of risk into their strategic and program planning. Further, leaders must establish a vision to align their organizations' financial assets, human capital resources, and performance measures to achieve sustainable results in a dynamic external environment.

The GPRA Modernization Act of 2010 seeks, among other things, to promote longer range planning by requiring departments and agencies to develop and issue strategic plans. It also aims to instill a more coordinated and crosscutting perspective to federal performance by requiring the administration to select a set of cross-agency priority goals. The GPRA Modernization Act also requires federal agencies, in setting their own goals, to identify other entities that are involved in achieving those goals.

The goals of the GPRA Modernization Act are a step in the right direction, but GAO's work indicates that, given the complexities of many of the issues facing government, more needs to be done by the Office of Management and Budget (OMB) to identify crosscutting issues across government for planning purposes. Further, there are still weaknesses in performance management information and its usefulness for congressional and agency decision making.

The performance planning and reporting framework put into place by the GPRA Modernization Act provides important tools that can help the Congress and the executive branch clarify desired outcomes, address program performance spanning multiple organizations, and facilitate future actions to reduce fragmentation, overlap, and duplication. However, realizing the intent of the GPRA Modernization Act for assessing government performance and improvement and for reducing fragmentation, overlap, and duplication will require sustained oversight of implementation.

GAO's work on overlap, duplication, and fragmentation highlights the governance challenges policy makers and decision makers face in overseeing programs across government, allocating resources, measuring program performance, and evaluating the achievement of national objectives. GAO has issued three annual reports that identify 162 areas where opportunities exist for executive branch agencies and Congress to reduce fragmentation, overlap, and duplication among federal programs or achieve other cost savings and enhanced revenue collection. Collectively, the reports identify opportunities for greater efficiency and effectiveness within all 15 cabinet-level executive departments and at least 17 other federal entities.

Within these 162 areas, GAO suggested approximately 380 actions that executive branch agencies or the Congress could take to address the identified issues. The executive branch and the Congress have made some progress in addressing the identified issues, but additional work remains. Fully addressing the identified issues could save the government tens of billions of dollars annually.

Identifying, preventing, and addressing fragmentation, overlap, and duplication within the federal government is challenging. These are difficult issues to address because they may require agencies and the Congress to re-examine within and across various mission areas the fundamental structure, operation, funding, and performance of a number of long-standing federal programs or activities with entrenched constituencies.

### **Shifts to State and Local Governments and Third Parties**

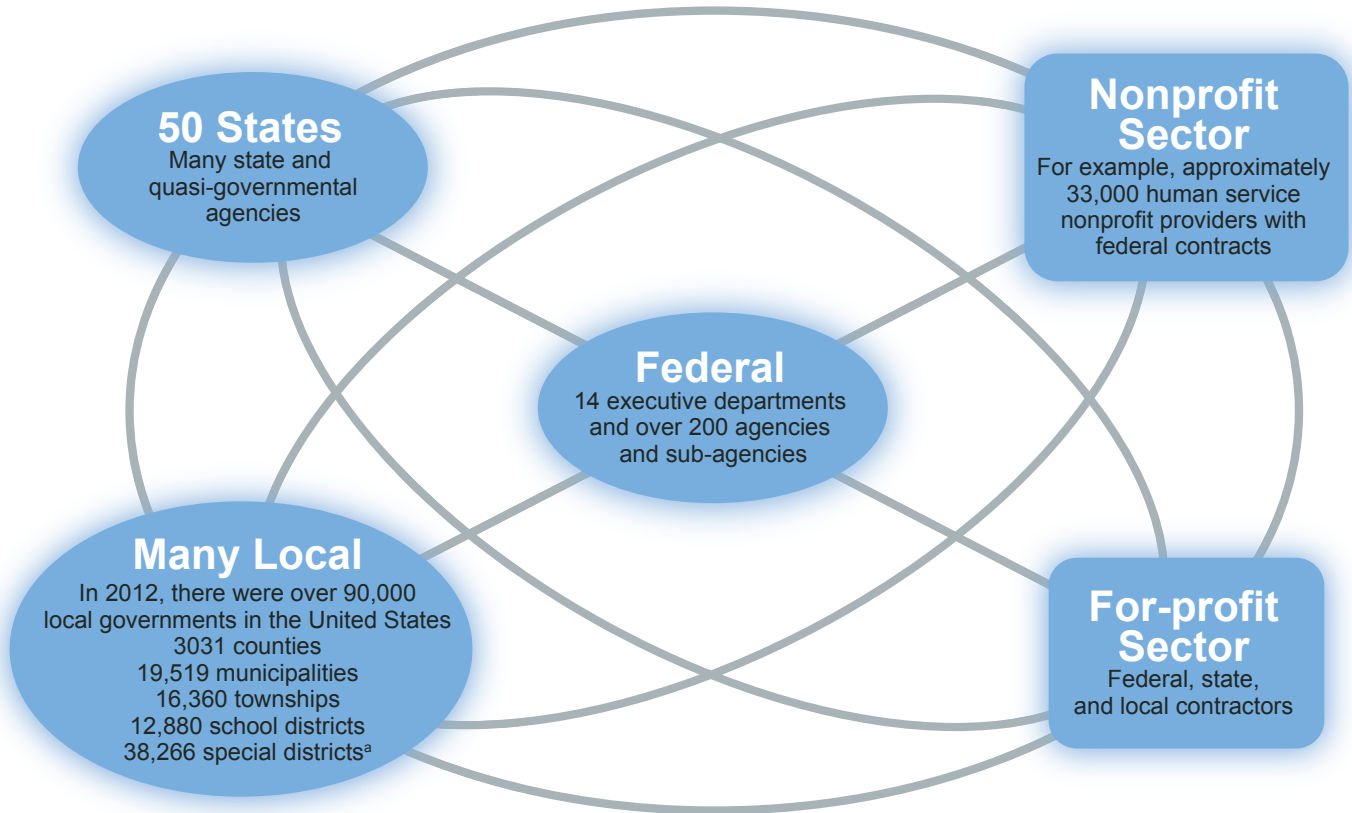
The federal government uses a wide range of public policy tools to accomplish its missions. These tools include federal grants to state and local governments; contracting; tax expenditures, loans and guarantees; public-private partnerships; regulations; information and education; and direct service delivery. The use of three of these tools in particular—grants to state and local governments, contracting, and tax expenditures—demonstrates how the budgets, functions, and points of service of many government programs increasingly devolve to third parties.<sup>33</sup> As a result, tailored approaches may be required to ensure government achieves its goals while assuring effective oversight and accountability.

As [figure 22](#) suggests, the process of distributing federal assistance through intergovernmental grants is complicated and involves many different parties, both public and private, with different organizational structures, sizes, and missions. These partners' capacities—that is, their ability to maintain and effectively manage the resources needed to implement the grants—can materially affect the overall success of federal grant programs. Federal outlays for grants to state and local governments increased from \$91 billion in fiscal year 1980 (about \$221 billion in 2011 constant dollars) to more than \$606 billion in fiscal year 2011; the amount going to Medicaid has also increased during this time ([fig. 23](#)). While the past three decades have witnessed dramatic growth in federal grants to state and local governments in absolute dollar terms, the same is not true when one considers these grant outlays as a proportion of total federal spending.

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<sup>33</sup> For more detail on tax expenditures, see the "Fiscal Sustainability and Debt Challenges" trend paper, [page 21](#).

**Figure 22: U.S. Federalism in Practice**

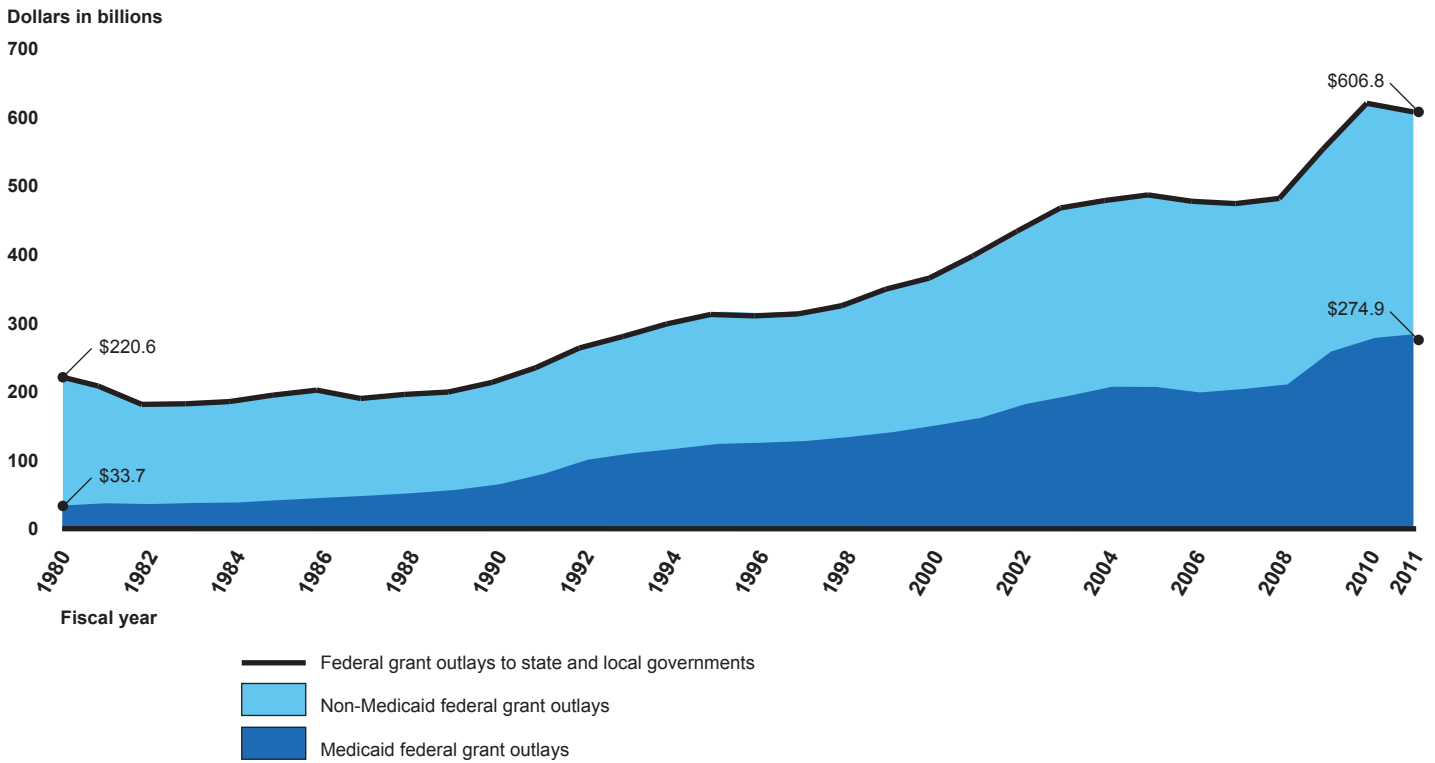


<sup>a</sup> Examples of special districts include mosquito abatement districts, utility districts, water and sewer districts, transit authorities, etc.

Sources: GAO graphic based on U.S. Census Bureau, *Government Organization Summary Report 2012* (Released Sept. 26, 2013), *U.S. Government Manual: 2009-10*; and Urban Institute's *National Study of Nonprofit-Government Contracting Survey Results* (2009 Data).

Grant outlays to state and local governments as a percentage of total federal outlays in fiscal year 2011 were at a roughly comparable level to what they were more than 30 years earlier (16.8 percent versus 15.5 percent). However, during this period, the proportion of federal grant outlays to state and local governments dedicated to Medicaid more than tripled, rising from 2.4 percent of all federal outlays in 1980 to 7.6 percent in 2011. Medicaid spending has increased by 4.3 percent annually, with about 70 percent of the growth due to increasing Medicaid enrollment. The increase in outlays for Medicaid and other health-related grant programs was offset by an approximately equivalent decrease in the share of outlays for other grants to state and local governments.

**Figure 23: Federal Outlays for Grants to State and Local Governments and Medicaid, in 2011 Constant Dollars, Fiscal Years 1980 to 2011**

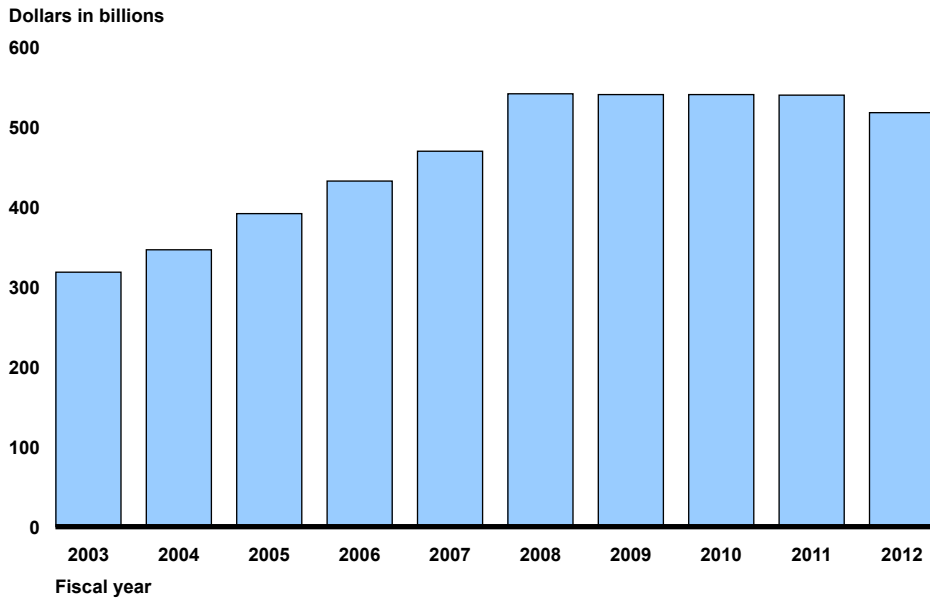


Source: GAO analysis of OMB data.

The federal government also makes substantial use of contractors to acquire a vast array of products and services. Over the last 10 years, total federal procurement spending has ranged from \$318 billion in fiscal year 2003 to \$517 billion in fiscal year 2012 (fig. 24). Federal agencies' heavy reliance on contractors to accomplish the work required to meet their missions is a result of several factors, including (1) requirements for specialized expertise that is more readily available from the private sector, (2) the need to supplement a declining federal workforce, and (3) demands for increased flexibility in times of severe budget constraints.



**Figure 24: Federal Contract Obligations 2003 to 2012**



Source: GAO analysis of Federal Procurement Data System.

Although using contractors can help agencies address these issues, the increased use of contractors also presents challenges. Agencies must have mechanisms in place to ensure they contract with the most capable and cost-effective companies. Agencies must also provide proper oversight of contractor performance to ensure that required goods and services are delivered on time and within budget. Finally, agencies must retain control over the most critical (that is, “inherently governmental”) work of the government.

GAO has found that major agencies, such as the Department of Defense and the Department of Homeland Security, have contracted out work closely associated with inherently governmental functions, without fully addressing the risk of possible loss of visibility and control of essential governmental functions.

Further, if nonprofit and private-sector organizations falter due to financial constraints, then the public sector’s reliance on their assistance in achieving policy objectives may need to be addressed. As the public, private, and nonprofit sectors continue to become more interdependent, it will be paramount to have effective, accountable, and transparent partnerships and collaborations.

## **Financing Government in a Changing Globalized Economy**

The resources needed to fund government can be raised primarily by taxing or borrowing. Both of these strategies affect the economy. Taxes alter the decisions people and businesses make about how much to work, save, and invest. Government borrowing absorbs savings otherwise available for private investment and postpones the need to tax or reduce spending.

In the near term, governments at all levels will continue to face a host of challenges and a shifting environment when it comes to revenue collection. Certain consequences of the financial crisis and recession—higher rates of unemployment, reduced spending, and loss in property values—continue to put pressure on traditional sources of revenue for federal, state, and local governments. Some local governments have even filed for bankruptcy, as they found their revenues no longer covered their expenses and debt service obligations. Another challenge is the tax gap—the difference between taxes owed and taxes paid on time—which has persisted over time and is dispersed across many types of taxes and taxpayers. The federal tax gap was most recently estimated to be \$385 billion for tax year 2006 (after IRS collection efforts and late payments). Finding strategies to reduce the tax gap would improve revenue collection.

More fundamentally, dissatisfaction with the federal tax system has fueled a debate about the comprehensive nature of tax reform due to concerns about the system's economic incentives, fairness, and complexity. The debate includes questions like whether taxes should be based on income or consumption; whether the rate structure should be flatter or more progressive; and the extent to which tax expenditures should be employed to determine economic or social policy. The debate also recognizes the trend away from organizing businesses as corporations, and considers how different types of businesses should be taxed. Decisions about tax reform will be made in an increasingly global environment—an environment where goods, investment capital, and even labor move across political boundaries in response to economic incentives, including tax incentives. Greater globalization and interdependence of markets and economies mean that governments will need to adapt their tax and revenue systems accordingly.

## **Technology: A Disruptor and Facilitator of Governance and Governments**

The communications and technology trends discussed earlier are also affecting governance and how governments and citizens interact.<sup>34</sup> For example, social media and greater Internet connectivity have eliminated the middleman in organizations and sectors, allowing citizens and consumers to directly communicate with and influence businesses, governments, and policymakers. These changes are further altering the way governments disseminate information to and interact with their citizens. Domestically, citizens are using online networks and social media platforms to take part in political debates and contact policymakers directly. U.S.-based social media firms have amassed a global user base that, in some cases, eclipses the population of many countries. In some cases, foreign users of social media tools have organized protests in their countries and connected with their fellow citizens to demand reform or even new governments.

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<sup>34</sup>See the "Advances in Communication Networks and Information Technologies" trend paper [page 47](#).

Mobile and continuous Internet connectivity combined with the rise of social networks have disrupted and transformed the media sector, which plays an important role in a vibrant democratic system. Some media firms have been unable to adapt and have responded by selling assets or going out of business. Major press organizations must now compete with networks of online organizations and individuals who, in many cases, can create and distribute their own news content and information faster than professional news outlets can. Other media firms have changed their business models and transformed themselves into data analytics firms that sell repurposed public and proprietary data to the government.

Just as technology has disrupted the media and other sectors, it has the potential to influence the ways the federal government has traditionally assured transparency, accountability, and public reporting. For example, there was a profound shift in how the public participates in accountability efforts when, in response to a mandate in the Recovery Act, the Recovery and Accountability Transparency Board (RATB) created a public website that provided citizens with contemporary information on the distribution and recipients of stimulus funding across the nation. RATB further developed an online and interactive platform through which the public could report any suspected fraud, waste, and abuse in the expenditure of Recovery Act funds.

The arrival of these technology-driven approaches that combine public engagement with crowdsourcing shows a potential future of real-time accountability reporting that leverages the online participation of networks of citizens to report on fraud, waste, and abuse. This is a fundamental shift from previous approaches where citizen engagement in accountability efforts was limited simply to correspondence or telephone hotline calls.

These developments are part of a broader trend with enormous potential, whereby governments can constructively engage with their citizens through technology and online tools to achieve outcomes that would not have otherwise been possible. Citizens will increasingly demand new online tools not only for the accountability of government programs and spending, but also for how government programs and services are actually delivered. Online interaction and e-commerce are now commonplace in the private sector—and citizens will consequently expect their local, state, and federal governments to provide efficient online service delivery as well. Online service delivery will be essential to reducing response times to citizens, saving money, and in some cases enhancing revenue.

However, this shift to digital service delivery will require both new technology infrastructure and new categories of government jobs. Realizing the full potential of this shift will be challenging. It requires technology infrastructure investment during a time of constrained

budgets. Moreover, rather than solely focusing on replacing today's workforce, human capital offices will have to re-think hiring and workforce planning to create the job positions that are needed to transform today's government and maintain the government of tomorrow.

## **Implications for Government and GAO**

The shifting roles of government and its relationships with other sectors are affecting the scope and nature of GAO's work. GAO's work on reforming financial markets and institutions helps to inform the Congress and policymakers on the complexities of regulating these entities in a globally interconnected and competitive world, as well as assisting in congressional oversight of regulatory reform initiatives. Similarly, GAO's cross-border work on regulating the safety of medical products, food, and consumer products helps Congress monitor and oversee regulatory efforts in these areas that span multiple agencies, countries, and levels of government. The growing cost of the Medicaid program suggests an ongoing need to examine federal, state, and local government financing as well as to better oversee payment policies and program integrity. Building on GAO's work on recent global health-related events and their implications for preparedness, GAO seeks to provide additional lessons for federal, state, and local governments to enhance their preparedness for future events.

GAO's recent work also places new emphasis on monitoring the adequacy of supply and the causes of price volatility of commodities such as energy and food. Further, GAO's audit work on international peacekeeping, disaster assistance, and public diplomacy has prepared us to advise policymakers on what works best, as well as the challenges of tracking and ensuring accountability of funds that flow through governmental and nongovernmental organizations and across international borders.

While many GAO engagements examine the governance challenges a specific agency faces, three GAO-wide initiatives offer government-wide perspectives on the progress needed to respond effectively to 21st century governance challenges: (1) the High-Risk program; (2) the annual reports on overlap, duplication, and fragmentation; and (3) implementation of the GPRA Modernization Act of 2010.

GAO's High-Risk work documents the challenges of managing in a complex governance environment. GAO began the High-Risk program in 1990 and initially focused on bringing attention to government operations that had greater vulnerabilities to waste, fraud, abuse, and mismanagement. Those issues remain a central focus of the High Risk program today. However, in recognition that many of the high-risk issues GAO was finding were the product of an inability to adjust to a changing environment or poor working relationships across organizational boundaries (especially with third parties, such as contractors), GAO expanded its focus several years ago to also include

critical areas needing transformation to address economy, efficiency, and effectiveness challenges. The High-Risk program will continue to identify risks and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public.

Moving forward, GAO plans to identify additional opportunities from across the government to reduce fragmentation, overlap, and duplication and achieve other cost savings and revenue enhancements. GAO also plans to report on the progress Congress and executive branch agencies have made in addressing the issues previously identified in GAO's work in this area.

In the coming years, GAO will also continue to monitor the executive branch's progress in implementing and leveraging the GPRA Modernization Act's provisions to address broad governance challenges.

Overall, GAO is finding that fundamental improvements in the performance of 21st century government requires a focus on governance—that is, assessing and improving connections across organizations, levels of government, sectors, and policy tools. In practice, this has several important implications for where GAO's work will focus, such as

- reviewing government's ability to manage for results, including the extent to which agencies have an appropriate crosscutting or "whole of government" perspective to their intended results, as well as using innovative approaches to better achieve results;
- evaluating collaborative mechanisms, such as ways to ensure that agencies effectively coordinate their efforts across levels of government and with other sectors;
- examining the interplay of the range of public policy tools that are being used to achieve results to ensure that they are effective and mutually reinforcing;
- exploring opportunities to use web and social media technologies to improve government transparency and public reporting to foster greater public participation and civic engagement; and
- assessing government's capacity to respond to governance challenges such as agencies' risk management programs, to ensure those agencies systematically integrate the identification and management of risk into strategic and program planning.

## **Demographic and Societal Changes**

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Significant demographic shifts are under way that affect society and the economy both domestically and around the world. As in most other developed countries, U.S. population growth is slowing due to declining birth rates. Immigration from developing countries is

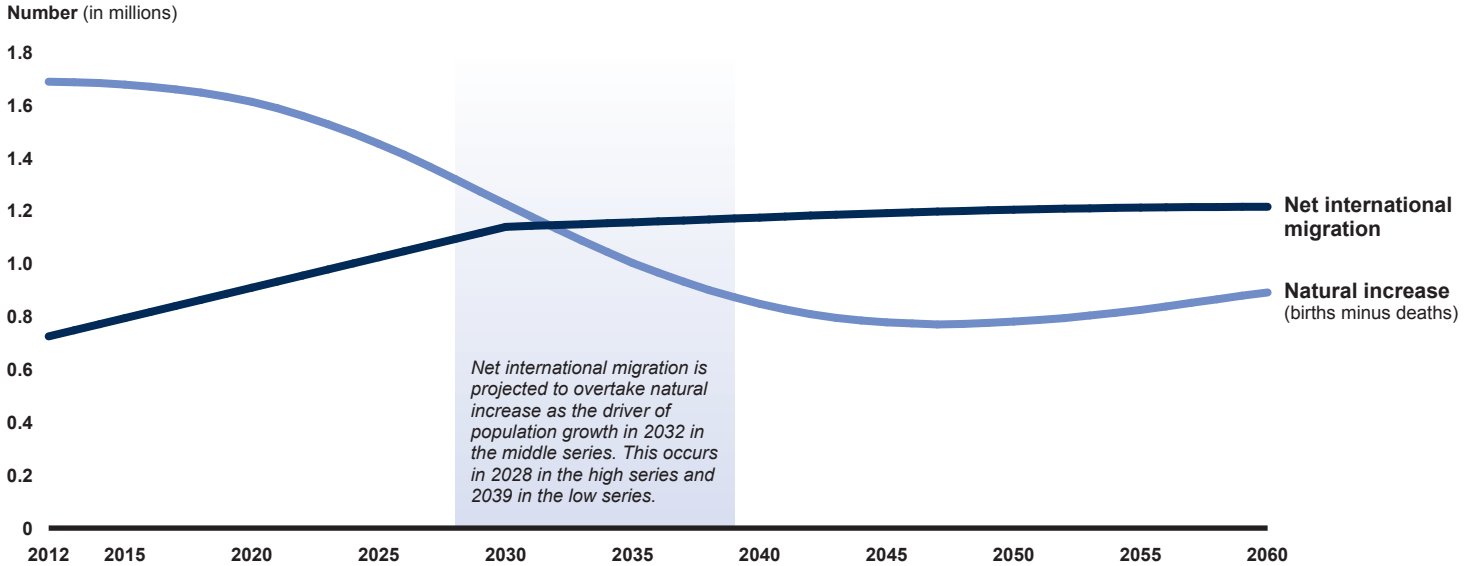
becoming the main source of U.S. population growth, bringing greater ethnic diversity to our society. Meanwhile, as in Europe and Latin America, U.S. labor force participation rates are declining for both men and women—which could be due, in part, to the recession and slow recovery, or could be signaling a new long-term trend. Also, as in many countries throughout the world, the U.S. population is aging. Between 1970 and 2030, the proportion of the U.S. population age 65 or older is expected to double.

These trends will have important implications for our nation’s future economic performance and the basic fabric of American society, posing challenges to federal programs such as Social Security and Medicare, and public policies in areas such as health care, education, and income support—all with major effects on the federal budget.

### U.S. Population Growth Is Slowing

While the U.S. population grew 54 percent between 1970 and 2013, it is expected to grow by less than half that amount—about 26 percent—between 2013 and 2050, and immigration is projected to overtake births as the major driver of future growth (see [fig. 25](#)). Worldwide, population growth is also beginning to slow but, according to UN projections, is still projected to grow at a faster rate than in the United States—about 33 percent between 2013 and 2050.

**Figure 25: Net International Migration and Natural Increase for the United States, 2012 to 2060**



Source: U.S. Census Bureau, 2012 National Population Projections.

- **Lower birth rates.** The role of births in population growth has decreased as household composition and women’s educational attainment have changed. Since 2007, the U.S. total fertility rate—the expected number of children that a typical woman will have during her lifetime—has been declining to below replacement level

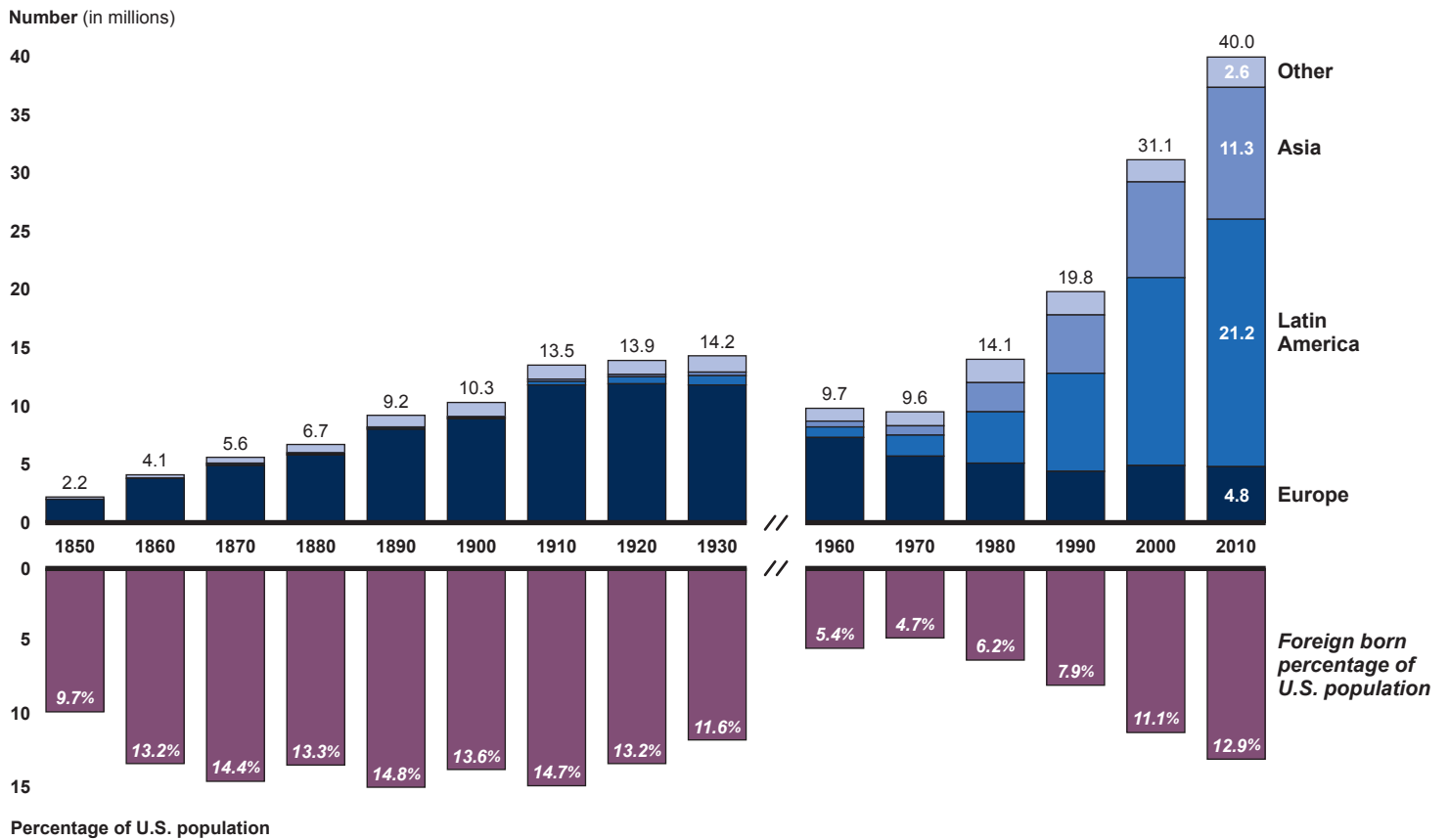


(that is, the rate at which population growth would remain stable). The total fertility rate in 2012 (preliminary) was lower than in any year since 1987, and according to Census Bureau projections, is expected to stay below replacement level through 2060, at which point only the Hispanic fertility rate will be large enough to support replacement.

The overall decrease in number of births can be explained by the changes in birth rates among certain age groups. First, over the last two decades, the birth rate for teenagers has decreased by more than 50 percent. Second, although most children in the United States are born to women in their 20s, the birth rate for women ages 20–24 has decreased by about 27 percent. The birth rate for women ages 30–34 has increased by about 22 percent, reflecting women’s rising education and the fact that women with more education tend to wait longer before having children. However, this age group tends to have fewer children compared with the 25–29 age group. Consequently, as more women wait to have children, there are fewer overall births.

- **Immigration.** Immigration is projected to become the main driver of U.S. population growth during the first half of this century. Specifically, between 2027 and 2038, international migration is projected to surpass natural population growth (births minus deaths) as the main source of population growth, according to the U.S. Census Bureau (see [fig. 25](#)). Since the 1970s, our nation’s foreign-born population has been growing, both in number and as a share of the total population. In 1970, 4.7 percent of the population was foreign born, but by 2010, the share of foreign born had increased to 12.9 percent, similar to the rates experienced during the late 19th and early 20th centuries (see [fig. 26](#)). Between one in five and one in seven U.S. residents will be foreign born in 2050, according to projections by the Pew Research Center.

**Figure 26: Foreign-Born Population and as a Percentage of Total U.S. Population**



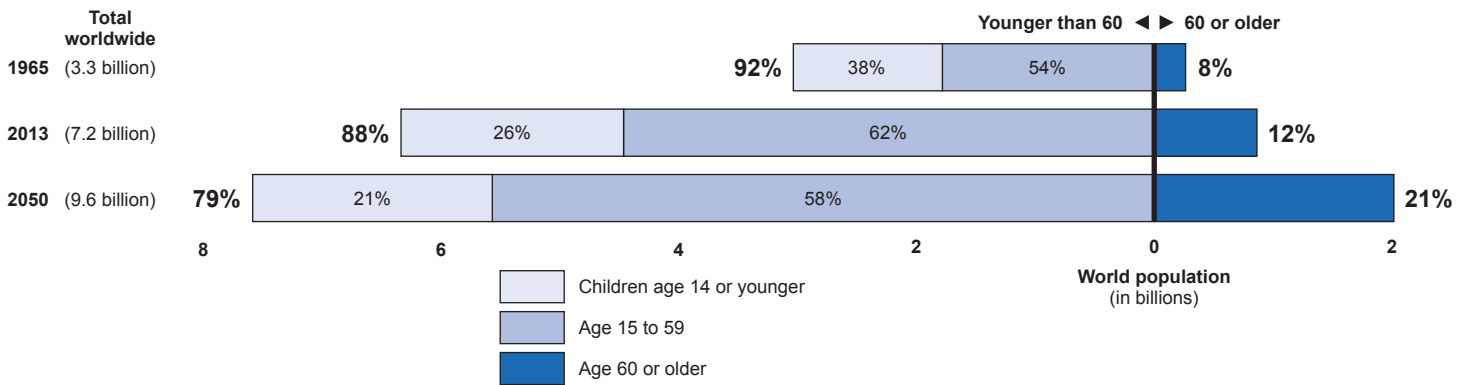
Source: GAO analysis of U.S. Census Bureau data.

Note: The term “foreign born” refers to anyone who is not a U.S. citizen at birth. This includes naturalized citizens, lawful permanent residents, temporary migrants (such as foreign students), humanitarian migrants (such as refugees), and undocumented migrants. The region category “Latin America” includes Mexico, Other Central America, South America, and the Caribbean. Other Central America includes the countries of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Immigration is having a large impact on the ethnic composition of the U.S. population, as well. Through the 1960s, the vast majority of immigrants came from Europe, but today the majority of immigrants are coming from Latin America and Asia (see [fig. 26](#)). The U.S. Census projects that by 2050, Hispanics will comprise nearly one-third of the population.

- More significant population growth worldwide.** World population is projected to continue to grow significantly in the years ahead, from about 7.2 billion in 2013 to more than 9.6 billion by 2050, according to the UN (see [fig. 27](#)). Developing countries such as India, Indonesia, and many high-birth countries in Africa will add most of the 2.4 billion people. Developed regions as a whole, in contrast, are projected to grow only as a result of net international migration from developing countries.

**Figure 27: Worldwide Population Is Projected to Grow by a Third by 2050**



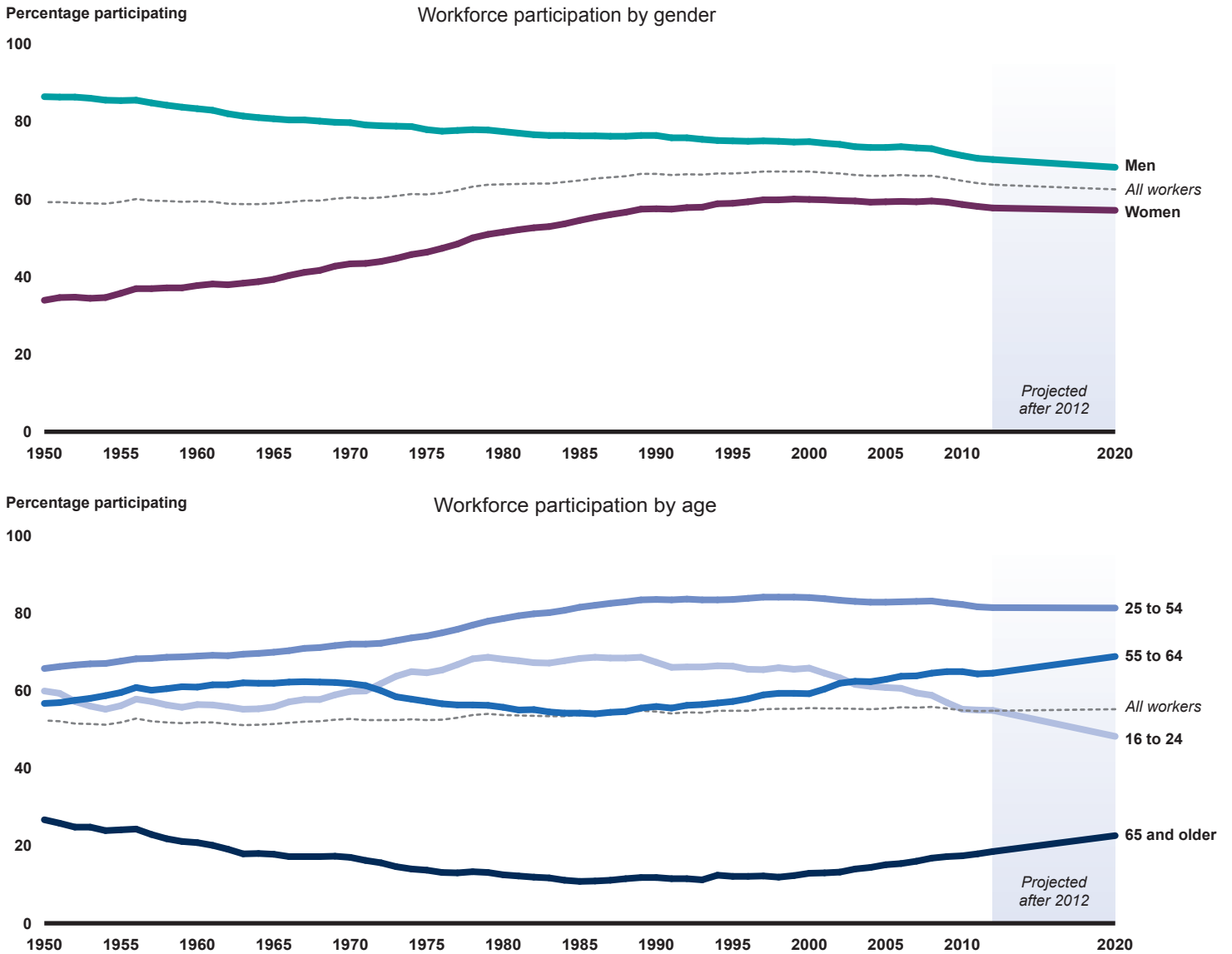
Source: GAO presentation of United Nations data.

### Labor Force Participation Is Declining

Changes in labor force participation rates and the composition of the labor force reflect a variety of underlying trends in the U.S. labor market.

- Worker characteristics.** Prior to 2000, the overall labor force participation rate increased steadily from about 59 percent in 1950 to about 67 percent in 2000 (see [fig. 28](#)). The decline in participation rates for men over this period was more than made up by the increase in women’s participation rates. Much of the increase in women’s participation has been due to the increase in paid work among mothers. An analysis of Census data shows that the number of hours worked in a typical two-parent family increased nearly 26 percent between 1975 and 2009, mostly due to the increase in work of mothers outside the home. Also, the increase in women’s labor force participation has been accompanied by an increase in their educational attainment. Since 1980, college enrollment for women has outpaced that of men and now exceeds that of men in 4-year programs. By 2020, women are projected to account for nearly 60 percent of total undergraduate enrollment, which may signal further increases in women’s labor force participation in the future.

**Figure 28: Labor Force Participation Rates**



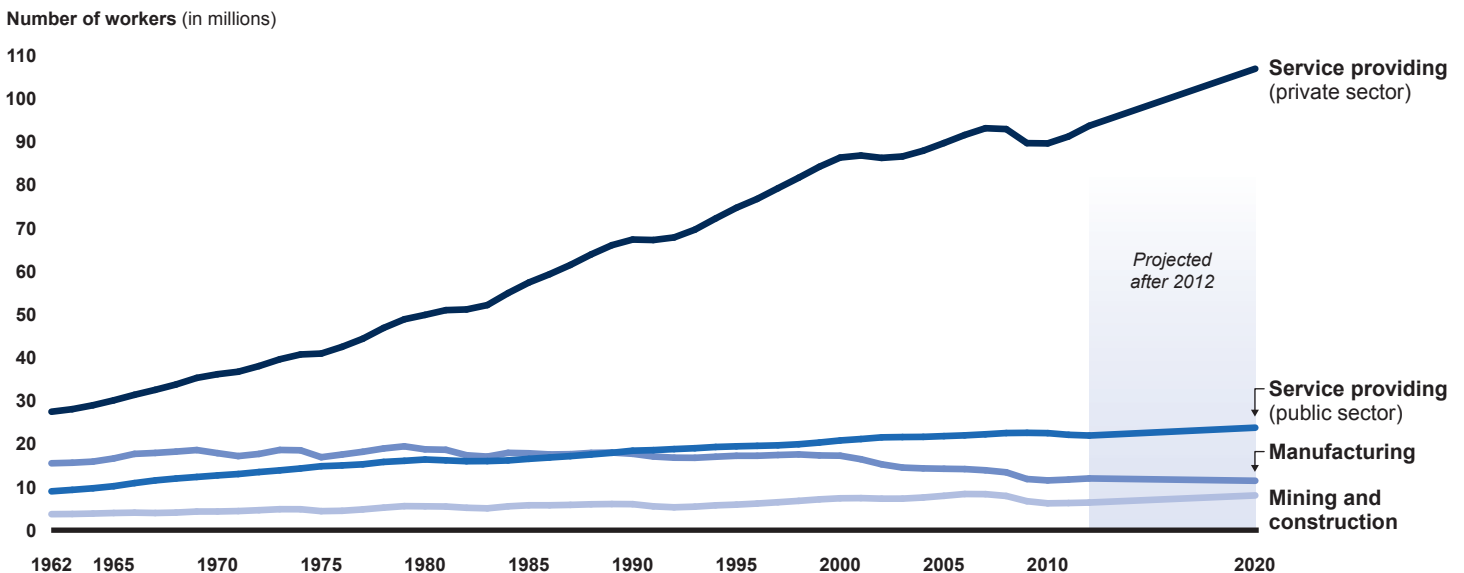
Source: GAO analysis of U.S. Bureau of Labor Statistics data.

However, since 2000, aggregate labor force participation rates have fallen by more than 3 percentage points, with men’s labor force participation continuing its long-term decline and a reversal in the trend in women’s participation. The recent decline has coincided with the recent economic downturn, but may be indicative of a new long-term trend of declining or flattening participation. Also, although participation rates overall have been declining, the trends among those at the beginning and end of the working age spectrum are somewhat different. The participation rate for older workers has continued to grow, even during the recent recession (see [fig. 28](#)), while the participation rate for younger workers continues to decline—due, in part, to the rising share of youth staying in school longer.

Finally, labor force participation rates also are affected by the influx of immigrants to the United States, to the extent that those immigrating are of working age and their work status differs from that of non-immigrants. For example, according to the Brookings Institution, immigrant workers are overrepresented in certain high- and low-skilled industries, including the information technology and agricultural sectors, where they will likely continue to play an important role. However, their effect overall is likely small, as immigration is projected to have only a small (but positive) effect on the share of the population that is of working age. More significantly, even under the Census Bureau’s highest estimate of net international migration, the working-age population is projected to fall from 63 percent in 2012 to 57 percent by 2060.

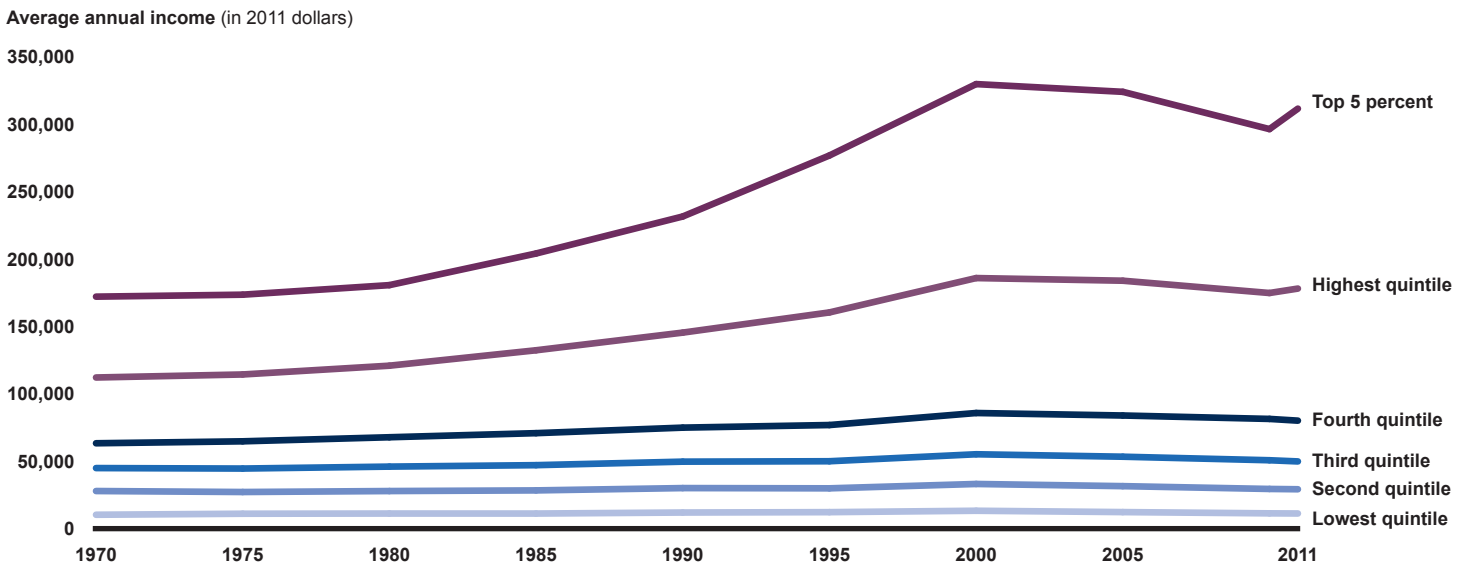
- **Changes in industries, wages, and income disparity.** As the composition of the labor force has changed, the long-term shift from manufacturing to service-producing industries has continued (see [fig. 29](#)). Overall, the U.S. labor market has also experienced wage stagnation, with real wages remaining near 1970s levels, and the disparity between the mean household income of the highest group compared with that of others has increased markedly (see [fig. 30](#)).

**Figure 29: Nonfarm Employment, by Industry Sector (1962–2020)**



Source: GAO analysis of U.S. Bureau of Labor Statistics data.

**Figure 30: Mean Household Incomes, by Quintiles and Top 5 Percent (1970–2011)**



Source: GAO analysis of U.S. Census data (Current Population Survey, 1970 to 2011 Annual Social and Economic Supplements).

Note: Income is in 2011 CPI Research Series Using Current Methods (CPI-U-RS) adjusted dollars.

- Similar employment rates throughout the developed world.** The demographic changes that have affected the U.S. labor market are not unlike the trends in many other developed countries. For example, at about 64 percent, the labor force participation rate in the United States is similar to the rate in the European Union and Latin America. In contrast, the rate is generally higher in East Asia and the Pacific (where it is over 70 percent), and lower in the Middle East and North Africa (where it is below 50 percent).

### The Population Is Aging

The proportion of older adults in the United States is rising and will continue to grow significantly in the future. This growth slowed somewhat during the 1990s because of the relatively small number of babies born during the Great Depression of the late 1920s and early 1930s. But the proportion of the U.S. population over age 65 will increase significantly, from less than 10 percent in 1970 to nearly 20 percent in 2030, reflecting long-term decreases in birth rates and increases in life expectancy, as well as the aging of the “baby boom” generation. The growing contingent of older adults is noteworthy, as those in the oldest ages often require additional care giving and support. Similar trends in aging are apparent in many other countries around the world, as well.

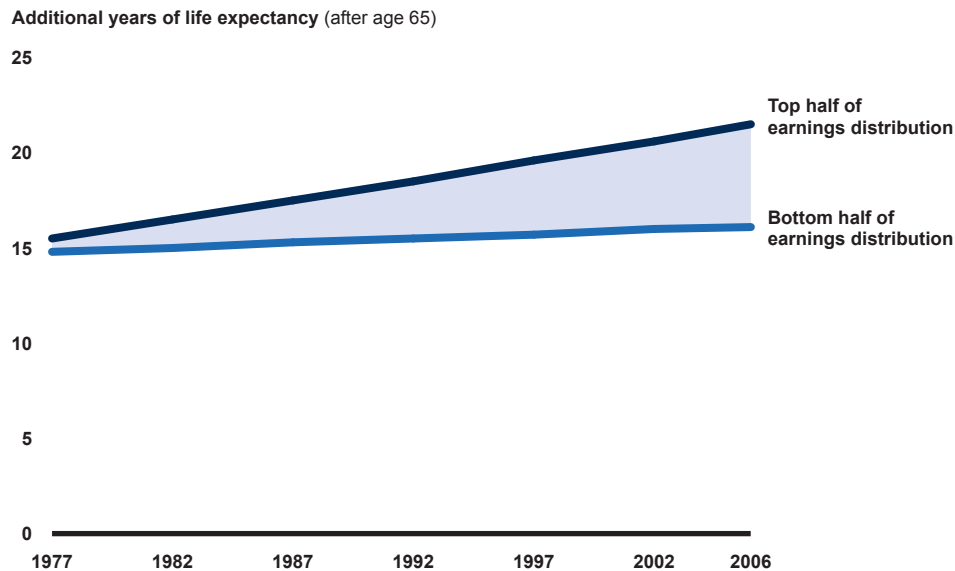
- Growing proportion of older adults.** The median age in the United States has risen steadily over the last 40 years, from 28.1 in 1970 to 37.2 years in 2010. Today, more than 1 in 8 (or 13.7 percent), of the population is an older adult, age 65 or over, but by 2030, it will be about 1 in 5.



Key factors causing the growing proportion of the population to be older are decreasing birth rates and increasing life expectancy. As noted earlier, U.S. birth rates have fallen significantly, with decreases among all major racial and ethnic groups since 1990. In addition, rising living standards have led to considerable increases in longevity. For example, among those age 65 in 1950, men could expect to live an additional 12.8 years, to age 77, and women could expect to live an additional 15.0 years, to age 80. But in 2010, the average life expectancy at age 65 had been extended by another 3.7 years for men, to age 81, and by another 4.1 years for women, to age 84.

Although life expectancy has been increasing across all income groups, the more significant gains are primarily among those with higher incomes. As illustrated in [figure 31](#), the gap in life expectancy between higher and lower income groups for men age 65 has increased dramatically since the 1970s.

**Figure 31: Growing Disparities in U.S. Men’s Life Expectancy Based on Income**



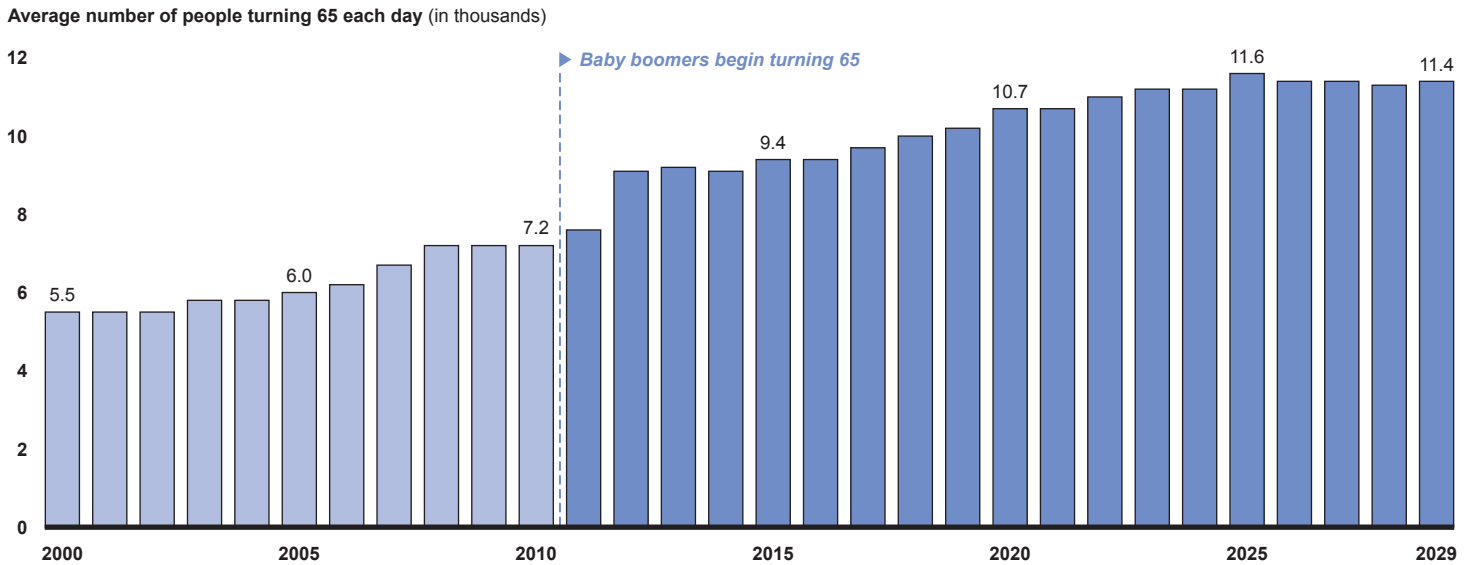
Source: GAO presentation of data from SSA Office of Research, Evaluation, and Statistics, (Waldron, 2007).

Note: Between 1977 and 2006, the number of men age 65 increased from 811,707 to 1,077,812. For each year depicted, half would be in the top half of the earnings distribution, and half would be in the bottom half.

- **Rising tide of retiring baby boomers.** As members of the baby-boom generation enter retirement and stop working, they no longer help fuel the labor force and economic growth, or contribute to Social Security, through their employment. The first baby boomers began receiving Social Security retirement benefits in 2008, and growing numbers will be reaching age 65 in coming years (see [fig. 32](#)). Meanwhile, the number of workers supporting each Social Security beneficiary continues to fall at a rapid pace. Despite the

growing number of older adults working longer, the ratio of worker to beneficiary is expected to drop from 3.2 in 2008 to 2.5 in 2020 and to 2.2 by 2030, signifying important implications for future program funding.

**Figure 32: Large Numbers of Baby Boomers Eligible to Retire in Coming Years**



Source: GAO analysis of U.S. Census Bureau data.

- Aging population a global phenomenon.** It is important to note that the United States is not alone. The same trends leading to our nation’s aging population are also affecting many other countries around the world. Declining birth rates and increasing life expectancy have led to a sustained increase in the average age of the population in much of the advanced industrialized world as well as in rapidly developing nations, including such countries as South Korea and China.

### Implications for Government and GAO

U.S. demographic developments will have important implications for economic growth and for government programs aimed at ensuring the necessary income maintenance and care of the elderly while investing in the well-being, education, and training of our youth and prime-age workforce. For example, changes in household and population composition—including smaller, two-parent working families and growing numbers of foreign-born U.S. residents—could have effects on the labor market and the economy, and on the types of government services needed to help fuel growth. Without an adequate renewed focus on productivity-enhancing investment (e.g., education, job training, and research and development), declining labor force participation could have an adverse impact on future economic growth and income equality. In addition, the importance of assistance programs for older adults—such as Social Security, Medicare, and

Medicaid (which provides the largest source of long-term care in this country)—will continue to grow, along with their continued associated financial stress on the federal budget. Given the important influences demographic developments have on the budgets and long-run fiscal implications for all levels of government, and on a wide range of federal programs, GAO will continue its efforts to assess these impacts and explore ways to enhance the federal government’s ability to prepare and address the challenges that lie ahead. In particular, GAO’s work will focus on efforts to

- support health care financing and reform efforts through analyses of Medicare, Medicaid, and other health programs;
- assess policy and administrative challenges to improving school readiness and K-12 education, and greater access, affordability, and completion of postsecondary education;
- identify ways to improve programs that facilitate job opportunities for workers including veterans, and enhance their skills for in-demand occupations;
- identify opportunities to improve programs that provide social services and economic and nutrition assistance to individuals, families, and children;
- explore ways to improve federal community and economic development assistance and its impact on communities; and
- assess the policy and administrative challenges to providing Social Security and other benefits for older adults in retirement, as well as programs helping them to maintain their independence and stay in the workforce longer.

GAO’s work will also help identify any gaps in the federal statistical system, as this system is a major contributor to the data needed for timely and relevant analyses to react to these changing trends.

# GOAL 1

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## 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 “promote the general welfare and secure the blessings of liberty” for U.S. citizens now and in the future. The nation’s ability to successfully meet these and other goals depends, in part, on how the federal government addresses current and future challenges associated with health, education, changing populations, developing communities, financial systems, emerging criminal activities, increasing stress placed on our nation’s natural resources, and deteriorating physical infrastructure. These challenges raise the costs of continuing the supports as designed and are compounded by continued budgetary constraint. In light of these circumstances and the evolving needs of affected vulnerable populations, it is more essential than ever for the Congress and the federal government to









- accurately identify, prioritize, and target the nation’s greatest needs;
- efficiently and effectively manage federal resources;
- explore and assess other approaches for providing benefits and protections in a cost-effective manner; and
- effectively balance demands of competing objectives to ensure decisions made today do not compromise future needs.

To address current and emerging challenges to the well-being and financial security of families, businesses, state and local governments, and other key sectors of the nation’s economy and society, 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:** Supporting the Financial Security and Well-being of an Aging Population
- 1.5:** A Responsive, Fair, and Effective System of Justice
- 1.6:** Housing Finance and Viable Communities
- 1.7:** A Stable Financial System and Sufficient Consumer Protection
- 1.8:** Responsible Stewardship of Natural Resources and the Environment
- 1.9:** A Viable, Safe, Secure, and Accessible National Physical Infrastructure

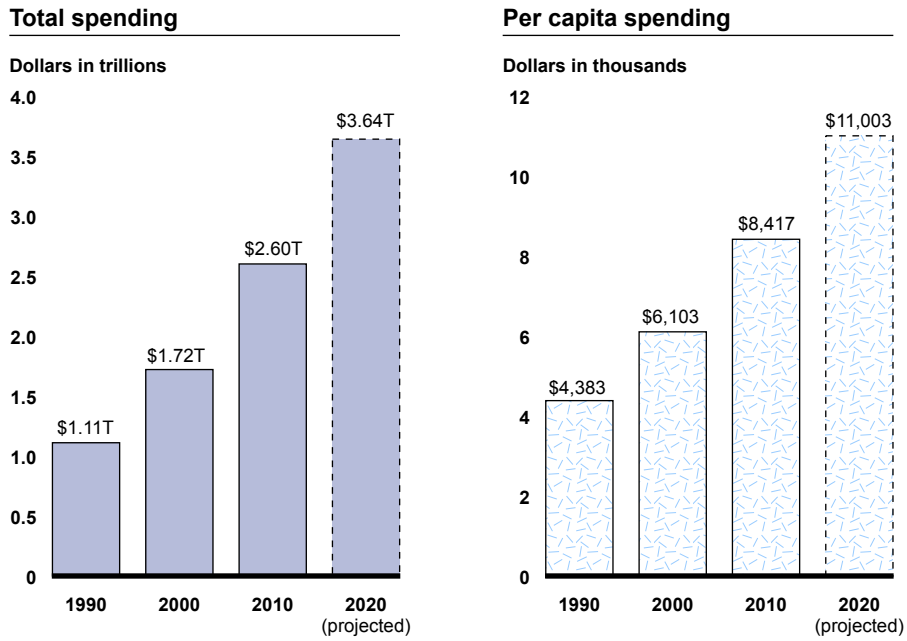
# STRATEGIC OBJECTIVE 1.1

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

Performance Goals for Strategic Objective 1.1							
							
Assess trends and issues affecting the health care system	Assess trends, costs, and issues in public and private health insurance coverage and reforms	Assess efforts to reduce improper payments and fraud, waste, abuse in federal health care programs	Evaluate Medicare reform, financing and expenditures, operations, and program integrity	Evaluate Medicaid financing, expenditures, and oversight	Assess state and federal efforts to provide health care for vulnerable populations	Assess actions and options for improving VA's and DOD's health care services	Evaluate the effectiveness of federal programs to promote and ensure public health and prevent and respond to public health emergencies

Against the backdrop of continued spending growth, fundamental changes are under way in the structure and financing of health care. Although health care cost growth has moderated recently, by 2020, total health care spending in the United States is expected to reach more than \$3.6 trillion, or \$11,003 per capita, adjusted to 2010 dollars. (See [fig. 33](#).) Consequently, the health care sector is projected to continue to increase as a share of GDP—from about 13 percent in 1990 to about 18 percent in 2017. Growth in health care costs affects affordability of health care in general. It also raises expenditures for Medicare and Medicaid and creates federal budgetary pressures, because federal health care spending was \$916 billion in 2010—almost 27 percent of all federal spending—and is expected to grow to over 30 percent by 2017. (See [fig. 34](#).) The Patient Protection and Affordable Care Act of 2010 (PPACA) (Pub. L. No. 111-148) is intended to increase access to health care services by providing federal funds to states that choose to expand their Medicaid programs and establishing exchanges where individuals can access private insurance and certain lower-income individuals can receive federal subsidies for this coverage. These changes are likely to lead to increases in the number of individuals enrolled in private health plans and Medicaid and decreases in the number of the uninsured, although the size of these changes is uncertain. The federal government and states face significant challenges as they strive to implement PPACA—providing access to affordable insurance covering high-quality care for an aging and diverse population. The federal government also faces continuing challenges managing federal health care programs: Medicare for the aged and certain disabled individuals; public health programs; and health care services for other populations, such as veterans and military service members.

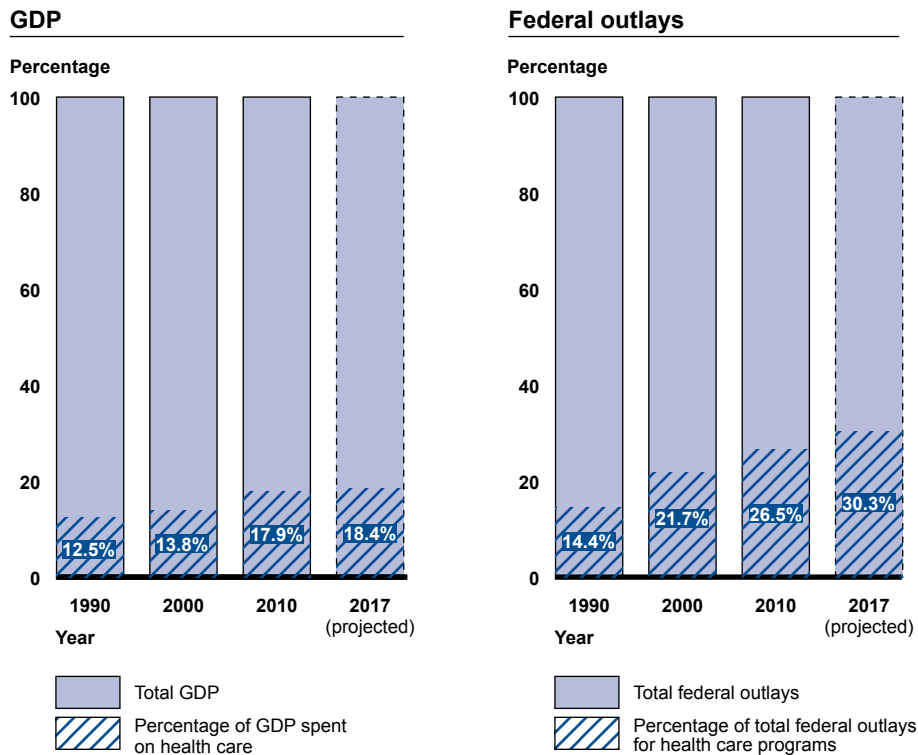
**Figure 33: Total and Per Capita National Health Care Spending, Calendar Years 1990, 2000, 2010, and 2020**



Source: GAO analysis of Centers for Medicare and Medicaid Services data.

Note: The dollar amounts for 1990, 2000, and 2010 and 2020 have been adjusted to be in constant 2010 dollars; the dollar amount for 2020 is projected.

**Figure 34: Total Health Care Spending as a Percentage of Gross Domestic Product, Calendar Years 1990 through 2017, and Federal Health Care Spending as a Percentage of Total Federal Spending, Fiscal Years 1990 through 2017**



Source: GAO analysis of Centers for Medicare & Medicaid Services and Office of Management and Budget data.

Note: The percentages for 1990, 2000, and 2010 are based on nominal dollar amounts; the percentage for 2017 is projected.



**Health care restructuring initiatives:** Federal, state, and private entities all have initiatives under way to promote access to high-quality health care services more efficiently by restructuring the organization of and payment for health care. For example, some payers are experimenting with provider payment systems that move away from fee-for-service toward global payments, which cover all services an individual needs, or a particular subset of services. Medicare, some private sector organizations, and state Medicaid agencies are experimenting with accountable care organizations that are designed to hold teams of providers responsible for all of a patient's care, thereby promoting care coordination and consideration of the likely costs and benefits of health care services provided to each patient. Both private insurers and Medicare are experimenting with methods for tying provider compensation to the quality and efficiency of care. Greater efforts to encourage transparency in prices and quality could lead to competition that could improve care quality and reduce costs. How well these and other initiatives will work and their effects on health care expenditures are still unclear, making it critical for GAO to monitor and evaluate these changes and their effect on federal, state, and consumer health care spending and outcomes.

**Access to health insurance:** Recent federal health care reform efforts intended to address the continuing decline of private health insurance coverage and the increasing numbers of uninsured are just beginning to take effect. PPACA has provisions affecting private and public coverage—notably, by establishing standards for private health insurance; requiring that most individuals obtain affordable health insurance or potentially pay a penalty; establishing new health insurance exchanges intended to provide consumers with access to private health insurance; and providing tax credits and cost-sharing subsidies to make this coverage more affordable; and expanding Medicaid coverage. Such reforms have begun to and will likely further expand access to health insurance coverage for some individuals, but will need to be carefully monitored to ensure effective oversight, as well as to determine their cost implications and effects on those already covered and on the health care system. Further, implementing these reforms requires complex new federal programs, intergovernmental relations, and data systems, and will require increased federal oversight, including assessing federal capacity and ability to effectively implement new enrollment systems, oversee state and private entities responsible for key functions, and ensure data privacy and security.

**Reduce improper payments, and fraud, waste, and abuse in federal health care programs:** A significant portion of improper payments in the federal government is related to federal health care programs such as Medicare and Medicaid. Providing health insurance for one in four Americans, Medicare and Medicaid together accounted for 59 percent (about \$63.5 billion) of the federal government's estimated improper payments. Due in part to their size and complexity, both programs face significant challenges in combating improper payments and potential

fraud, waste, and abuse. GAO's work indicates that although the Centers for Medicare & Medicaid Services (CMS) has taken steps to improve accountability, instances of potentially fraudulent activity, waste and abuse, as well as significant amounts of improper payments persist. Much of GAO's work has focused on examining agency controls to prevent and detect improper payments, and providing recommendations to strengthen program oversight. Focusing on prevention is important because overpayment recoupment can be costly and burdensome, and successful prosecution of potentially fraudulent behavior is challenging. In addition to Medicare and Medicaid, assessing risk and controls against improper payments and fraud, waste, and abuse in other federal health care programs is also important because they may be subject to similar inherent vulnerabilities. Over the next 5 years, GAO will continue to place high priority on examining efforts to reduce improper payments and potential fraud, waste, and abuse, and making recommendations for improved performance.

**Medicare:** Medicare's projected spending growth will continue to put pressure on the federal government and highlights the need to focus on changes to improve Medicare's financing and management. Medicare now finances health care for an estimated 50.7 million Americans who are age 65 or older or have disabilities, with total expenditures of \$574 billion in 2012. Medicare spending is expected to rise to \$955 billion by 2020. As the population ages and spending for medical care grows, changes to Medicare will be necessary to stem this rapid growth and ensure the program's long-term sustainability. Medicare's payment methods must be modified to encourage greater efficiency in the delivery of care, while improving care quality and preserving equitable access to appropriate care. The Secretary of Health and Human Services (HHS) has the authority to test innovative payment and service delivery models in Medicare, as well as in Medicaid, and the Children's Health Insurance Program (CHIP), such as using competition or negotiation to help reduce payment rates. Ensuring that promising new models are adequately evaluated and successful ones expanded will be important to both controlling program costs and improving health care outcomes. Due to the importance of Medicare to its millions of beneficiaries and providers, continued assessment of its payment methods, program management, and efforts to oversee quality of care provided to beneficiaries is warranted.

**Medicaid:** Medicaid's growth in spending also calls for increased federal oversight to ensure its financial and operational integrity. This federal-state program covered acute health care and long-term-care services for about 70 million low-income people in fiscal year 2011 through more than 50 distinct state-based programs. The aging population and the recession have increased pressure on the program, for which federal expenditures are projected to rise from over \$248 billion in fiscal year 2012 to over \$449 billion in fiscal year 2020. The increased federal expenditures are partially due to states' Medicaid

expansions under PPACA, for which the federal government will initially pay 100 percent of the costs; these expansions are estimated by CBO to increase enrollment by about 8 million people in 2014, growing to 12 million people in 2022. GAO has designated Medicaid as a high-risk program, in part because its decentralized state-administered structure makes federal oversight extremely challenging. CMS provides oversight at the federal level, but the states administer their respective programs' day-to-day operations. GAO's previous work has shown that continued attention is needed to Medicaid's fiscal oversight. Additional federal oversight of this large and fast-growing program will help address these concerns.

**Health care for vulnerable populations:** Federal and state governments are implementing programs that serve the complex health care needs of vulnerable populations. Strengthened federal oversight is essential to ensure that these programs effectively and efficiently provide access to high-quality and coordinated care. For example, beneficiaries dually eligible for both Medicare and Medicaid are generally poorer, are more likely to have extensive health care needs, and use more medications and other health care services than other Medicare beneficiaries. In 2010, spending exceeded \$300 billion to provide health care for about 9.9 million dually eligible beneficiaries. The federal government has new initiatives intended to improve care coordination for dually-eligible beneficiaries, increase their access to care, and reduce spending, but the effectiveness of these initiatives will not be clear for some time. In addition, the federal government and states provide funding through Medicaid for services provided to numerous other individuals in vulnerable populations, such as those needing home and community-based services and long-term care. In addition, other federal funding helps support health care for other vulnerable populations, such as those residing in medically underserved areas, low-income children such as those covered by Medicaid or CHIP, or those living with mental health and certain other conditions. Strengthened federal oversight of such programs is essential to ensure the effective and efficient provision of health care for vulnerable populations.

**Health care for veterans, military service members, retirees, and their dependents:** VA and DOD face challenges to improve two of the largest U.S. health care systems to better meet the needs of veterans, service members, military retirees, and their dependents. In fiscal year 2013, VA is expected to spend about \$53 billion and DOD about \$49 billion to provide health care to approximately 16 million eligible beneficiaries. Both systems face challenges to improve and adapt infrastructure and services in an era of growing demand for health care and increasing fiscal pressures. These departments also must meet the needs of service members returning from Iraq and Afghanistan as they transition from DOD's to VA's health care system. As a result of the influx of new veteran enrollees due in part to the return of veterans from combat and downsizing of the military, VA faces difficult

decisions about how best to allocate and use its resources efficiently. 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.

**Public health and response to public health emergencies:**

The federal government faces numerous challenges to effectively promote the public's health and respond to public health emergencies. Production of pharmaceuticals and other medical products has increasingly moved overseas, challenging the Food and Drug Administration's (FDA) ability to oversee the quality of pharmaceuticals and other medical products marketed in the United States. GAO has designated oversight of medical products as a High-Risk area. Ongoing shortages of many drugs critical for medical care contribute to continuing concerns. Further, recent public health threats—whether natural or man-made—have heightened concern about federal efforts to respond quickly and effectively. Emerging infectious diseases and antibiotic-resistant pathogens require timely and effective surveillance and prompt action by the Centers for Disease Control and Prevention, and effective coordination with other public health agencies at international, federal, state, and local levels. The use of anthrax as a weapon raised concerns about the nation's preparedness for biological terrorism attacks, while infectious diseases emerging in other countries have created threats that the United States has had to address. Further, disasters such as Hurricanes Katrina and Sandy have highlighted the need to plan effectively for catastrophic events that can disable a regional health care system.

The demands on the federal government to meet Americans' health care needs are growing in volume and complexity, as challenges to overseeing federal health programs escalate. GAO's forthcoming work on health coverage options, federal health programs' financing and management, steps taken to ensure access to and quality of care, and steps taken to 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 affecting the health care system**

**Key Efforts**

- Assess the development and effects of use of integrated delivery systems, such as accountable care organizations.
- Examine the effects of consolidation and of competition on the health care system.

- Analyze trends in the availability, transparency, and usefulness of information about the prices of health care services.
- Evaluate public and private efforts to ensure and encourage health care quality while containing costs.
- Examine the use of health information technology and its effects on the quality and costs of care.
- Examine efforts to address health care challenges, such as the adequacy of the health care workforce, including primary care providers, or provision of long-term care services.

### **Performance Goal 1.1.2**

#### **Assess trends, costs, and issues in public and private health insurance coverage and reforms**

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##### **Key Efforts**

- Analyze implementation of federal health care reforms, including PPACA, to identify (1) challenges for federal and state agencies and (2) the range of effects on health insurance and the health care system.
- Evaluate trends in and the distribution of health insurance coverage, including long-term care insurance, and employer sponsorship of private health insurance for employees and retirees, such as the Federal Employee Health Benefits Program.
- Analyze the coverage, costs, and affordability of products available to consumers in the individual and small-group insurance markets and in federally supported health coverage programs such as CHIP, and operation of the health insurance exchanges.
- Assess the impact of agencies' efforts to achieve compliance with federal and state health insurance standards and implement new programs and data systems intended to expand access to insurance coverage while ensuring eligibility and data security standards are met.

### **Performance Goal 1.1.3**

#### **Assess efforts to reduce improper payments and fraud, waste, and abuse in federal health care programs**

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##### **Key Efforts**

- Evaluate CMS's efforts to address improper payments and fraud, waste, and abuse in the Medicare program, including controls to prevent, detect, or reduce them.
- Evaluate CMS's and states' efforts to ensure Medicaid and CHIP program integrity, including safeguards to prevent or detect and address improper payments due to fraud, waste, and abuse.
- Examine risks in other federal health care programs for fraud, waste, and abuse, and agency efforts to reduce such risks and reduce the amount of improper payments.

#### **Performance Goal 1.1.4**

##### **Evaluate Medicare reform, financing and expenditures, operations, and program integrity**

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###### **Key Efforts**

- Evaluate CMS's management of Medicare, including its implementation of legislative reforms and its service to providers and beneficiaries.
- Assess the effects of Medicare coverage and payments on program expenditures, quality of health care services, and beneficiaries' access to services and their out-of-pocket costs.
- Examine beneficiaries' access to and quality of health care services.
- Analyze Medicare's financial condition and the potential effects of financing or structural reforms on future expenditures.
- Analyze CMS's efforts to disseminate information to help consumers make more informed health care choices, such as on hospital pricing and facility quality indicators.

#### **Performance Goal 1.1.5**

##### **Evaluate Medicaid financing, expenditures, and oversight**

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###### **Key Efforts**

- Evaluate CMS's oversight of state financing arrangements and state and federal expenditures for Medicaid.
- Examine state Medicaid payments and CMS's oversight of payments, including the payments to Medicaid managed care plans, supplemental payments, and other payment and cost-related issues.
- Evaluate CMS's and states' efforts to ensure program integrity, including safeguards to prevent or detect and address improper payments.

#### **Performance Goal 1.1.6**

##### **Assess state and federal efforts to provide health care for vulnerable populations**

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###### **Key Efforts**

- Analyze public and private payment and strategies to provide access to or to coordinate care for vulnerable populations, such as beneficiaries dually eligible for Medicare and Medicaid and low-income children covered by Medicaid or CHIP.
- Assess management and oversight of federal agencies or programs other than Medicaid and Medicare that provide or fund health care to vulnerable populations, such as Federally Qualified Health Centers that provide community-based care.



- Review federal requirements and standards and their use in ensuring access to and quality of medical, oral health, and long-term care for vulnerable populations, such as elderly and disabled beneficiaries needing long-term care, and low-income children needing oral health or preventive care, and providers' compliance with these requirements and standards.
- Evaluate the effectiveness of programs to provide prevention, treatment, and other services related to mental health conditions, including substance abuse.

### **Performance Goal 1.1.7**

#### **Assess actions and options for improving VA's and DOD's health care services**

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##### **Key Efforts**

- Evaluate VA's and DOD's efforts to individually and jointly deliver health care services, and assess implications of changes to health benefits and health care delivery systems.
- Review implementation of VA resource allocation and budget formulation and execution practices.
- Assess vulnerability of VA's and DOD's health care systems to duplication, fraud, waste, abuse, and mismanagement.
- Examine access to and quality and efficiency of care for VA and DOD beneficiaries.
- Evaluate systems to manage VA and DOD health care operations, such as acquisitions, human resources, financial management, and information technology systems.

### **Performance Goal 1.1.8**

#### **Evaluate the effectiveness of federal programs to promote and ensure public health and prevent and respond to public health emergencies**

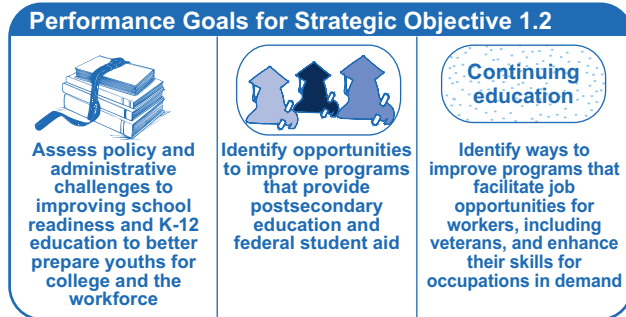
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##### **Key Efforts**

- Assess the regulatory structure for ensuring the safety and efficacy of medical devices, drugs, and other medical products and therapies.
- Evaluate efficiency and effectiveness of public health agency programs and operations.
- Assess the effectiveness of federal programs to ensure federal, state, and local governments' preparedness for a public health emergency.
- Evaluate the development and acquisition of countermeasures for biodefense.
- Evaluate preparedness of federal agencies to detect and counter emerging threats to the nation's health.

# STRATEGIC OBJECTIVE 1.2

## Lifelong Learning to Enhance U.S. Competitiveness

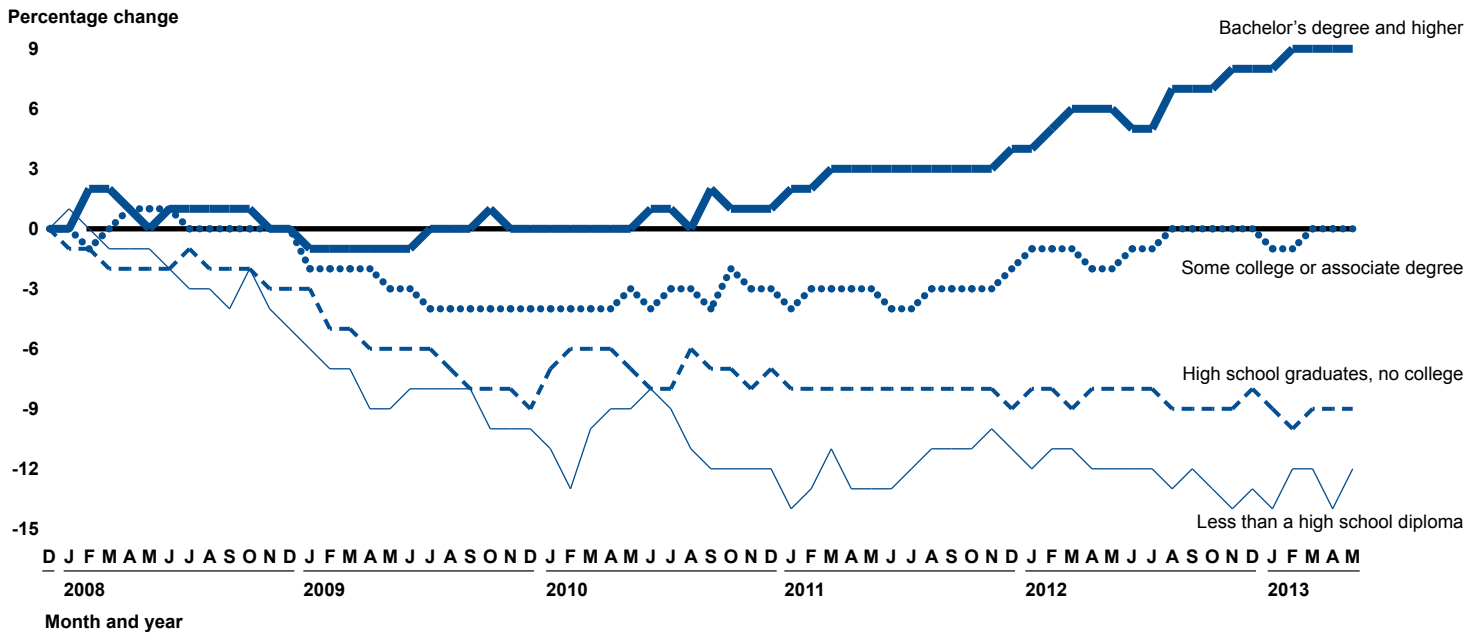


Ensuring access to quality lifelong learning opportunities is central to enhancing U.S. competitiveness in the global economy. There are, however, several challenges to ensuring that access. First, many students do not receive quality early learning and primary education (K-12) opportunities, resulting too frequently in high school graduates being unprepared for college or the workplace. One national assessment shows that only 35 percent of American eighth grade students are proficient in mathematics.

Over the last decade, college tuition rates have risen at about three times the rate of inflation, and federal student loan debt now surpasses \$1 trillion. Moreover, the federal government has invested sizable amounts in workforce training programs to help workers gain the skills needed to secure employment in the 21st century. However, the workforce system continues to struggle matching available workers with workforce needs.

Further, while unemployment remains relatively high overall, those with low levels of education have faced an even worse employment outlook in recent years (see [fig. 35](#)). Looking forward, as both demographics and the economy continue to change, the United States will need to address these challenges to remain at the forefront of the global economy.

**Figure 35: Change in Employment by Education Level, 2007–2013**



Source: Bureau of Labor Statistics.

**Educating children:** With large numbers of youth either dropping out of school or graduating unprepared for college or the workforce, the federal government has focused on making early childhood and K-12 education a seamless and academically rigorous experience. For example, the administration has worked to enhance the quality of early education through multiple initiatives, including changes to the Child Care and Development Fund. The administration’s new pre-kindergarten initiative is also designed to help states improve early learning and, ultimately, school readiness.

As for K-12 education, after years of distributing funding primarily through formula grants with only small gains in student performance, federal policymakers have begun using competitive grant programs to generate change in states. For example, selected states have begun major reforms, such as adopting academic standards aligned with college and workplace requirements, as a result of \$4 billion in Race to the Top grants. However, GAO has identified significant implementation challenges that the federal government must address, such as a lack of oversight and limited capacity to implement reforms at all levels of government. It will be essential for the federal government to address these obstacles and evaluate program outcomes. Additionally, the federal government must ensure that formula grant programs, such as Title I and Individuals with Disabilities Education Act—which provide funding for the education of low-income and disabled students—are improving student performance. In particular, federal programs must improve performance in science, technology, engineering, and mathematics, critical subjects for success in a global economy.

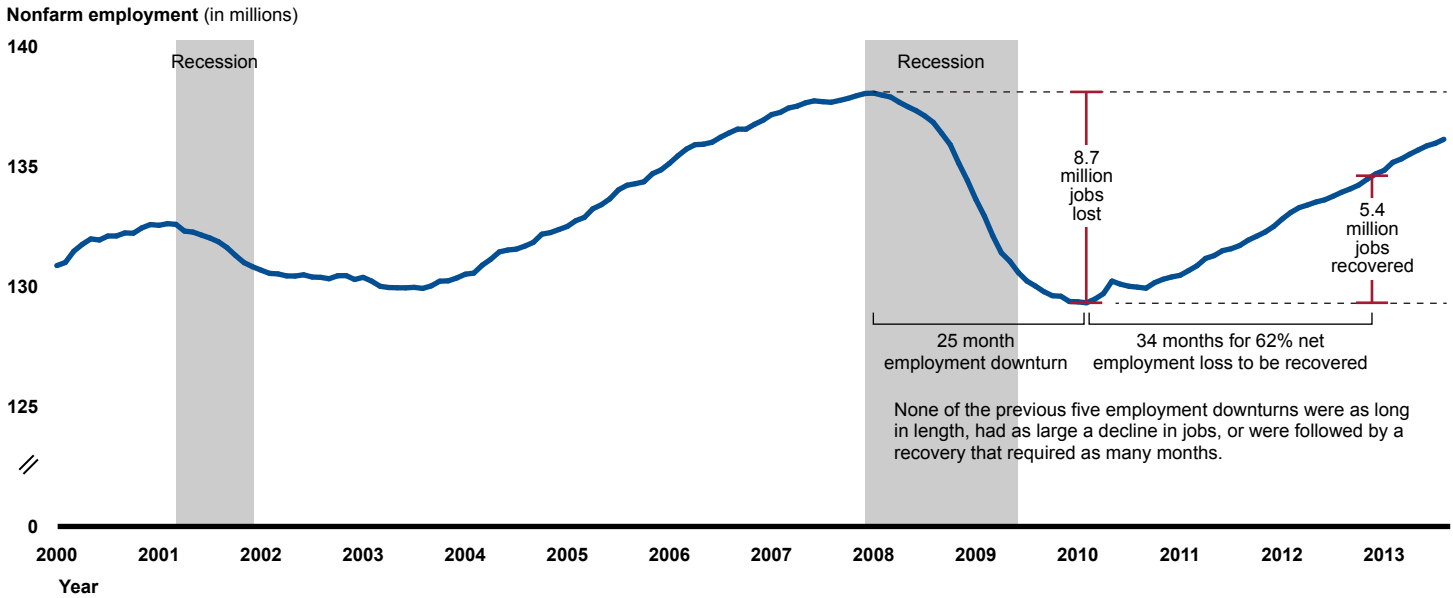
**Postsecondary education:** Education beyond high school is correlated with higher earnings and employment levels, with the greatest benefits accruing to college graduates. Accordingly, the federal government provides billions of dollars each year to help students and their families cover the cost of postsecondary education through programs administered by the Departments of Education, Defense, and Veterans Affairs. The federal government also supports postsecondary access through tax expenditures—including tax credits, deductions, exemptions, and tax-preferred savings programs—that reduce federal tax liabilities for millions of tax filers annually.

Yet despite an increase in the number of students pursuing postsecondary education over the last decade, graduation rates have not changed significantly and the United States is being outpaced internationally in the share of 25- to 34-year-olds with an associate degree or higher. In addition, college affordability presents greater challenges: state support has declined while tuition, fees, and student loan debt have all risen. Given the federal government's current fiscal constraints, it will be important to (1) strengthen coordination and oversight of federal programs and policies that support postsecondary education access, affordability, and completion; and (2) safeguard these funds to meet the needs of future students, including returning veterans.

**Employment and training:** Long-term unemployment and the changing needs of employers underscore the importance of federally funded employment and training programs. Concerns remain about the pace of job creation, especially among groups hit hard by the recession (see [fig. 36](#)). In addition, over the next few years, hundreds of thousands of service members are expected to transition to civilian life, some of whom may face multiple challenges to obtaining employment. Concerns have also been raised about potential mismatches between job seekers' skills and those sought by employers. The largest source of federal funding—providing almost \$3 billion in fiscal year 2013—to address such issues, the Workforce Investment Act (WIA), has been awaiting reauthorization since 2003.

Key questions have been raised about the federal investment in workforce development, including (1) how well the system identifies current and future occupations in demand; (2) the effectiveness of employment services and the role of training as one of those services in a constrained budget environment; and (3) how to align programs and services to provide a clear path to employment for different targeted groups without creating unnecessary overlap or duplication. Answers to these questions will be an important part of ensuring the prudent use of federal funds for employment and training.

**Figure 36: Nonfarm Employment, 2000–2013**



Source: Bureau of Labor Statistics.

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 1.2.1**

**Assess policy and administrative challenges to improving school readiness and K-12 education to better prepare youths for college and the workforce**

**Key Efforts**

- Evaluate the cost, coordination, potential overlap, and availability of child care, early childhood education, and K-12 programs.
- Assess efforts to improve disadvantaged populations’ academic outcomes.
- Evaluate federal efforts to oversee and manage education initiatives, particularly in science, technology, engineering, and mathematics.

**Performance Goal 1.2.2**

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

**Key Efforts**

- Evaluate how well programs and policies designed to promote postsecondary education access, affordability, and completion achieve their goals.
- Assess efforts to strengthen accountability for student outcomes.
- Evaluate oversight and management of postsecondary education and financial assistance programs.

### **Performance Goal 1.2.3**

#### **Identify ways to improve programs that facilitate job opportunities for workers, including veterans, and enhance their skills for occupations in demands**

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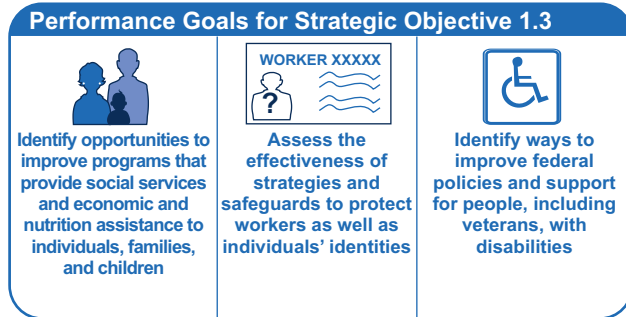
##### **Key Efforts**

- Evaluate how employment and training programs are responding to changing economic and budgetary conditions to better assist job seekers, including veterans.
- Evaluate federal efforts to oversee and manage employment and training programs and identify potential overlaps.
- Evaluate efforts to oversee employment and training providers and efforts to coordinate service delivery.



# STRATEGIC OBJECTIVE 1.3

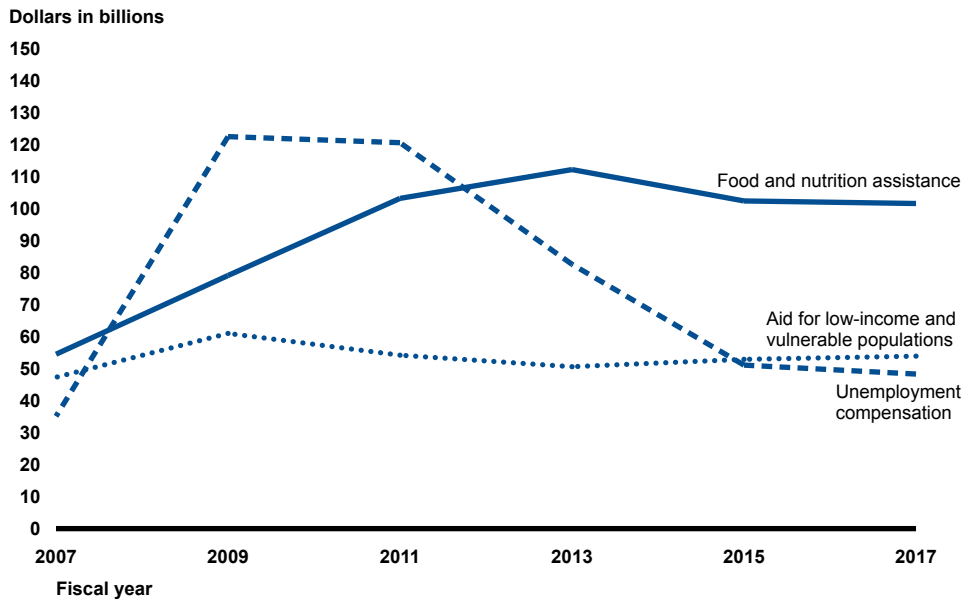
## Benefits and Protections for Workers, Families, and Children



Through a wide range of programs, the federal government, often through states, plays a crucial role in promoting and supporting employment among those able to work, aiding those unable to provide for themselves, and protecting vulnerable populations. In fiscal year 2013, the federal government invested about \$500 billion in programs that form the foundation for the nation's social safety net, such as programs offering food assistance and disability benefits. Yet the growing federal deficit, the economic downturn, and changing workforce demographics—driven heavily by the aging of baby boomers—contribute to an increasing demand for supports and benefits. This increased demand challenges customary federal approaches.

**Assistance programs:** The severe economic downturn led to a significant expansion of certain key assistance programs during the recession and, in some cases, during the recovery. These programs continue to provide needed benefits, such as financial or food assistance, or protection against abuse and neglect for vulnerable groups, such as children and older adults. For example, [figure 37](#) shows rising outlays for food and nutrition assistance programs, driven mainly by the Supplemental Nutrition Assistance Program (SNAP). Further, the state and local government sectors continue to face near-term and long-term fiscal challenges as they face an increasing gap between receipts and expenditures in the coming years, raising questions about the capacity of state-administered assistance programs to deliver benefits and services to target populations, as well as account for the billions of dollars in benefits that are incorrectly paid through social programs each year. It will be important for GAO to examine federal and state efforts to deliver benefits and services that appropriately balance program integrity with benefit access and that promote cost-effective approaches to achieving program goals.

**Figure 37: Estimated and Actual Outlays for Selected Assistance Programs, Fiscal Years 2007–2017**



Source: GAO analysis of Office of Management and Budget and Department of Health and Human Services data.

Note: Outlays are estimated beginning in fiscal year 2013.

**Worker protections:** Efforts to ensure worker safety and fair employment practices will continue to be important as long as employers need to increase productivity in an increasingly competitive global economy. For those who are already working, the government faces challenges protecting safety and health, wages, collective bargaining rights, and equal employment opportunities, as well as sensitive personal information such as Social Security numbers (SSN).

Factors affecting these efforts include (1) changes in today’s work arrangements, such as the increasing use of telework, temporary workers, and independent contractors; (2) employers’ needs for foreign workers when a sufficient number of U.S. workers cannot be found to do the work required; and (3) the SSN’s centrality as an identifier in vital transactions such as obtaining a driver’s license.

With these factors in mind, GAO will continue to assess federal and, where applicable, state efforts to (1) ensure compliance with worker protection laws; (2) guarantee the timely and legal processing of visa applications and the adequacy of wages and housing provided to guest workers; and (3) safeguard SSNs and prevent their improper use.

**Disability programs:** In fiscal year 2013, the Social Security Administration and Department of Veterans Affairs will collectively provide an estimated \$257 billion in cash disability benefits to about 19.7 million beneficiaries. Recently, a challenging job market has fueled program growth, and in a fiscally strained environment, these programs struggle to provide decisions and to update eligibility criteria to align with modern concepts of disability. With 2.2 million service

members deployed for Operation Enduring Freedom and Operation Iraqi Freedom by December 2012, veteran disability programs have been strained, and some of these veterans may need support transitioning into their communities.

GAO's 2013 High-Risk update noted that federal disability programs represent a patchwork of policies and programs without a unified strategy or set of national goals and do not always fully incorporate medical and technological advances. For example, GAO recently identified 45 programs that provide employment supports for individuals with disabilities in a fragmented and, in some cases, overlapping manner. GAO will continue to assess efforts to better position disability programs to provide meaningful and timely support for individuals with disabilities.

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 1.3.1**

#### **Identify opportunities to improve programs that provide social services and economic and nutrition assistance to individuals, families, and children**

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##### **Key Efforts**

- Determine whether social, economic, and nutrition programs achieve their goals and appropriately direct 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**

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##### **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, including veterans, with disabilities**

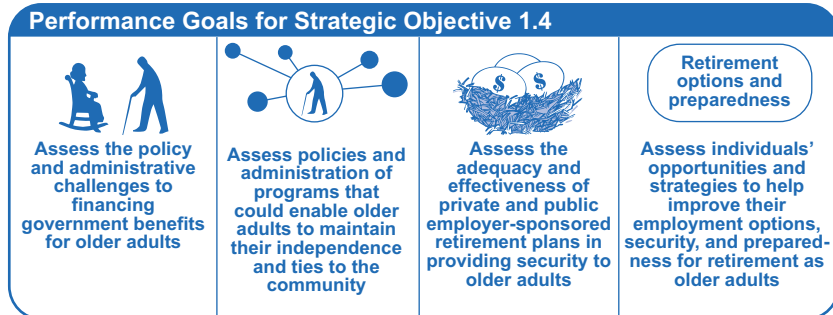
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##### **Key Efforts**

- Assess the management, operations, and program integrity of federal disability programs and whether they follow best practices.
- Assess DOD and VA services to service members and veterans with disabilities, including services supporting the transition to civilian life.
- Assess efforts to modernize and coordinate federal policies and programs that provide support and services to people with disabilities.

# STRATEGIC OBJECTIVE 1.4

## Supporting the Financial Security and Well-being of an Aging Population



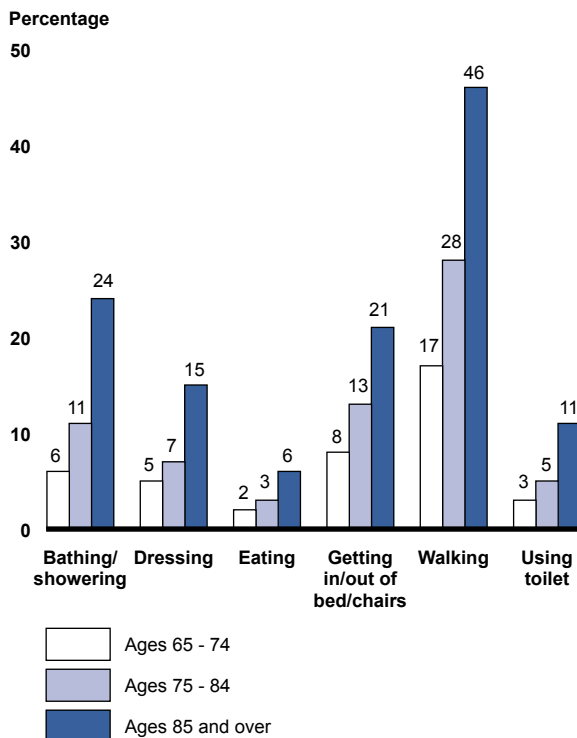
Ensuring that older adults are able to enjoy a secure retirement has traditionally been a shared responsibility of government, employers, and individuals themselves. However, various trends are now converging that make fulfilling this responsibility increasingly difficult. With longer life spans and the aging of the baby boom generation, the current support structure may not be able to meet expanding needs. By 2030, nearly 20 percent of the people in the United States will be 65 or older, compared with less than 10 percent in 1970. Social Security faces future shortfalls, which could result in tax increases, benefit reductions, or both. Despite the growing need for community-based services to help older adults remain independent, federal funding for such services is likely to remain flat, at best, given current fiscal pressures. Meanwhile, employer-provided retirement plans have been shifting more responsibility and risk to individuals for ensuring adequate savings. As a result, many individuals may have to work longer and save more to provide for themselves in retirement. These trends are unlikely to abate in the near future. Policymakers will need to consider new ways to bolster the efforts of government, employers, and individuals to support the financial security and well-being of an aging population.

**Social Security benefits:** Social Security benefits are the foundation of a secure retirement for most older adults in this country. Yet, particularly as the baby boom generation retires, the program faces financial challenges that must be addressed to avoid future tax increases or benefit reductions. Although the Social Security trust funds are not expected to be depleted until sometime after 2030, the program has been paying out more than it takes in since 2010. The Social Security Administration (SSA) projects that its deficit will average about \$75 billion between 2013 and 2018, and then rise steeply after that. Policymakers will need to take steps to ensure the long-term solvency of the program without eroding participants' retirement security, particularly for low-income workers and other

vulnerable populations. In addition, SSA will need to develop a comprehensive plan for how it will deliver high-quality and accurate service while managing growing work demands with a constrained budget.

**Maintaining independence:** The ability to function independently declines significantly with age. As the elderly population grows, so will the demand for supports that can allow older adults to age in place, including nutrition services and assistance with daily activities such as bathing and dressing (see [fig. 38](#)). Maintaining their independence and ties to the community as they age is not only the preference of most older adults, but also the goal of federal policies that promote these services and supports as an alternative to facility-based long-term care. The Older Americans Act provides funds for developing a comprehensive, coordinated, and cost-effective system of home and community-based services for older adults. Since 2005, funding under the act has helped support a national network of public and private entities working to build more aging-friendly communities through planning, coordination, and program development. As the population continues to age, congressional oversight will be needed to monitor federal efforts and gauge the appropriate level of federal involvement in this area.

**Figure 38: Percentage of Noninstitutionalized Persons with Limitations in Activities of Daily Living by Age Group, 2010**

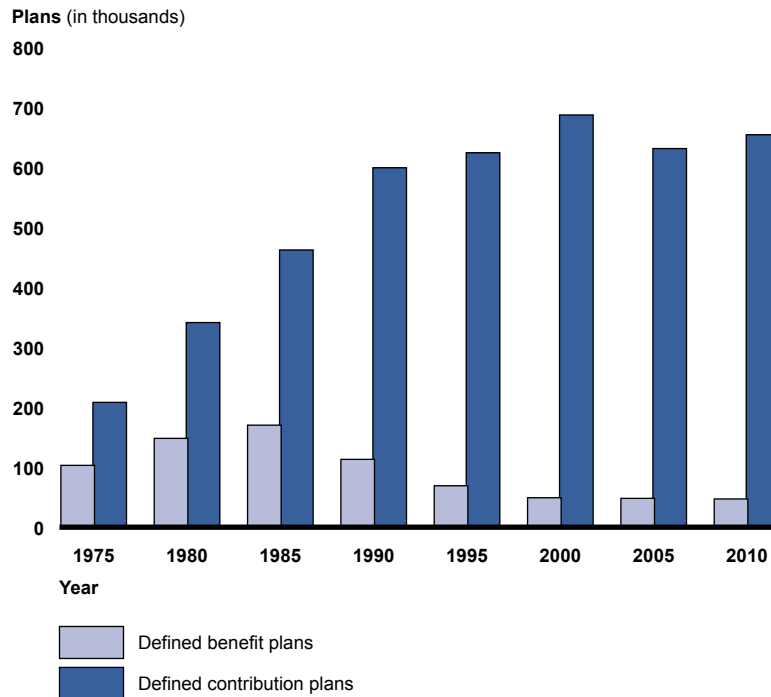


Sources: U.S. Department of Health and Human Services (based on data from U.S. Census Bureau's *American Community Survey*; Centers for Medicare and Medicaid Services' *Medicare Current Beneficiary Survey*; National Center for Health Statistics, including the National Center for Health Statistics Health Data Interactive data warehouse).



**Employer-sponsored retirement plans:** Despite significant tax subsidies, only about half of the private sector workforce participates in a retirement plan. Further, a decreasing number of employers are offering traditional defined benefit plans (see [fig. 39](#)), and many are underfunded. With 401(k) plans now dominant, participants bear greater risks for choices about contributions, investments, and savings that can have significant consequences for their retirements. Meanwhile, the Pension Benefit Guaranty Corporation (PBGC), which insures defined benefit plans, has had a net accumulated deficit since 2002 and so has remained on GAO’s list of high-risk programs. At the end of fiscal year 2013, its deficit had grown to more than \$35 billion and PBGC estimated its loss exposure for underfunded plans at nearly \$329 billion. The federal government and many state and local governments, as employers, also face financial challenges in providing adequate retirement benefits to their employees, especially for those not covered by Social Security. These challenges may require policymakers to consider other ways to ensure adequate income for retired Americans.

**Figure 39: Number of Defined Benefit and Defined Contribution Plans, 1975–2010**



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

To improve the effectiveness of private employer-sponsored retirement plans, the federal government and plan sponsors will need to work together to take action in the following areas:

- **Oversight and transparency:** Provide clearer guidance and oversight of 401(k) plans to keep fees reasonable and help participants make good choices.

- **Coverage and participation:** Explore ways to increase participation in retirement plans and promote designs that reflect more of the advantages of traditional defined benefit pensions.
- **PBGC's risk:** Develop strategies to address PBGC's financial challenges.

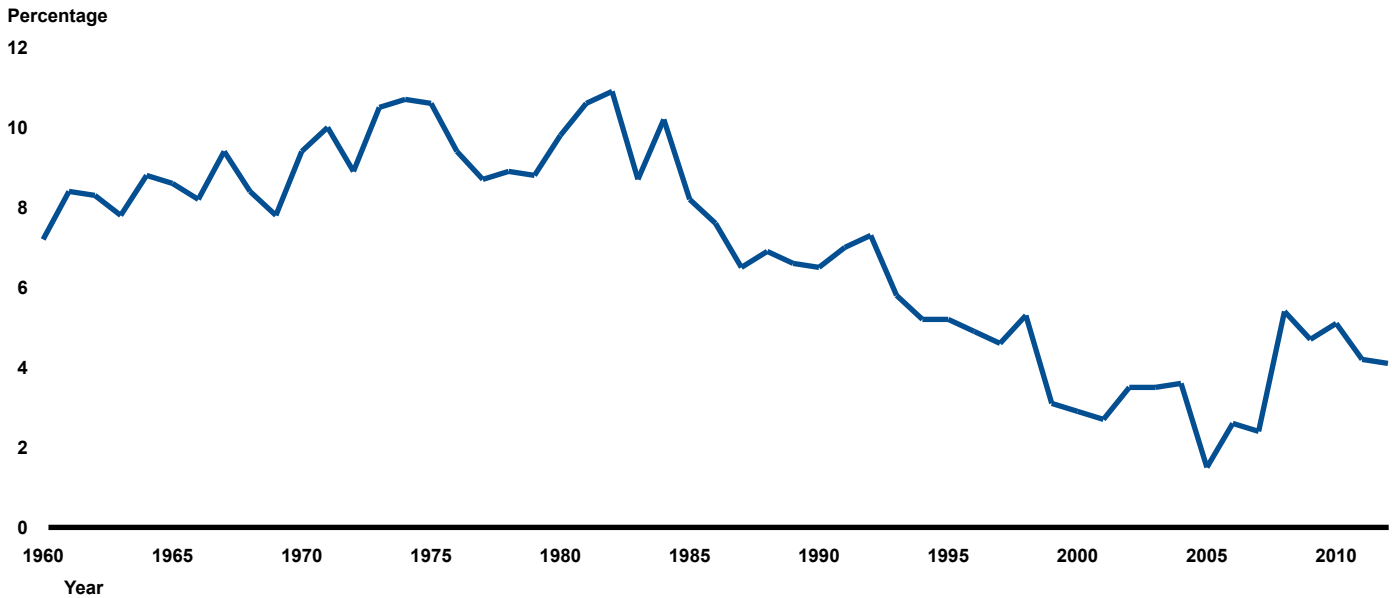
To improve the effectiveness of public sector retirement plans, government entities at all levels will need to develop strategies to manage the funding of their employees' pensions while facing other budgetary challenges.

**Preparing for a secure retirement:** As responsibility for preparing for a secure retirement shifts increasingly to the individual, efforts will be needed to help older adults:

- **Work longer:** According to projections from the Bureau of Labor Statistics, labor force participation among those age 65 and older is expected to rise to 22.6 percent by 2020, but laid-off older workers typically experience longer periods of joblessness and re-employment at lower wages. Government programs and employers need to address the labor market challenges posed by an aging population, while encouraging continued work.
- **Save more:** To maintain one's standard of living in retirement, many individuals will need to supplement their Social Security and employer-sponsored benefits with personal savings; however, the personal savings rate has been declining since the early 1980s (see [fig. 40](#)). Fostering increased retirement savings among lower-income workers is particularly challenging. Not only is it more difficult for many low-income workers to set aside funds for retirement, but taking on the added tasks of managing an individual account may be overwhelming for workers at any income level. Many individuals are reported to have difficulty with basic financial concepts, yet they face increasingly complex financial decisions to plan for a secure retirement.
- **Avoid financial exploitation:** Illegal or improper use of older adults' funds, property or assets has been estimated to cost the elderly as much as \$3 billion annually.<sup>35</sup> The federal government needs to strengthen programs to prevent, detect, and respond to elder financial exploitation.

<sup>35</sup>MetLife Mature Market Institute et. al., *The MetLife Study of Elder Financial Abuse: Crimes of Occasion, Desperation, and Predation against America's Elders* (2011). This estimate is based on a study of media reports from April to June 2010.

**Figure 40: Personal Saving Rate as a Percentage of Disposable Income, 1960–2012**



Source: Bureau of Economic Analysis data.

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 1.4.1**

**Assess the policy and administrative challenges to financing government benefits for older adults**

**Key Efforts**

- Analyze policies to ensure Social Security’s financial stability and continued effectiveness as the foundation of retirement income.
- Explore the experiences of other national pension systems for lessons learned and insights that can inform the U.S. policy debate.
- Assess challenges facing the Social Security Administration in providing customer service and ensuring program integrity.

**Performance Goal 1.4.2**

**Assess policies and administration of programs that could enable older adults to maintain their independence and ties to the community**

**Key Efforts**

- Examine federal efforts to develop a comprehensive system of home and community-based services to enable older adults to age in place.

- Examine federal efforts to work with state units and area agencies on aging to establish and sustain various models of aging-friendly communities.
- Examine the availability, accessibility, and use of home and community-based services by older adults in contrast to facility-based long-term care.

### **Performance Goal 1.4.3**

#### **Assess the adequacy and effectiveness of private and public employer-sponsored retirement plans in providing security to older adults**

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##### **Key Efforts**

- Examine efforts to improve the information and oversight of 401(k) plans and address challenges related to investment options, risks, and services.
- Explore international experiences with regulating account-based plans, implementing universal pension coverage, and enhancing employer-based retirement income that could inform U.S. policy.
- Examine the nature and causes of PBGC's financial shortfall and efforts to develop a strategy for meeting its long-term funding obligations.
- Assess the challenges facing federal, state, and local governments in funding and managing the public retirement plans of their employees.

### **Performance Goal 1.4.4**

#### **Assess individuals' opportunities and strategies to help improve their employment options, security, and preparedness for retirement as older adults**

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##### **Key Efforts**

- Identify domestic and international strategies to extend older workers' labor force participation, such as phased retirement, and address barriers limiting their employment.
- Examine new ways to foster increased contributions to tax-deferred retirement savings vehicles such as individual retirement accounts and annuity contracts.
- Examine the effectiveness of policies to improve financial literacy and preparation for a secure retirement.
- Explore strategies to combat elder financial exploitation and enhance collaboration between federal fiduciary programs and guardianship programs in the states.

# STRATEGIC OBJECTIVE 1.5

## A Responsive, Fair, and Effective System of Justice

Performance Goals for Strategic Objective 1.5			
 <p>Assess federal efforts to prevent, deter, investigate, and prosecute terrorism, violent crime, and cybercrime</p>	 <p>Assess federal efforts to protect vulnerable populations and ensure justice for all</p>	 <p>Review the federal government's efforts to confine, rehabilitate, and monitor the release of convicted offenders</p>	 <p>Evaluate federal efforts to assist communities with ensuring a fair and effective criminal justice system through federal grants</p>

The 2013 Boston Marathon bombing and Navy Yard shooting demonstrate that the American people continue to face threats on their own soil from terrorist acts and mass shootings. At the same time, new types of crime—for example, rising abuse of prescription drugs and criminals' growing use of the Internet, such as for financial fraud and child pornography—challenge law enforcement's approaches and resources. The Department of Justice (DOJ) is responsible for investigating and prosecuting terrorist acts and traditional crimes, and incarcerating guilty individuals. DOJ and the federal judiciary are also responsible for ensuring that all parties in the criminal justice system, including victims and defendants, are treated fairly and afforded their rights.

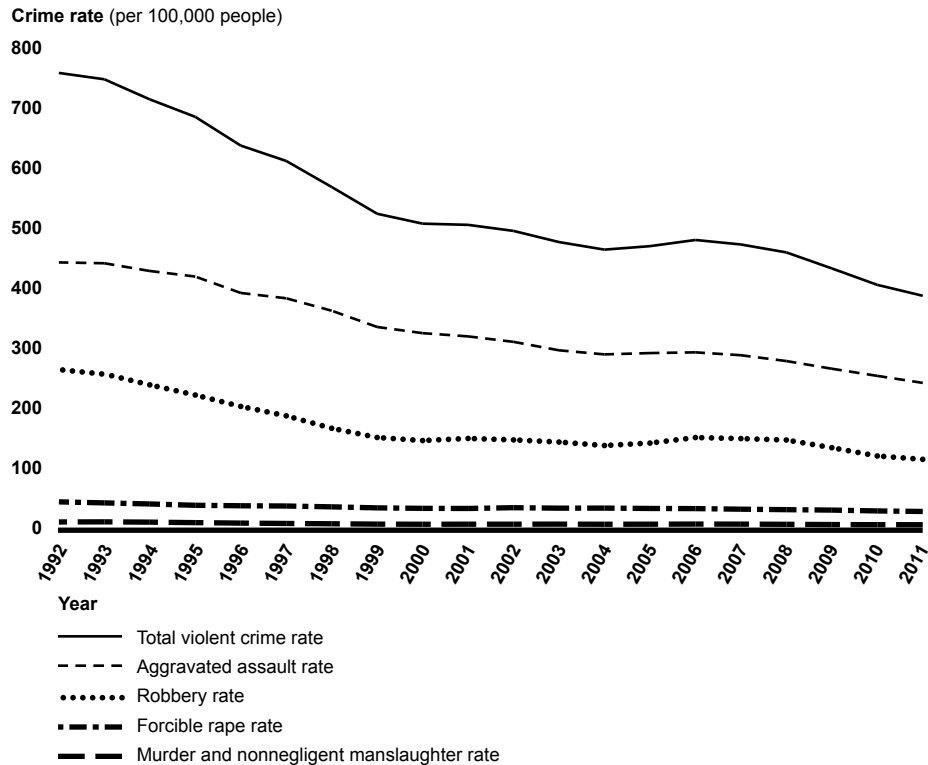
Given the breadth of its mission and the constrained fiscal environment—including a 5 percent budget decrease in 2013 as a result of sequestration—DOJ will likely face significant trade-offs when determining how to allocate its resources. Through its work, GAO will continue to inform the Congress of how well DOJ enforces federal criminal laws and manages its tradeoffs and resulting impacts; where it can eliminate inefficiencies and overlap; and how it can better educate state, local, and tribal law enforcement on ways to use federal grant funds most effectively.

### **Prevention of terrorist threats, violent crime, and gun violence:**

According to the National Consortium for the Study of Terrorism, 210 violent extremists are known to have radicalized in North America from 1989 through 2011 to the point of supporting violence. To address this problem, DOJ is partnering with other federal, state, local, and international law enforcement entities, sharing intelligence and information with them, as well as investigating increasing numbers of tips and leads to identify and prevent incidents. DOJ has also stated that in its efforts to combat such threats, it will be important to preserve the privacy and civil liberties of all persons.

Violent crime has decreased by about 51 percent since 1992, but it continues to pose harm to communities (see [fig. 41](#)). DOJ has several efforts to address violent crime, including gang prevention strategies; strategies to combat the trafficking and use of illegal drugs, as well as diversion of prescription drugs; and plans to help prevent gun violence.

**Figure 41: Violent Crime Rates in the United States, 1992–2011**



Source: FBI Uniform Crime Reporting Program.

Federal Bureau of Investigation (FBI) Uniform Crime Report data for 2010 show that firearms were used in 68 percent of murders committed. As the nation debates how to balance Second Amendment rights to bear arms with the fact that criminals, including mass shooters, have been able to access firearms, DOJ’s FBI and Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) play important roles in keeping firearms out of the wrong hands. The FBI conducts background checks and ATF establishes regulations for firearms dealers to help ensure that persons with a criminal history are not able to purchase firearms.

To address terrorism and other crimes, DOJ will need to ensure that its law enforcement components coordinate, collaborate, and eliminate inefficient overlap, as well as work with state, local, and tribal law enforcement agencies. For example, states play a critical role in providing FBI with the data it needs for background checks, including mental health and drug abuse records, but still have gaps to fill, as GAO’s work has demonstrated.

**Drug control:** The rate of illicit drug use among Americans aged 12 or older in 2012 was the highest that it has been in the past decade, according to the National Survey on Drug Use and Health. Abuse of illicit drugs results in significant public safety, public health, and economic consequences for the United States. For example, a DOJ study estimated that the economic impact of illicit drug use, including the costs of crime and health care, was more than \$193 billion in 2007. As GAO's work has demonstrated, addressing this problem will require federal agencies to assess how to best use limited resources to control the supply of and demand for illicit drugs and effectively coordinate federal, state, and local efforts. For example, the Office of National Drug Control Policy will need to continue to identify ways to increase coordination across the 76 federal programs that provided drug abuse prevention and treatment services in fiscal year 2011. In addition, the Drug Enforcement Administration and other agencies will need to ensure that they collaborate and assess program results to address such issues as prescription drug diversion and the nexus between drug trafficking and terrorism.

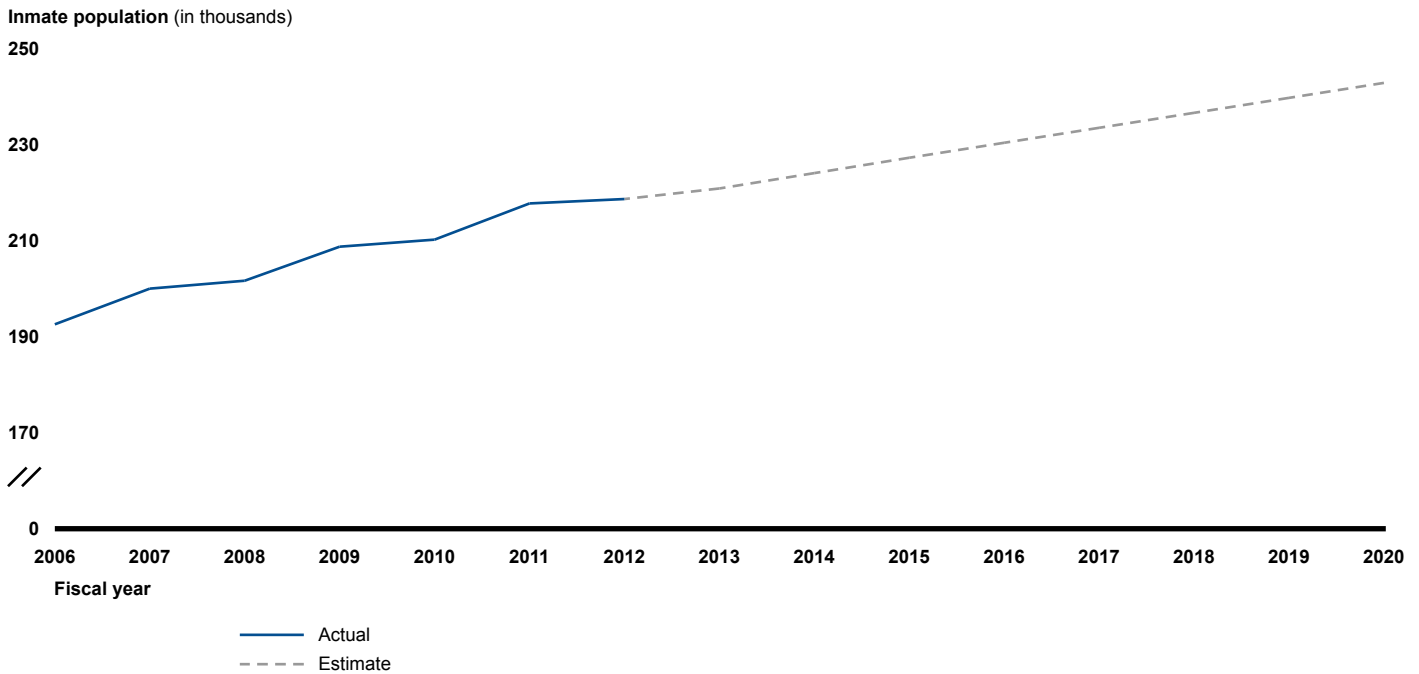
**Combating cyber crime:** Americans' reliance on computers and mobile devices for daily communications and routine tasks, such as online banking and shopping, has increased the risk of cyber crimes—such as identity theft, organized retail crime, and charity and emergency-benefit fraud. In 2012, the Internet Crime Complaint Center—which is a joint venture among the FBI, the Bureau of Justice Assistance, and the National White Collar Crime Center—received 289,874 complaints from individuals who reported being victims of cyber crime. Nearly 40 percent of these individuals reported facing financial losses totaling more than \$525 million. One estimate indicates that cyber crimes can affect as much as 17 percent of the online population in some countries, compared with 5 percent for more traditional crimes such as burglary and car thefts. To position itself to address these trends, DOJ will need to continue to develop the technical expertise to prevent, detect, investigate, and prosecute cyber crime—such as conducting digital forensic examinations of electronic devices and accurately interpreting the results as evidence.

**Protecting vulnerable populations:** Congress has passed several laws to protect vulnerable populations and help ensure public safety. For example, the PROTECT Act of 2003 and the Adam Walsh Act of 2006 aim to protect children from sexual exploitation and the general public from the threat posed by persons convicted of a sex offense. Studies estimate that 1 of every 5 girls and 1 of every 7 to 10 boys are sexually abused, and that arrests for online child pornography rose from about 2,100 to 5,300 (150 percent) between 2006 and 2010. Other laws, for example, aim to protect the elderly from abuse and women from violence. DOJ has important responsibilities, in conjunction with states, localities, and tribes, to enforce these laws as well as ensure that the country's most vulnerable populations are protected. GAO's work has identified ways that DOJ can provide states, localities, and tribes with guidance, training, funds, and other support to help DOJ enforce these laws.



**Federal inmate population:** The United States faces difficult decisions in managing a growing and increasingly costly federal inmate population that now accounts for about 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 overcrowded and increasingly aging prison system. The federal prison population grew by 50 percent from 2000 to 2012, and additional growth is projected (see [fig. 42](#)). BOP’s annual budget has grown by 81 percent during this same time period. BOP facilities were operating at 39 percent over capacity at the end of 2011 and overcrowding is expected to continue.

**Figure 42: Growth of Federal Prison Population, Fiscal Years 2006–2020**



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

Addressing overcrowding will require DOJ to carefully assess and balance several competing 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). Options for addressing overcrowding include (1) reducing the size of the projected inmate population by reforming sentencing laws, allowing alternatives to incarceration, or providing BOP greater sentencing flexibility; (2) increasing capacity in the federal system by constructing new prisons, contracting for additional private capacity, or adding additional staff; or (3) taking some combination of both approaches.

**Grant funding:** DOJ plays a critical role in equipping states and localities to address crime by providing federal grant dollars for prevention, intervention, and enforcement programs. From fiscal years 2005 through 2012, approximately \$33 billion has been appropriated to

support crime prevention, law enforcement, and crime victim services through more than 200 federal financial assistance programs that DOJ manages. In July 2012, GAO found that DOJ's grant programs overlap across 10 justice areas, contributing to the risk of unnecessarily duplicative grant awards for the same or similar purposes. As 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. GAO's work has also shown that DOJ needs to enhance its coordination across grant programs with similar goals and grantees. DOJ generally lacks visibility over the extent to which its grant programs overlap and thus is not positioned to minimize the risk of potential unnecessary duplication before making grant awards. This lack of visibility also hinders the department's ability to better target its limited grant-funding resources—especially important in an era of limited fiscal resources.

GAO's prior and future work on the federal system of justice can help federal decision makers address this 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 federal efforts to prevent, deter, investigate, and prosecute terrorism, violent crime, and cyber crime**

##### **Key Efforts**

- Assess DOJ's efforts to address terrorism, including efforts to collaborate and share information with other law enforcement and intelligence agencies.
- Assess DOJ's efforts to assist communities with addressing violent crime, particularly crime that involves the use of firearms.
- Assess the effectiveness of federal efforts to control the supply and demand for illicit drugs and the diversion of legal drugs for illicit purposes.
- Assess DOJ's efforts to combat emerging crimes such as cyber crime, including building the technical expertise to effectively investigate and prosecute these types of crimes.

### **Performance Goal 1.5.2**

#### **Assess federal efforts to protect vulnerable populations and ensure justice for all**

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##### **Key Efforts**

- Assess DOJ's efforts to implement and enforce laws that are intended to protect vulnerable populations, such as children, the elderly, and victims of human trafficking and exploitation, as well as provide training, technical assistance, and other support to state and local jurisdictions that also implement and enforce these laws.
- Evaluate the judiciary's efforts to manage and resolve its growing and evolving workload, including through mediation and other trial alternatives.
- 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 1.5.3**

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

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##### **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 federal efforts to assist communities with ensuring a fair and effective criminal justice system through federal grants**






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##### **Key Efforts**

- Evaluate the extent to which DOJ has sufficient controls in place to monitor grant recipients' use of funds.
- Assess DOJ's efforts to provide training and technical assistance to grant recipients.
- Review DOJ's efforts to evaluate the impact that its grant funding has had on improving a particular aspect of the criminal justice system 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

## Housing Finance and Viable Communities

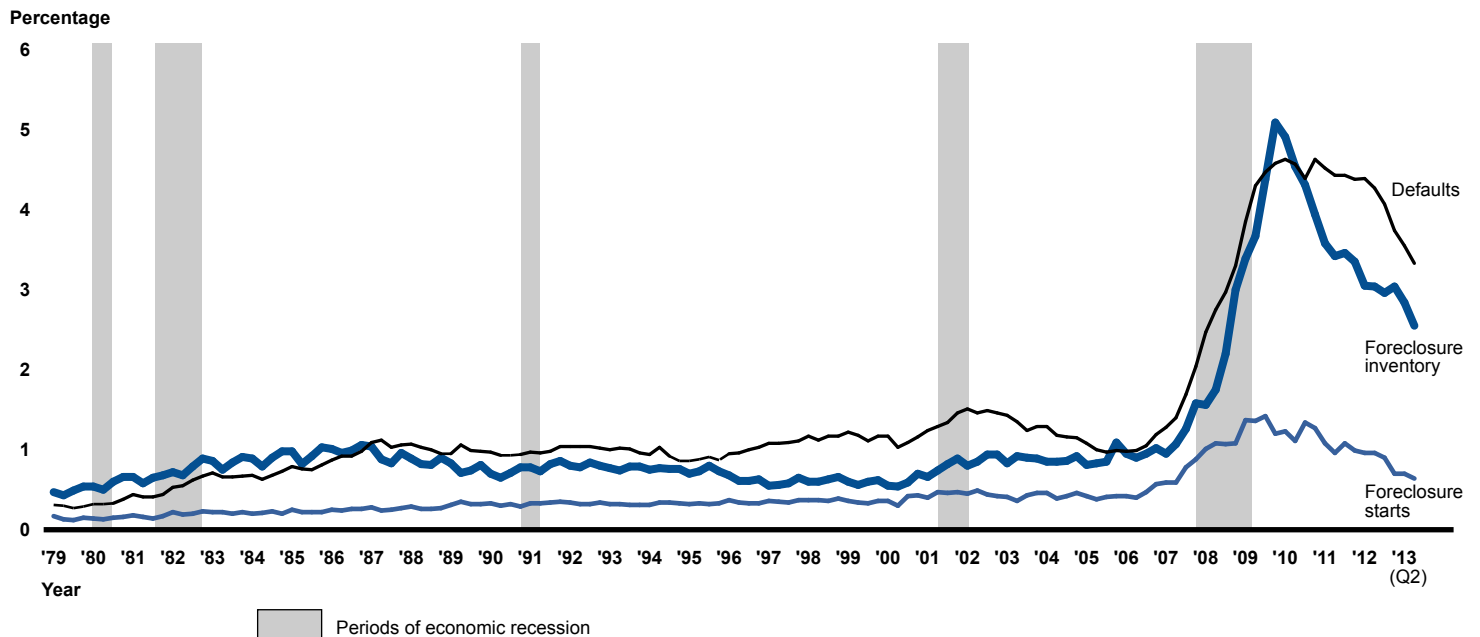
Performance Goals for Strategic Objective 1.6				
 <p>Assess how the federal government can balance supporting homeownership and managing financial risk while reforming the federal role in housing finance</p>	 <p>Track the progress of federal programs that support affordable rental housing, including how they manage the condition of assisted properties and improve the well-being of special populations</p>	 <p>Assess federal homeless assistance efforts and their impact on both homeless individuals and families</p>	 <p>Monitor federal community and economic development assistance and its impact on communities</p>	 <p>Assess the effectiveness of federal initiatives to assist small and minority-owned businesses</p>

The economic and social well-being of communities is vital to the nation’s overall growth and prosperity. Adverse economic conditions—including high unemployment, large numbers of foreclosed and abandoned properties, and tight mortgage and small business lending markets—will continue to threaten the long-term viability of communities nationwide. For example, despite improvements in the housing market, millions of homeowners owe more than their homes are worth. Further, the availability of affordable rental housing is limited. These conditions could further stress communities with historically higher levels of poverty, homelessness, and disinvestment. 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 2007–2009 financial crisis has made these efforts even more complicated. The federal government, in particular, will face significant challenges, including budgetary constraints and major decisions about the future federal role in housing finance. Therefore, GAO has designated modernizing the U.S. financial regulatory system and the federal role in housing finance as a high-risk area.

**Homeownership:** The federal government supports homeownership through finance programs, incentives, and requirements administered by the Departments of the Treasury, Housing and Urban Development, Veterans Affairs, and Agriculture. However, declining home prices and rising foreclosures were important factors in the 2007–2009 financial crisis (see [fig. 43](#)) and have severely stressed federal single-family housing programs. For example, capital reserves for mortgage insurance provided by HUD’s Federal Housing Administration fell below the statutory minimum in 2009 and have not recovered, prompting debate about enhancing FHA’s long-term viability. In addition, government-sponsored enterprises Fannie Mae and Freddie Mac (the enterprises) are major participants in the home mortgage market. The enterprises were placed under federal conservatorship in September 2008, underscoring the risks they posed to financial

markets and the need to revise their long-term structures. Under the conservatorship, Fannie Mae and Freddie Mac have received more than \$187 billion from Treasury to maintain positive net worth. They did not require funds from Treasury for 2012 or the first two quarters of 2013 because they ended each quarter with positive net worth. Through the second quarter of 2013, the enterprises had paid \$131.6 billion in dividends on the \$187 billion received from Treasury. Although various proposals to resolve the future role of the enterprises have been issued, no definitive actions have been taken yet. Further, provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) are designed to reform mortgage underwriting and securitization practices. Regulations to implement mortgage reforms in the Dodd-Frank Act are taking effect. A key challenge in implementing the reforms will be balancing the goal of protecting borrowers from unsustainable mortgage products with the goal of maintaining broad access to mortgage credit.

**Figure 43: National Default and Foreclosure Trends, 1979–2013**



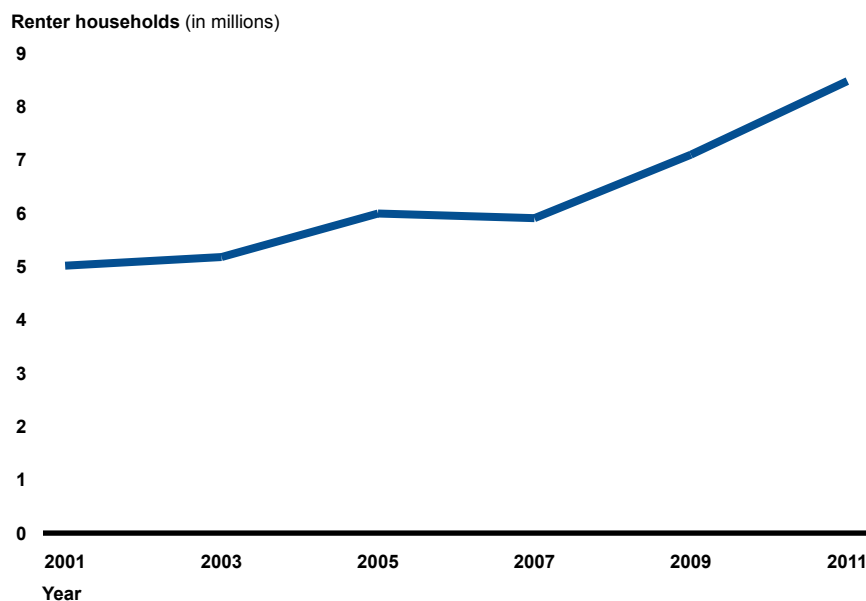
Source: GAO analysis of Mortgage Bankers Association data, National Bureau of Economic Research.

**Rental housing:** The availability of decent, safe, and affordable rental housing can also affect community stability. HUD, the U.S. Department of Agriculture (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 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 built with

the assistance of 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, including the elderly and veterans.

Over the coming years, the federal government faces numerous challenges. For example, renter households experiencing “worst-case housing needs”—that is, unassisted households with extremely low incomes who either pay more than half of their income in rent, live in substandard housing, or both—have been on the rise. Specifically, households with worst-case housing needs numbered nearly 8.5 million in 2011 (see [fig. 44](#))—the highest level in a decade. Much of that increase resulted from new households entering the rental market and declining household incomes following the economic downturn that started in 2007.

**Figure 44: Trends in the Number of Renter Households with Worst-Case Housing Needs, 2001–2011**



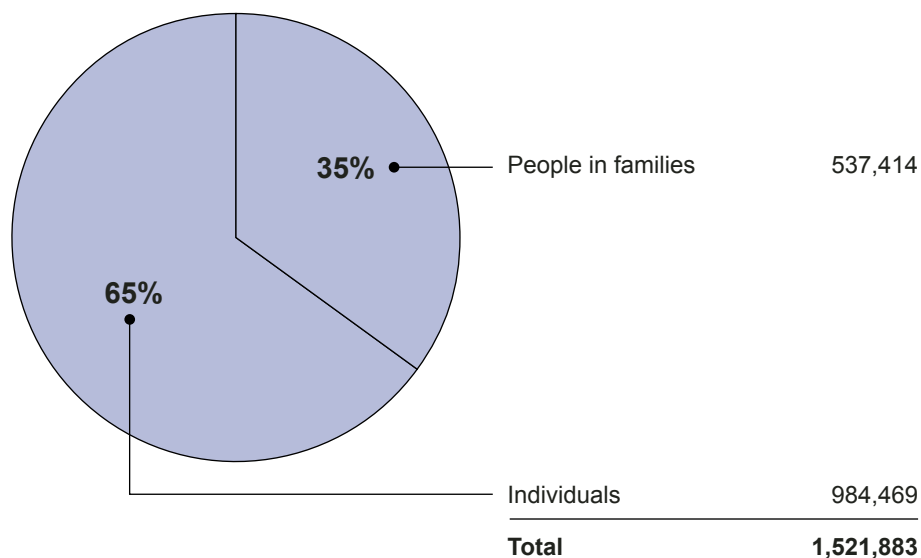
Source: HUD.

**Homelessness:** The nation’s communities continue to be affected by the complex and multifaceted problem of homelessness. According to HUD’s most recent national estimates, roughly 1.5 million people stayed in homeless shelters or used transitional housing in 2011 (see [fig. 45](#)). From 2007 through 2011, the number of homeless individuals in shelters decreased by 11.7 percent, but the number of homeless persons in families in shelters increased 13.5 percent. Increasing attention has been paid to the issue of homelessness, in part because the economic downturn placed more individuals and

households at risk for homelessness. According to HUD, increases in family homelessness occurred in the wake of the recession. Families in economic distress are at particular risk of becoming homeless because they can be hard to accommodate given their size and the financial costs incurred by those taking them in.

Three federal agencies—HUD, HHS, and VA—are responsible for the majority of federal homelessness programs. HUD is the primary agency that provides housing, while HHS and VA operate programs providing supportive services such as health care. These agencies and others obligated roughly \$2.8 billion in fiscal year 2010 for homelessness programs. Federal agencies must provide enough oversight to ensure that programs meet their goals and comply with federal requirements, and at the same time consider governmental resource constraints and operate programs efficiently and effectively.

**Figure 45: Nationwide Annual Sheltered Homeless Population during 2011**



Source: HUD's *Annual Homeless Assessment Report to Congress*, November 2012.

**Economic and community development:** The federal government administers numerous programs that support economic development. For example, USDA, Commerce, and HUD and the U.S. Small Business Administration (SBA) administer 52 economic development programs that provide assistance to entrepreneurs. According to agency officials, these programs, which typically fund other activities in addition to supporting entrepreneurs, spent an estimated \$2 billion on economic development efforts in fiscal year 2011. Also, HUD's Community Development Block Grant program is the federal government's principal community development program. In fiscal year 2012, the Congress provided approximately \$3 billion for the program to fund housing, economic development, neighborhood revitalization, and other community development activities.



The efficiency and effectiveness of economic and community development programs are, however, unclear. Overlap and fragmentation exist among the 52 economic development programs that support entrepreneurs, and data on outcomes that are necessary to assess program effectiveness are limited. Moreover, the issue of how best to deliver aid is complicated by the need to balance 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 economic and community 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. 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 around 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 underserved. 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. It can also help the Congress in its efforts to support economic and community development, and small and minority-owned businesses. GAO has established the following performance goals and key efforts:

### **Performance Goal 1.6.1**

#### **Assess how the federal government can balance supporting homeownership and managing financial risk while reforming the federal role in housing finance**

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##### **Key Efforts**

- Evaluate the effectiveness of federal efforts to support and sustain homeownership.
- Evaluate options for enhancing the long-term financial viability of federal housing programs, including those administered by FHA.
- Assess actions to reduce overlap, duplication, and fragmentation in federal efforts that support homeownership.

- Assess actions to reduce the activities of Fannie Mae and Freddie Mac and the implications of such actions for the role of private sector mortgage providers.
- Evaluate the implications of Dodd-Frank Act mortgage reforms for current and prospective homeowners.

### **Performance Goal 1.6.2**

#### **Track the progress of federal programs that support affordable rental housing, including how they manage the condition of assisted properties and improve the well-being of special populations**

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##### **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, as well as monitoring initiatives to reform and modernize the provision of rental assistance.
- Evaluate the effectiveness of federal housing programs in meeting the housing and supportive service needs of special populations, such as the elderly, persons with disabilities, and veterans.
- Assess federal efforts to reduce overlap, duplication, and fragmentation in federal housing programs that support affordable rental housing.

### **Performance Goal 1.6.3**

#### **Assess federal homeless assistance efforts and their effects on both homeless individuals and families**

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##### **Key Efforts**

- Evaluate the effectiveness of federal programs in meeting the housing and supportive service needs of 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 effect on communities**

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##### **Key Efforts**

- Evaluate the extent of federal program coordination in targeted communities.
- Assess the effect of development initiatives on communities.
- Evaluate federal agencies' efforts to ensure that development programs effectively serve their intended purposes, 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**

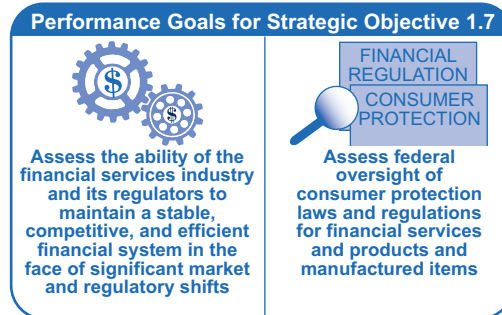
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##### **Key Efforts**

- Assess the effect 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

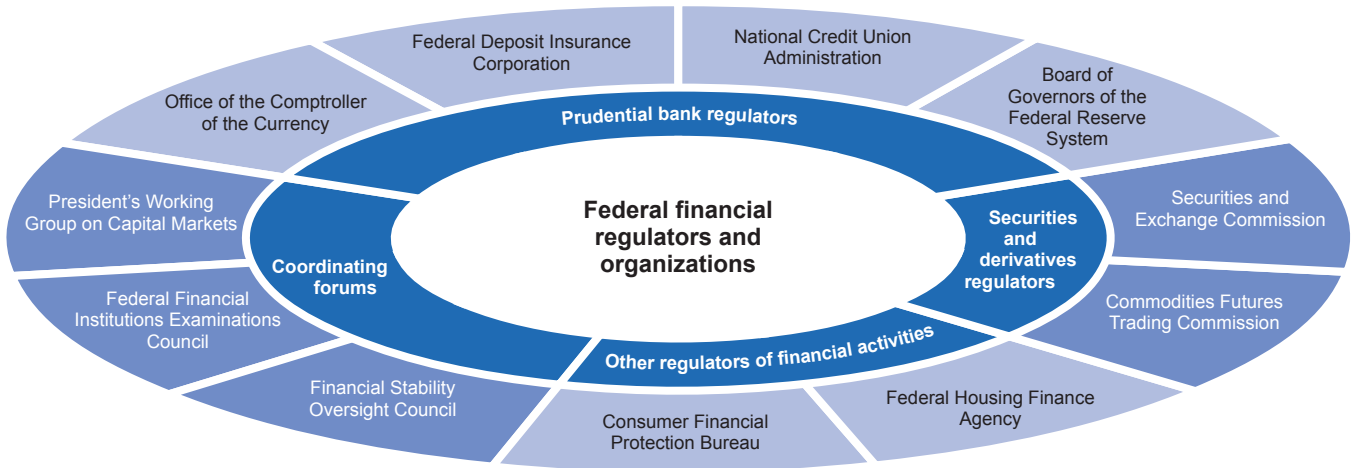
## A Stable Financial System and Sufficient Consumer Protection



GAO designated reform of the financial regulatory system as a high-risk area in early 2009, in response to the deficiencies in financial regulation that the 2007–2009 financial crisis revealed. Major changes to regulatory policy and practice made in response to the crisis have been ongoing. In the United States, the Dodd-Frank Act provides a broad range of reforms to strengthen oversight of financial services firms, minimize future bailouts of financial firms, and protect consumers. Internationally, the Basel III accord introduced new measures to strengthen the oversight and risk management of the banking industry. A variety of challenges have affected regulators' progress in fully implementing the Dodd-Frank Act's reforms, including the number and complexity of the issues and the need for coordination domestically and internationally.

**Regulatory system:** The Dodd-Frank Act eliminated the Office of Thrift Supervision and consolidated certain consumer protection responsibilities in the Bureau of Consumer Financial Protection, commonly known as the Consumer Financial Protection Bureau (CFPB). To address the lack of a single regulator tasked with monitoring and assessing the risks that activities of large and globally interconnected financial conglomerates posed across the financial system, the act also created the Financial Stability Oversight Council. The primary purposes of the council are to identify risks to the financial stability of the United States, promote market discipline, and respond to emerging threats to system stability. In addition, the act requires or authorizes various federal agencies to issue hundreds of regulations to implement its reforms. To adapt to this new regulatory framework (see [fig. 46](#)), financial regulators must make significant changes to how they implement their regulatory and supervisory roles. They will need to finish their required rulemaking and then demonstrate that they have the ability and the will to use these new tools to enhance financial system stability.

**Figure 46: Federal Financial Regulatory Framework**



Source: The Congressional Research Service (CRS).

**Financial products and services:** Dramatic transformations in the financial services sector, including consolidation and securitization, 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 previously have 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. Sustained regulatory attention to and requirements for adequate disclosures on financial services and products will be important for protecting consumers, whether individuals or retail investors.

**Consumer products:** Increasingly, consumer products (such as household appliances and electronics) have components that were manufactured in many countries. The changes in manufacturing practices and the growing volume of consumer products imported to the United States have strained the resources of the Consumer Product Safety Commission (CPSC) and challenged it to find new ways to ensure the safety of these products. In 2011, consumer products worth nearly \$3.8 billion entered U.S. ports daily. About four of five consumer product recalls involved imported products, making the safety of such imports a critical focus of the agency. Furthermore, CPSC has faced challenges in targeting unsafe products coming into the ports. To address this issue, CPSC began piloting a new approach

to targeting and identifying unsafe consumer products at 15 major U.S. ports (of the 327 U.S. ports). The piloted approach evaluates products entering the United States based on a predetermined set of rules (i.e., to target specific hazardous products or importers) intended to identify imports with the highest risks to consumers. CPSC has also faced significant public scrutiny about its ability to properly assess risks related to consumer products and take appropriate and timely action. CPSC's strategic goals for properly identifying and addressing risks emphasize working with other federal and state agencies and international counterparts. This cooperation is important to the commission's effectiveness due to the large volume of imported products that enter the United States each year.

GAO's work in the next 3–5 years can help the Congress monitor the functioning of the new financial regulatory structure to help ensure that the financial system is safe and sound 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:

### **Performance Goal 1.7.1**

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

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##### **Key Efforts**

- Evaluate whether changes in the overall regulatory structure and the role of existing and any newly created financial regulatory agencies address the gaps in oversight, changes in market practices or structures, and financial institution ownership and organizational structures.
- Assess how regulators are overseeing (1) financial firms that are increasingly global and manage multiple business lines and (2) types of risk across regulated and unregulated entities to promote financial stability nationally and globally.
- Assess how well regulators respond to new products, market participants, and emerging threats, and their effects 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 manage their operations and make 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

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#### Key Efforts

- Determine whether financial regulators and institutions promote 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 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

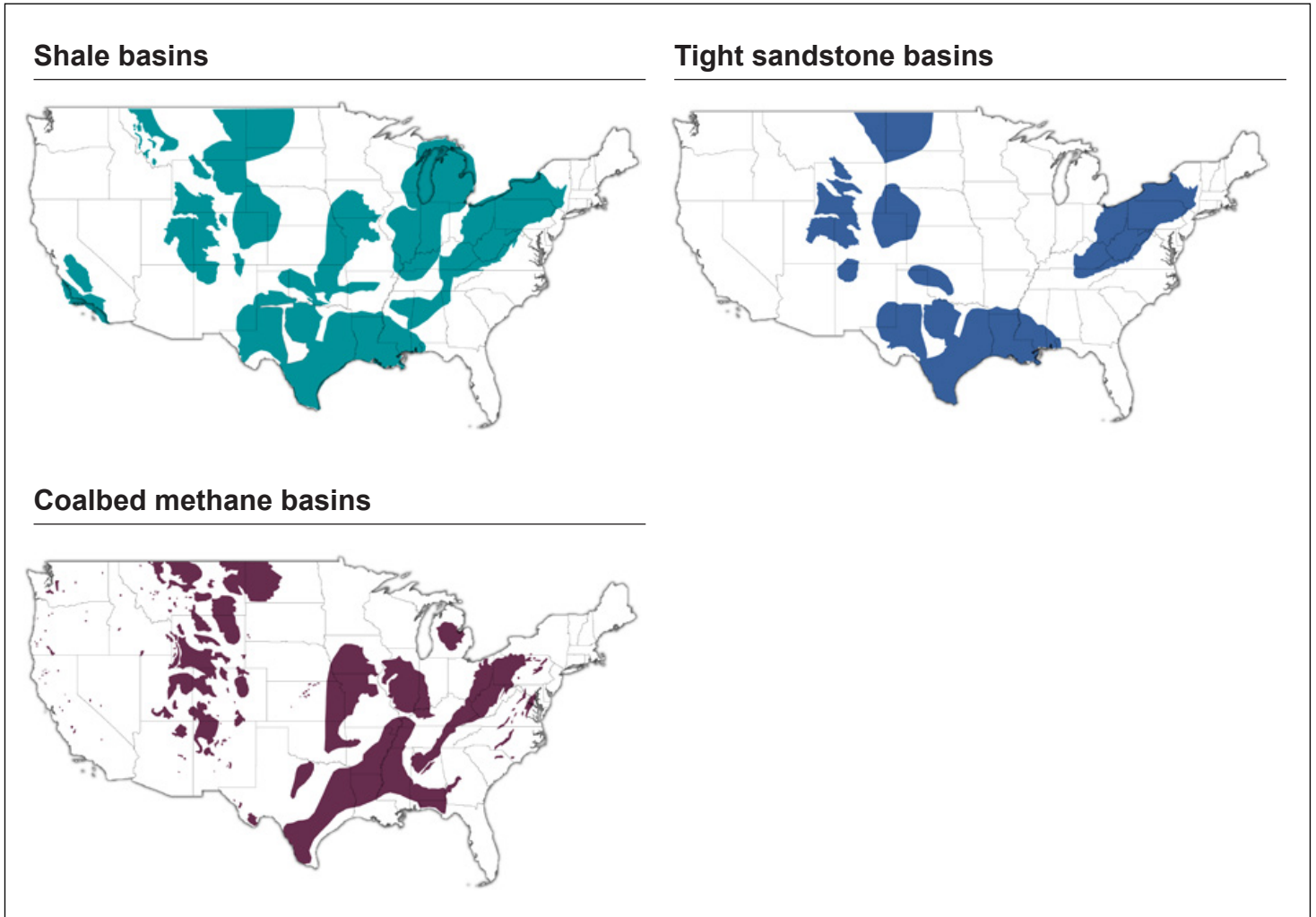
Performance Goals for Strategic Objective 1.8				
 <p>Assess the nation's ability to ensure safe, reliable, environmentally sound, and affordable energy for current and future generations</p>	 <p>Assess federal strategies for sustainably managing our nation's land and water resources, including programs for Native communities</p>	 <p>Assess environmental protection strategies and programs</p>	 <p>Assess efforts to reduce threats posed by nuclear wastes generated by federal and commercial activities and to clean up legacy hazardous waste from federal facilities</p>	 <p>Assess federal programs' ability to ensure a plentiful and safe food supply, assist farmers in managing their risks, and minimize agricultural environmental damage</p>

**R**esponsible stewardship of natural resources and the environment encompasses some of the nation's most challenging issues. Balancing the demands of often-competing objectives—economic growth for today versus protection of 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 alter the land and water Americans 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 critical to our economy but resuming and sustaining economic growth raises difficult questions when some of the engines of that growth—factories, automobiles, fertilizers, and electricity-generating plants—can adversely affect air and water quality, pose safety concerns, and potentially change the climate. For decades, businesses and consumers have been able to depend on plentiful, inexpensive energy to maintain the 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 19 percent of the primary energy produced worldwide. Energy demand has nearly tripled in the past 60 years. Energy security, volatile prices, and the impacts of energy use on climate and the environment have driven interest in reducing demand, promoting energy-efficiency, ensuring a safe supply of energy, and shifting supplies toward renewable energy sources and unconventional domestic sources of oil and gas, such as shale, tight sandstone, and coalbed methane (see [fig. 47](#)). Such a shift could have

far-reaching effects on land and water use, trade and transportation patterns, national security, and energy prices. At the same time, the nation's extensive energy infrastructure, which includes hundreds of thousands of miles of transmission lines and pipelines, is showing signs of strain and may require new investment to update and secure.

**Figure 47: Locations of Unconventional Oil and Gas Reservoirs in the United States**



Source: U.S. Energy Information Administration.

Note: The map for tight sandstone basins is based on Energy Information Administration data for "tight gas," which includes both tight sandstone and tight carbonate formations.

**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 over 640 million acres of federal land, or about one-quarter 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. The nation's land and water resources are also showing increasing signs of stress—more catastrophic wildfires, shrinking aquifers, and the destruction of wildlife habitat. 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. In addition, the federal government holds land in trust and administers a range of federal programs for Native American tribes and individuals.

**Environment:** Protecting the environment and human health has become increasingly complex. For example, climate change has been reported to pose risks to many environmental and economic systems—including agriculture, infrastructure, ecosystems, and human health—and presents a significant financial risk to the federal government. Funding for climate change activities reported by OMB in four categories—technology to reduce emissions, science to better understand climate change, international assistance for developing countries, and adaptation to respond to actual or expected changes—increased from \$4.6 billion in 2003 to \$8.8 billion in 2010, and is organized in a complex, crosscutting system. In February 2013, GAO added limiting the federal government's fiscal exposure by better managing climate change risks to its High Risk List.

In addition, although scientific understanding of the effects of toxic chemicals has improved, information on the toxicity of many chemicals is too limited for the Environmental Protection Agency to make informed decisions on how best to protect the public. As a result, GAO identified EPA's processes for assessing and controlling toxic chemicals as a high-risk area in January 2009. Further, according to EPA, about 53 percent of the 978,000 miles of rivers and streams that have been assessed are too polluted or otherwise degraded to meet water quality standards, and the nation faces costly upgrades to aging and deteriorating drinking water and wastewater infrastructure. Moreover, although nationwide air quality has improved over the past few decades, EPA reports that approximately 124 million people live in areas that do not meet health-based national air quality standards. Significant challenges also remain in cleaning up the country's hazardous waste sites—including more than 1,300 Superfund sites nationwide.

**Radioactive and legacy waste:** Significant challenges remain in managing the country's radioactive waste. Federal efforts to dispose of high-level radioactive waste and spent nuclear fuel are in flux, and inventories are increasing. The nation's inventory of about 70,000

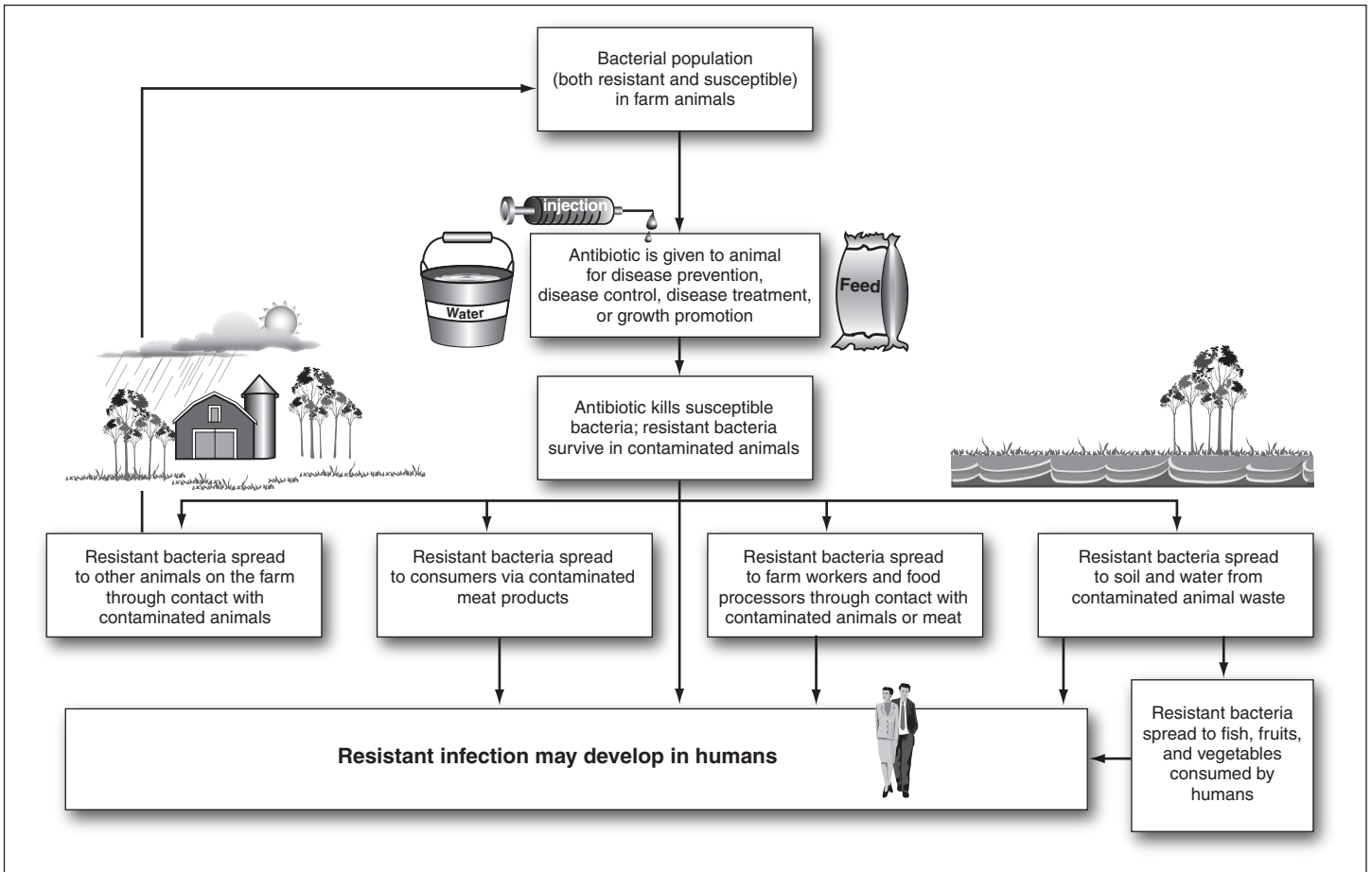
metric tons of high-level radioactive waste, mostly generated by the nation's nuclear power reactors, is likely to more than double to about 153,000 metric tons by 2055. Since there is no long-term national storage facility for nuclear waste, the Department of Energy has been unable to take custody of this waste as required by law. As a result, electric utilities have filed a series of lawsuits against DOE, which estimates it will pay over \$22 billion in damages by 2020 and approximately \$500 million each year after 2020.

Moreover, radioactive waste from weapons production still needs to be cleaned up at DOE sites in 11 states. DOE estimates needing between about \$187 billion and \$223 billion to complete cleanup activities and estimates completing this cleanup sometime between 2060 and 2066. 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. In addition, significant challenges remain in carrying out environmental restoration activities at sites located on former and active defense installations. More than 31,600 sites are eligible for cleanup, including the detection and disposal of unexploded ordnance, which creates an imminent and substantial endangerment to public health or welfare or the environment.

**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 place the federal oversight of food safety on its High Risk List in 2007. Addressing this problem is even more pressing because the volume of imported foods is increasing; consumers are eating more raw and minimally processed foods; 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 and antibiotic-resistant infections, have the potential to seriously compromise people's daily lives (see [fig. 48](#)), and given the potential for and the consequences of agroterrorism, food security continues to pose serious concerns.

In addition, while U.S. Department of Agriculture programs help farmers manage risks of crop production and conserve natural resources, the programs' integrity and cost—about \$20 billion annually—are in question. Further, pressures to minimize the environmental impact of the more than \$400 billion agricultural sector are likely to intensify. Finally, USDA also faces major management challenges to ensure that its customers and employees are fairly and equitably treated.

**Figure 48: Potential Pathways for Spread of Antibiotic-Resistant Bacteria from Animals to Humans**



Sources: GAO; Art Explosion (human figures).

Note: This figure is not intended to represent the full complexity of resistance transmission. For example, antibiotic-resistant bacteria can also be transferred from humans to animals.

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 1.8.1**

**Assess the nation’s ability to ensure safe, reliable, environmentally sound, and affordable energy for current and future generations**

**Key Efforts**

- Evaluate efforts to ensure the safety, reliability, physical security, and affordability of the energy supply and 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 impacts of energy production and use on the environment 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, including programs for Native communities**

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##### **Key Efforts**

- Evaluate federal management and protection of natural resources on federal lands and waterways.
- Evaluate federal management and protection of threatened and endangered species.
- Evaluate federal efforts to manage the sale and use of public natural resources.
- Evaluate federal programs for Native Americans and Alaska Natives.
- Assess management practices and efficiencies, as well as operational and maintenance needs, at federal natural resource agencies.

### **Performance Goal 1.8.3**

#### **Assess environmental protection strategies and programs**

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##### **Key Efforts**

- Evaluate federal efforts to assess and control toxic substances, a GAO-identified high-risk area.
- Evaluate federal efforts to improve the nation's air quality.
- Evaluate strategies for cleaning up Superfund and other private-sector hazardous waste sites and responding to emergency contamination releases.
- Assess actions taken and needed to limit the federal government's fiscal exposure by better managing the risks of climate change, a GAO-identified high-risk area.
- Evaluate federal efforts and investments 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 threats posed by nuclear wastes generated by federal and commercial activities and to clean up legacy hazardous waste from federal facilities**

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###### **Key Efforts**

- Assess efforts to address the cleanup of legacy and newly generated nuclear wastes from federal activities, including nuclear waste technology development.
- Assess efforts to manage and dispose of federal and commercial nuclear waste.
- Assess efforts to address the cleanup of legacy hazardous waste from federal facilities.

#### **Performance Goal 1.8.5**

##### **Assess federal programs' ability to ensure a plentiful and safe food supply, assist farmers in managing their risks, and minimize agricultural environmental damage**

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###### **Key Efforts**

- Evaluate federal efforts to ensure a safe food supply—a GAO-identified high-risk area—and guard against agroterrorism and infectious disease.
- Evaluate the federal safety net in helping farmers to manage agricultural risks.
- Evaluate federal efforts to reduce farm program vulnerabilities and strengthen program integrity in benefit delivery.
- 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, Safe, Secure, and Accessible National Physical Infrastructure

Performance Goals for Strategic Objective 1.9					
 <p>Assess federal investments, policies, and programs that support transportation infrastructure</p>	 <p>Assess federal regulation of transportation safety and efforts to fund safety improvements</p>	 <p>Evaluate federal policies to improve the mobility of and increased access to transportation systems</p>	 <p>Assess federal efforts to support and oversee telecommunications in the public interest</p>	 <p>Assess the U.S. Postal Service's efforts to ensure its viability and accomplish its mission</p>	 <p>Assess federal efforts to manage and secure the government's real property portfolio</p>

The infrastructure of the United States—including transportation, telecommunications, the postal system, and federal facilities—helps provide 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 this 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.

**Transportation funding:** The nation’s aviation and surface transportation systems are under growing strain, and the cost to repair and upgrade them to meet current and future demands, including modernizing the air traffic control system, is estimated to cost 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 spending. Motor fuel and other taxes that support the Highway Trust Fund are expected to continue to erode in the years ahead as vehicles become more fuel efficient and use alternative fuels, while stagnant airline passenger demand has undercut revenues flowing into the Airport and Airway Trust fund.

To avoid a shortfall in the Highway Trust Fund, Congress has transferred more than \$50 billion in general revenues to the Highway Trust Fund since 2008, and in 2014, the Congressional Budget Office estimated that \$172 billion in additional revenues would be required to maintain current spending levels plus inflation through fiscal year 2024. For this and other reasons, funding surface transportation remains on GAO’s High Risk List. The Congress also boosted general revenues for Federal Aviation Administration (FAA) activities when Airport and Airway Fund revenues declined.

**Transportation accidents:** The nation's transportation system is the backbone of the economy and affects Americans' daily lives. Yet accidents continue to cause death and injury, despite considerable federal investment and oversight of transportation safety. Most accidents occur on highways, where more than 32,000 people were killed and another 2.2 million were injured in 2011. Some groups are particularly vulnerable. Traffic crashes are the leading cause of death for 15- to 20-year-olds, and motorcyclist fatalities have steadily increased in recent years. The federal government provides traffic safety grants to states and continues to seek ways to improve transportation safety. Accident causes include impaired, distracted, and fatigued driving, among others. Accurate data are important to reliably identify causes and appropriate countermeasures.

In addition, hundreds of aviation fatalities occur annually—the vast majority in general aviation. Although the U.S. airspace system is arguably among the safest in the world, oversight and data challenges remain. For example, FAA does not have comprehensive risk-based data in key areas such as airport ramp incidents and general aviation flight hours. Sustained attention to data collection and analysis, including data-driven, risk-based oversight approaches, is necessary to ensure that aviation safety risks are more comprehensively and accurately assessed and managed. As part of the FAA's air traffic control modernization, new policies and processes to maintain safety are being developed for the aviation community.

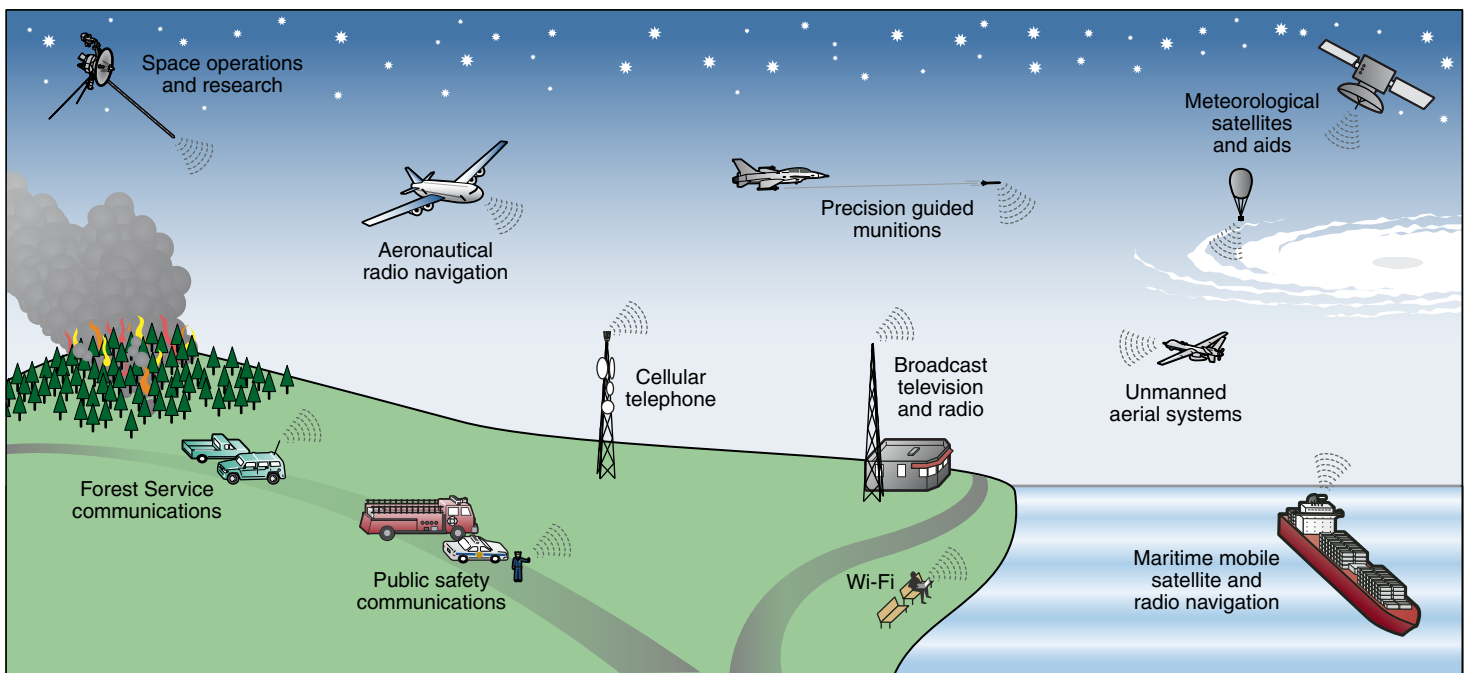
**Congestion:** Transportation congestion continues to worsen, reducing efficiency and imposing environmental costs. Additionally, freight movements continue to expand with the economy, particularly containerized freight moving through ports and onto already-congested highway and rail networks. The economic and environmental implications of congestion are significant, ranging from wasted fuel and lost time to increased costs for businesses as the transportation system grows more unreliable.

To address congestion, policymakers will be challenged to identify ways to fund new infrastructure investments and encourage more efficient use of existing infrastructure while also addressing environmental and energy concerns. Federal policy requires that improvements to our transportation infrastructure be made in an environmentally responsible manner; however, this can lengthen planning and project lead times and perhaps conflict with the need to respond to congestion in a timely way. Improving aviation congestion through modernization promises significant benefits, such as reduced emissions and mitigated delays, but is also a serious challenge as transforming the nation's air traffic control system could cost as much as \$37 billion in combined government and civilian investment through 2030, according to FAA.

**Telecommunications industry:** In 2012, the federal government dedicated nearly \$9 billion to support the deployment and affordable access to telecommunications services, including broadband, through the Federal Communications Commission (FCC) and Rural Utilities Service. According to FCC, broadband is a foundation for economic growth, job creation, global competitiveness, and a better way of life. Yet GAO’s work identified management challenges in broadband’s federal support programs, including a lack of performance goals.

In addition, private industry and government increasingly rely on wireless devices and services to meet consumer demand and fulfill critical mission needs, such as national defense (see [fig. 49](#)). This development has led to a significant increase in the demand for radio frequency spectrum—the natural resource used to provide wireless communications services. Balancing competing industry and government demands for a limited amount of spectrum is a challenging and complex task. GAO’s work can identify causes and consequences of these challenges and provide policymakers with recommendations as they develop and implement policies supporting telecommunications services in the public interest.

**Figure 49: Examples of Private Industry and Government Uses of Spectrum**



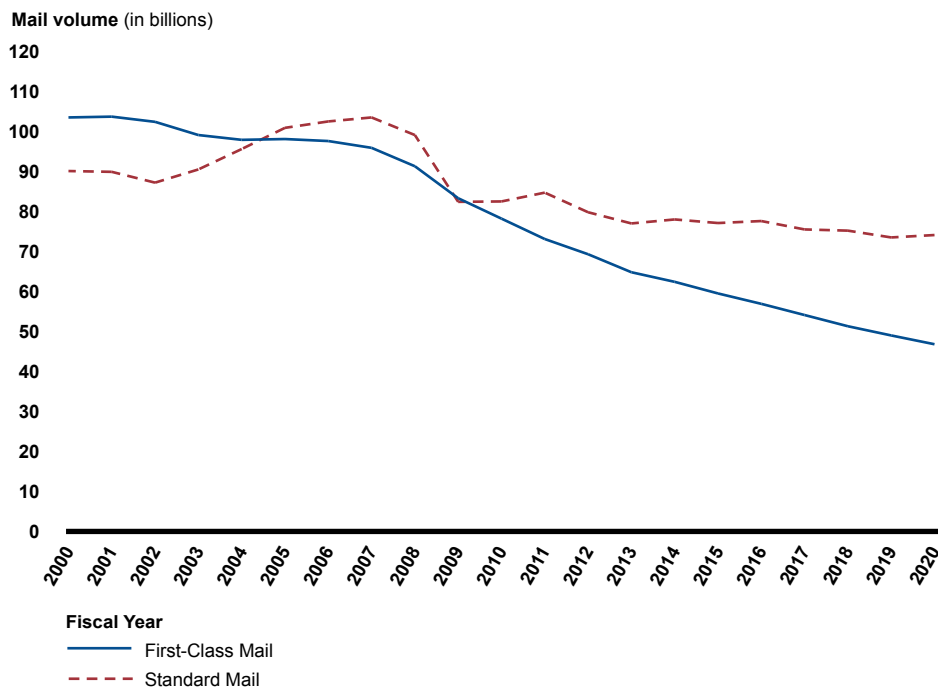
Source: GAO.

**U.S. Postal Service:** USPS does not have sufficient revenues to cover its expenses and financial obligations. It has also reached its \$15 billion borrowing limit, thus risking a lack of liquidity. USPS continues to face significant decreases in mail volume and revenue as online communication and bill payment expand. Mail volume dropped by

about 52 billion pieces (about 25 percent) and revenue declined by about \$10 billion from fiscal years 2007 through 2012. USPS projects further volume declines for First-Class Mail—its most profitable mail—and flat volumes for Standard Mail—its largest volume mail—by fiscal year 2020 (see [fig. 50](#)). Even though USPS’s package business has been increasing, the growth is not expected to fully offset the declines in First-Class Mail revenue.

When adding USPS’s financial condition to the High Risk List in July 2009, GAO reported that USPS urgently needed to restructure to address its current and long-term financial viability. Specifically, USPS needs to continue taking action to reduce costs and increase revenues so that it can eliminate its net losses, repay its debt, continue funding its retirement obligations, and generate capital for investments. Also, Congress needs to approve a comprehensive package of actions to address constraints that limit USPS’s ability to reduce costs and improve its financial viability.

**Figure 50: Actual and Projected First-Class Mail and Standard Mail Volume, Fiscal Years 2000 through 2020**



Source: USPS.

**Federal real property:** The federal government’s real property portfolio is vast and diverse, and includes hundreds of thousands of buildings that are owned and leased by federal agencies. The government has faced long-standing challenges managing real property, which is a reason this area is on the GAO High Risk List. High-level attention to improving real property management has resulted in some progress. However, long-standing problems and related challenges persist in the following areas:

- excess and underutilized property,
- overreliance on leasing where ownership would be more cost-effective,
- repair and restoration backlogs and deteriorating facilities,
- unreliable real property data, and
- improvements for protecting and securing federal facilities.

GAO has called for addressing these problems through reassessing options; developing well-reasoned strategies; and, in some cases, changing the law.

Regarding federal facility protection, GAO's work continues to show that protecting facilities and occupants from terrorist attacks, acts of violence, and an increasing number of cyber attacks is an ongoing challenge for federal agencies. Conducting effective risk assessments and effective oversight of contract guards are necessary components of an overall facility protection strategy.

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, policies, and programs that support transportation infrastructure**

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##### **Key Efforts**

- Review the effectiveness of federal investments in aviation and surface transportation to determine effectiveness, enhance performance, and increase accountability for results.
- Assess the sustainability of alternative methods for financing federal transportation investments.

### **Performance Goal 1.9.2**

#### **Assess federal regulation of transportation safety and efforts to fund safety improvements**

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##### **Key Efforts**

- Assess federal oversight of aviation safety.
- Assess federal oversight of safety efforts and outcomes 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**

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##### **Key Efforts**

- Assess efforts to make transportation systems available to the U.S. population, including older Americans and those living in rural areas.
- Assess federal programs for improving the efficiency of freight and passenger movement and efforts to reduce congestion in and across 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**

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##### **Key Efforts**

- Assess federal efforts to promote affordable access to telecommunications services.
- Assess federal efforts to promote efficient and effective spectrum management.
- Evaluate federal efforts to oversee telecommunications and related services.

### **Performance Goal 1.9.5**

#### **Assess the U.S. Postal Service's efforts to ensure its viability and accomplish its mission**

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##### **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.
- Monitor and evaluate the quality and availability of postal services.
- Evaluate the effectiveness of USPS's pricing strategy and regulation of pricing as demand for postal services declines.

### **Performance Goal 1.9.6**

#### **Assess federal efforts to manage and secure the government's real property portfolio**

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##### **Key Efforts**

- Assess the federal government's efforts to strategically and cost-effectively acquire, manage, and dispose of real property assets.
- Review federal efforts to protect and secure federal facilities.





# GOAL 2

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## Help the Congress Respond to Changing Security Threats and the Challenges of Global Interdependence

**G**AO's second strategic goal is to assist the Congress and executive branch agencies in planning for and responding to changing security threats and the challenges of global interdependence during a period of constrained budgetary resources. Over the next 5 years, threats and challenges to national and homeland security are expected to be pronounced. The complex and rapidly evolving security environment facing the United States includes cyber attacks, terrorist activities, and instability in key regions of the world. In addition, the nation's communities and infrastructure face threats posed by natural disasters and the associated preparation and recovery costs.

The nation's continuing 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 security priorities. The nation's security agencies—most prominently, the Departments of Defense, Homeland Security, and State—will need to strike an affordable balance between spending on current missions and investing in new capabilities. These agencies also will need to enhance basic management capabilities to meet these threats and challenges. Since many of the interrelated conventional and emerging threats facing the nation go beyond the authority and scope of any one agency, federal agencies also need to enhance their abilities to collaborate, not only with each other but also with foreign, state, and local governments and nongovernmental partners.

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

- 2.1:** Protect and Secure the Homeland from Threats and Disasters
- 2.2:** Effectively and Efficiently Utilize Resources for Military Capabilities and Readiness
- 2.3:** Advance and Protect U.S. Foreign Policy Interests and International Economic Interests



# STRATEGIC OBJECTIVE 2.1

## Protect and Secure the Homeland from Threats and Disasters

### Performance Goals for Strategic Objective Objective 2.1

 <p><b>Assess federal homeland security management, resources, and stakeholder coordination</b></p>	 <p><b>Assess efforts to strengthen border security and address immigration enforcement and services issues</b></p>	 <p><b>Assess efforts to strengthen the sharing of terrorism-related information</b></p>	 <p><b>Assess efforts to strengthen security in all transportation modes</b></p>	 <p><b>Assess U.S. national emergency preparedness and response capabilities</b></p>	 <p><b>Assess the cost, availability, and management of natural catastrophe insurance and disaster loan programs</b></p>	 <p><b>Assess efforts to strengthen the protection and resiliency of the nation's critical physical and cyber infrastructure</b></p>
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The United States will continue to face dynamic and increasingly complex threats to homeland security in the coming years. These threats include

- terrorists' and transnational criminal organizations' use of conventional and asymmetric tactics, such as cyber attacks, to exploit vulnerabilities in the nation's critical infrastructure, transportation systems, and borders;
- the radicalization of individuals, both domestically and internationally, who have the intent to conduct acts of violence;
- the increasing costs resulting from natural disasters; and
- terrorists' potential use of radioactive, chemical, or biological agents or explosives to carry out an attack inside the country.

Terrorist and transnational criminal organizations are likely to leverage any security vulnerabilities, and failure to address such vulnerabilities would have serious consequences for the physical and economic security of the country. Concerns are also growing that climate change and other factors may increase the frequency and magnitude of natural disasters. In 2013, GAO identified as a high-risk area the need to better manage climate change risks to limit the federal government's fiscal exposure.

The federal government must enhance its ability to assess, respond to, and recover from a wide range of security threats and natural disasters. Federal leadership is critical in addressing security needs while also maintaining personal freedoms and privacy and permitting the legitimate flow of travel and trade. DHS will need to ensure it can protect the country against terrorist threats. This necessitates addressing vulnerabilities along the U.S. border and in the nation's transportation systems and critical infrastructure, as well as challenges in the sharing of terrorism information. In addition, federal agencies need to be prepared to help communities prepare for, respond to, and recover from natural disasters.

**Managing during a period of constrained budgets:** Like most of the federal government, DHS faces significant challenges in addressing evolving threats within the confines of annual appropriations that are likely to be increasingly constrained and 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 also will need to further strengthen and integrate its management functions of acquisition, financial management, human capital, and information technology.

A strong management foundation is an essential element in supporting DHS in implementing its missions. Challenges in this area have been at the foundation of a number of the department's operational problems. GAO designated DHS management functions as high risk in part because progress is needed to mitigate the risks that management weaknesses pose to mission accomplishment and the efficient and effective use of the department's resources. While DHS has made progress in implementing corrective actions across its management functions, it has not yet demonstrated sustainable, measurable progress in addressing key management challenges.

**Securing U.S. borders:** Comprehensive immigration reform—which continues to be considered—could put significant pressure on DHS to fairly and effectively process potentially millions of additional applications for immigrant benefits while also transforming its application processes. Further, DHS will continue to face obstacles in reducing the conditions that encourage employment of undocumented aliens and identifying and removing from the country aliens who are subject to removal. On U.S. borders, the significant flows of people and goods will continue to create challenges in maintaining and expanding security measures, including those resulting from any proposed immigration reforms. Hundreds of millions of travelers and millions of cargo containers are inspected by U.S. Customs and Border Protection each year (see [fig. 51](#)).

**Figure 51: Commercial Vehicles Lined Up to Enter the United States at Otoy Mesa near San Diego, California**



Source: DHS's Customs and Border Protection.

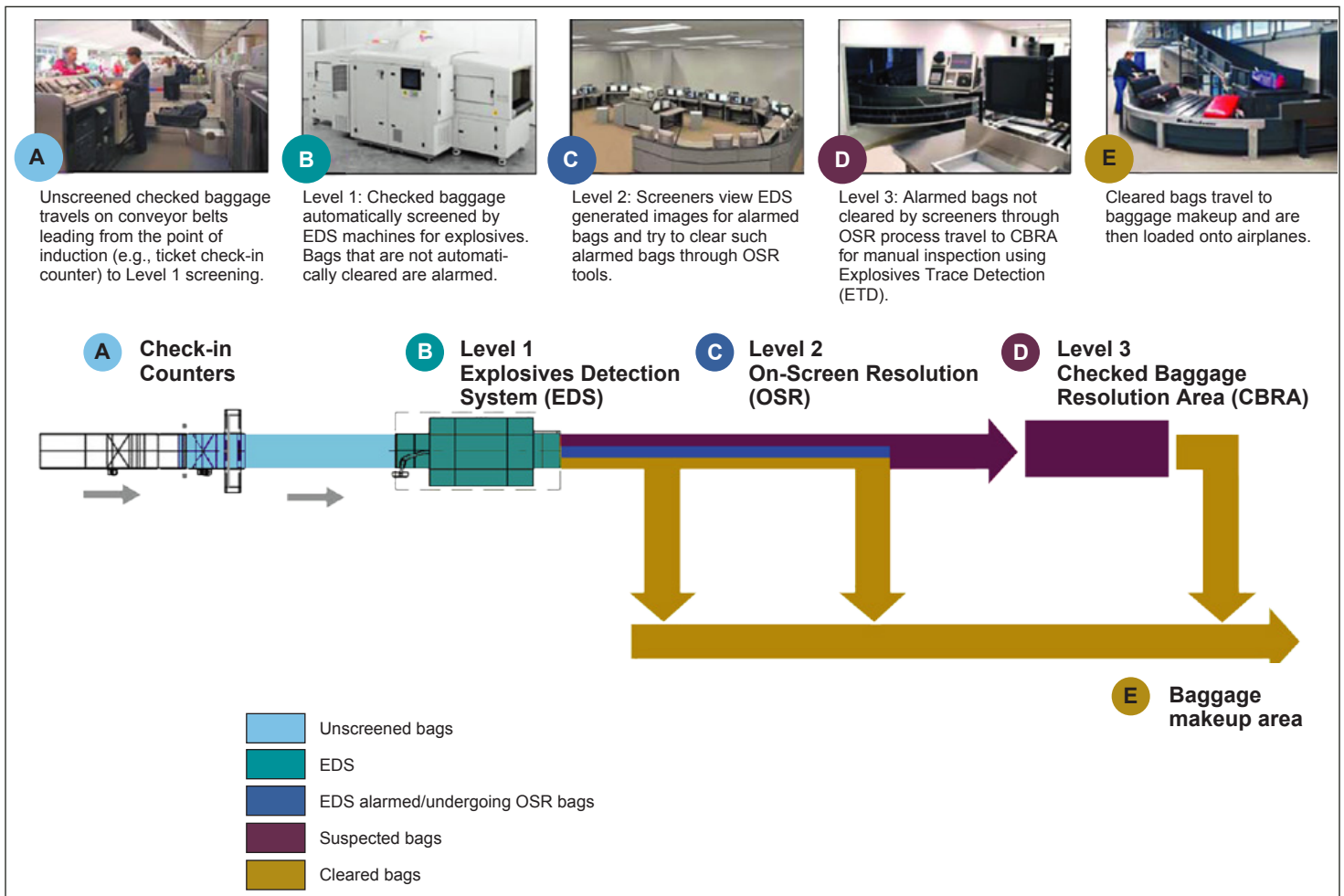
However, estimates indicate that hundreds of thousands of people have tried to enter the country illegally through and between the nation's ports of entry. Other foreign nationals have been legally admitted on a temporary basis but then overstayed their authorized periods of admission. DHS will need to continue to explore cost-effective ways to acquire and use technology, infrastructure, and other resources in its border security activities, and may need to modify its investment and deployment plans to address evolving border security threats.

**Terrorism-related information sharing:** The April 2013 Boston bombings highlighted the changing nature of terrorist threats—including those from radicalized individuals working alone in this country. These bombings also emphasized the importance of federal, state, local, tribal, international, and private-sector collaboration and intelligence information sharing. In a time of constrained resources, it is equally important that these partners ensure that they have the most efficient and effective intelligence infrastructure and are coordinating activities and leveraging resources—while protecting privacy and civil liberties. Because of information-sharing gaps, in 2004, the Congress mandated the creation of an information-sharing environment across agencies that defines what information needs to be shared, with whom, and how. In 2005, GAO designated terrorism-related information sharing as a high-risk area. GAO found that the federal government's leadership structure is committed to enhancing information sharing, and agencies have made progress in identifying key information and data, using new technologies and implementing standards to make

sharing easier, and accounting for progress. While progress has occurred, federal agencies continue to face challenges in estimating and planning for the resources needed to resolve remaining risks or fill gaps while minimizing overlap and demonstrating their efforts are achieving desired results.

**Protecting the nation’s transportation system:** Intelligence and recent events demonstrate that the transportation network continues to be an attractive terrorist target. However, securing the U.S. transportation network will continue to be difficult because of its vast size and open access points, as well as the need to facilitate the free movement of people and goods. DHS has made progress in strengthening the multiple layers of security at commercial aviation sites and seaports, such as implementing multiple levels of screening for checked bags (see [fig. 52](#)). While DHS has taken some steps to address challenges related to developing, testing, and delivering screening technologies to selected aviation security programs, GAO’s work has found that additional challenges remain.

**Figure 52: Diagram of a Checked Baggage Inspection System and Three Levels of Screening**



Source: DHS's Transportation Security Administration.



DHS, however, 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. 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 partners. It is also important that the department consider system-wide and multimodal risks, as well as risks to intermodal facilities, so terrorists do not move from one mode to another they view as less secure.

**Disaster preparedness and response:** As the threat of terrorist attacks and the severity of natural disasters continue, so will preparedness, response, and recovery challenges at the federal, state, and local levels. Scientific assessments indicate that climate change is expected to result in more volatile weather patterns, with potentially more frequent and severe natural disasters, such as hurricanes, resulting in increased economic losses and response and recovery costs. Other factors, such as the growing population of those over the age of 65, evolving biological threats, and aging infrastructure will stress disaster preparedness efforts. It will become increasingly important for the nation to enhance its ability to assess these evolving risks and make appropriate adjustments and investments to emergency preparedness and response plans and capabilities.

Although DHS has developed key national response policies, other capabilities need to be developed, including those to identify the organizations and resources required to operationalize the response and systematically prioritize resources to ensure that federal funds are used effectively. The federal government also continues to face challenges in developing useful measures to assess preparedness and response capabilities. Despite years of effort, DHS's Federal Emergency Management Agency (FEMA) has not yet developed objective and quantifiable national capability requirements and performance measures. As a result, it is unclear what effect federal preparedness grants have had on states' capabilities to respond, what capability gaps currently exist, and what level of federal resources will be needed to close such gaps.

**Disaster recovery:** Natural disasters in the United States, such as 2012's Superstorm Sandy, have also highlighted challenges facing federal agencies in ensuring that homeowners and businesses can recover from disasters. For example, FEMA's Disaster Relief Fund has continually faced financial challenges and required supplemental appropriations due to the growing number and costs of major disasters. Further, FEMA's National Flood Insurance Program, which GAO designated as a high-risk area in 2006, owes the Treasury \$24 billion that it borrowed to pay for previous losses. In prior work, GAO found that the National Flood Insurance Program, as it was then

structured, was not likely to generate sufficient revenues to repay this amount. Legislation passed in 2012 limiting flood program subsidies may improve the program's financial stability.

In addition, the Small Business Administration's (SBA) Disaster Loan program provides crucial financial assistance to homeowners and businesses affected by disasters. Since the 2005 Gulf Coast hurricanes that exposed many of the loan program's deficiencies, SBA has taken steps to reform the Disaster Loan Program to be better prepared for future large-scale disasters. However, SBA's reforms have not been fully tested under the same disaster scenario that occurred in 2005.

**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, natural disasters have and will likely continue to result in widespread damage to physical infrastructure, including oil pipelines and refineries, transportation systems, power lines, and cell-phone towers. DHS, in partnership with federal and nonfederal stakeholders, will face ongoing challenges in meeting its responsibilities to protect critical infrastructure, especially since the effects of natural, man-made, or technological disasters can cascade far beyond the affected infrastructure and the geographic location of the incident.

These federal and nonfederal stakeholders are equally challenged in protecting computerized information systems and electronic data. The federal government continues to face challenges in effectively implementing cybersecurity across agencies and the nation's critical infrastructure. These challenges include addressing issues with risk-based cybersecurity, critical infrastructure standards, cyber incidents, and risks to the global information technology supply chain. Further, computer systems are vulnerable to those who can obtain and manipulate sensitive information, commit fraud, disrupt operations, or launch attacks against other computer systems and networks if proper management and safeguards are not in place. GAO designated federal information security as a government-wide high-risk area in 1997, expanding the area in 2003 to include systems supporting critical infrastructure.

GAO's planned work can help federal decision makers assess efforts to protect against and respond to threats and other disasters facing the nation, and identify, prioritize, and allocate resources and investments for homeland security. This includes conducting annual reviews of the President's proposed budget for the nation's security agencies to provide Congress with pertinent and timely information to inform deliberations. To support efforts by the Congress and federal agencies 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**

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##### **Key Efforts**

- Assess federal efforts to develop and implement homeland-security-related strategies and plans and to coordinate with homeland security partners.
- Assess DHS's efforts to strengthen its core management functions—acquisition, information technology (IT), human capital, and financial management.
- Assess whether DHS is using a risk-based approach to allocate its resources and is being an effective steward of those resources.
- Evaluate DHS and its components' efforts to acquire, manage, and efficiently use their assets.
- 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 border security and address immigration enforcement and services issues**

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##### **Key Efforts**

- Review agencies' implementation of any future immigration reform initiatives.
- Assess DHS's efforts to efficiently, effectively, and fairly adjudicate applications for immigration benefits.
- Assess DHS's efforts to prevent, detect, and address the unlawful movement of people, contraband, and other materials across U.S. borders.
- Evaluate DHS's use of its customs and immigration authorities to address security and public threats and vulnerabilities.

### **Performance Goal 2.1.3**

#### **Assess efforts to strengthen the sharing of terrorism-related information**

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##### **Key Efforts**

- Evaluate federal efforts to facilitate the sharing of terrorism-related information with agencies across all levels of government.
- 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 2.1.4**

##### **Assess efforts to strengthen security in all transportation modes**

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###### **Key Efforts**

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

#### **Performance Goal 2.1.5**

##### **Assess U.S. national emergency preparedness and response capabilities**

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###### **Key Efforts**

- Evaluate 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 and quality of DHS's assessments of emergency preparedness capabilities.

#### **Performance Goal 2.1.6**

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

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###### **Key Efforts**

- Evaluate FEMA's management of the Disaster Relief Fund.
- Assess FEMA's management of the National Flood Insurance Program, including new legislative requirements.
- Evaluate 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 to provide timely financial assistance following large-scale disasters.

## **Performance Goal 2.1.7**



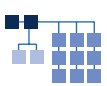






### **Assess efforts to strengthen the protection and resiliency of the nation's critical physical and cyber infrastructure**

#### **Key Efforts**

- Assess federal efforts to enhance the resiliency of critical national assets, networks, and systems.
- Review the effectiveness of cybersecurity at federal agencies to better ensure the protection of government and personal information.
- Evaluate federal efforts to enhance the cybersecurity of private- and public-sector computer information systems and networks vital to operating 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 federal efforts to identify, manage, and mitigate risks associated with interdependencies across the spectrum of critical assets, systems, and networks.

# STRATEGIC OBJECTIVE 2.2

## Effectively and Efficiently Utilize Resources for Military Capabilities and Readiness

Performance Goals for Strategic Objective 2.2								
 <p>Assess DOD's ability to meet operational demands while preparing for the future</p>	 <p>Assess DOD's efforts to secure the homeland and respond to emerging threats and irregular warfare</p>	 <p>Assess DOD's human capital management to ensure a high-quality total force</p>	 <p>Assess the ability of weapon system acquisition programs and processes to achieve desired outcomes</p>	 <p>Assess DOD's progress in improving contract management</p>	 <p>Assess DOD's progress in improving the maintenance and sustainment of weapons systems, inventory management, and other logistics functions and activities</p>	 <p>Assess DOD's management of the defense support infrastructure</p>	 <p>Assess efforts of NNSA and DOD to maintain and modernize the nuclear security enterprise, nuclear force structure, and associated weapons platforms</p>	 <p>Assess DOD's efforts to adapt and leverage organizational structures and management processes to maximize efficiencies and performance</p>

In the coming years, DOD will face a security environment of growing complexity while also facing serious budget constraints. DOD will therefore need to strike a strategic and affordable balance between current and future capabilities as it makes difficult trade-off decisions among competing priorities. Among those priorities is rebuilding readiness after a decade of significant wear and tear on military forces and equipment resulting from contingency operations in Iraq and Afghanistan, while also preparing for emerging missions—such as cyber operations—and emerging threats—such as cyber attacks on U.S. civilian and military networks and infrastructure. Another competing priority will be the billions of dollars DOD and DOE plan to invest in aging nuclear weapons and infrastructure. Further complicating DOD's priority setting is the increasingly large share of the budget absorbed by internal cost drivers such as investments in major weapon systems, military health care, troop pay, and military retirement benefits.

To enhance DOD's ability to make resources available for higher-priority needs, the department has opportunities to find greater efficiencies and potentially reduce costs by addressing long-standing weaknesses in its business operations. These business operations include inventory management, logistics support, and contracting. Opportunities also exist for greater efficiencies and reduced costs by restructuring DOD's headquarters and command organizations and reducing excess and obsolete installations and infrastructure.

**Military readiness and capabilities:** For more than a decade, DOD has invested considerable resources to support ongoing operations, including refocusing training on counterinsurgency missions and increasing the availability of personnel and equipment for deploying units at the expense of nondeploying units. The department now faces the challenge of rebuilding readiness of both the active and reserve forces to desired levels for a wider range of missions while continuing

to modernize capabilities for future threats under significant resource constraints. Doing so will require investments in existing and new capabilities needed to enhance DOD's ability to respond to emerging threats, such as countering weapons of mass destruction, defending against ballistic missiles, and operating effectively in cyberspace and environments where adversaries have the capability to deny U.S. access.

To balance these needs, DOD may no longer be able to afford its current approach to managing readiness. As a result, the department will need to fundamentally re-examine several areas, such as requirements for equipment, personnel, and training; the nature and composition of its forward presence in countries around the world; and the mix, size, and organization of its forces.

**Homeland security and emerging threats:** As DOD collaborates with other federal agencies to defend the homeland against man-made and natural catastrophic events, it also must respond to emerging threats from state and nonstate adversaries with new warfighting capabilities on land and sea, in the air, in space, and in cyberspace. In protecting both homeland and national security, the U.S. military will increasingly face a wide array of nonconventional threats. For example, climate change and the potential impact on the U.S. economy and the ability of nations, particularly those at risk already, to feed their populations will have implications for U.S. national security.

Further, new technologies represent both new critical capabilities and challenges for U.S. military forces. For example, nanotechnology and robotics have the potential to be of great use to U.S. forces for activities from logistics to intelligence, persistent surveillance, and reconnaissance (see [fig. 53](#)). These same technologies also could pose additional force protection challenges if adversaries gain or counter these capabilities.

**Figure 53: Remote-Controlled Robot Used by Explosive Ordnance Disposal Teams to Investigate Possible Explosive Devices Safely**



Source: Defense Video and Imagery Distribution System (DVIDS).

**Human capital management:** As the largest federal agency, DOD plays a critical role in managing the federal workforce. In fiscal year 2013, the department's workforce consisted of approximately 1.4 million active duty service members, 850,000 National Guard and Reserve members, and nearly 800,000 civilians in addition to a significant number of contractor personnel. In addition to fiscal challenges, a wide range of DOD personnel-related issues are expected to remain key concerns for DOD and the Congress. These



include the drawdown of and continued impact of military operations, evolving roles for women, and sexual assaults that can jeopardize mission readiness and erode unit cohesion.

DOD also faces increasing costs of military pay, retirement, and health care. For example, DOD health care costs for servicemembers and beneficiaries have grown significantly, and health care costs resulting from injuries, including post-traumatic stress disorder, sustained in recent military operations will continue for the foreseeable future. Therefore, how DOD plans for and manages its workforces, compensates its personnel, cares for them, and addresses social issues becomes increasingly important as DOD seeks to maintain a high-quality total force capable of meeting a diverse range of missions during a period of increased budgetary pressures.

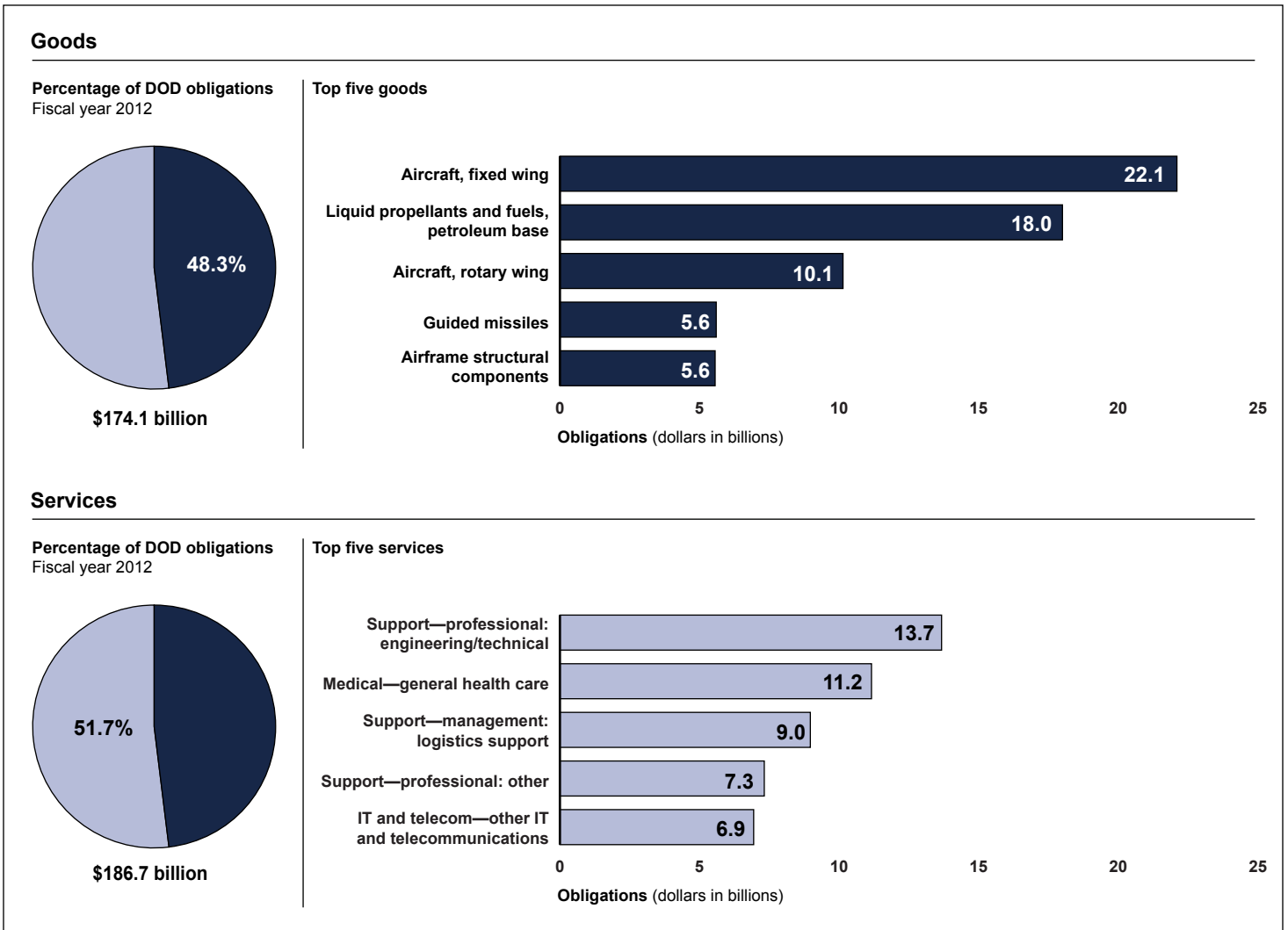
**Major weapon systems acquisition:** DOD's ability to successfully adapt to budgetary constraints will depend in great measure on its ability to better manage weapon systems acquisition, which GAO designated as a high-risk area in 1990. Total acquisition cost growth in DOD's fiscal year 2012 portfolio of major weapons programs reached nearly \$403 billion over initial estimates. At the program level, too many 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 warfighters risk not getting critical capabilities when they need them. 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. Without sustained leadership and consistent implementation of these recent reforms, DOD will continue to be challenged in improving its weapon system program outcomes.

**DOD contract management:** Given DOD's reliance on contractor-provided goods and services in support of its missions, management and oversight of contracts is critical. In fiscal year 2012, DOD obligated approximately \$361 billion to contracts for goods and services (see [fig. 54](#)). DOD uses contracts to obtain basic goods and services, such as office supplies and base maintenance, and for more complex goods and services, such as weapon and IT systems and logistics support. Contracts also provide operational support to U.S. forces in Afghanistan.



**Figure 54: DOD's Fiscal Year 2012 Obligations for Contracted Goods and Services**



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

At times, the use of ill-suited contracting arrangements, the absence of a strategic approach for acquiring services, the lack of effective competition, and poor contractor oversight have placed DOD at risk of not getting needed goods and services in a timely manner or potentially paying more than necessary. As a result, DOD contract management has remained on GAO's High Risk List since 1992. DOD has recognized these shortcomings and has efforts under way to address them, but many efforts remain early in implementation and their effectiveness is unproven. Further, under its Better Buying Power Initiative, DOD has identified the need to improve the tools and data available to its acquisition personnel to help negotiate better contract prices as one means of reducing acquisition costs.

**Maintenance and sustainment of weapon systems, inventory management, and other logistics functions and activities:**

DOD spends billions of dollars annually on the maintenance and sustainment of weapon systems, inventory management, and other logistics functions and activities that support the warfighter. The department, however, continues to face challenges in its management and oversight of these critical functions. For example, GAO's past work has found that DOD's unreliable maintenance and sustainment cost estimates for weapon systems limits the department's ability to assess, manage, and control these systems' life-cycle costs.

Also, DOD's data show it has billions of dollars' worth of on-hand excess inventory, categorized for potential reuse or disposal, and millions of dollars worth of already-purchased inventory that will likely be excess due to changed requirements (see [fig. 55](#)). Moreover, DOD faces challenges to return equipment from Afghanistan, such as constrained supply routes and high costs. Improving management of DOD's supply chain network, which GAO designated as a high-risk area in 1990, and logistics functions and activities can result in increased efficiency and improved effectiveness, as well as reducing waste and making resources available for other priorities.

**Figure 55: Boxes of Excess Gear and Equipment in Afghanistan**



Source: DVIDS.

**Defense support infrastructure:** DOD has more than 500 major permanent installations that constitute more than 300,000 buildings and 200,000 other structures with a replacement value of approximately \$850 billion. The defense support infrastructure includes other functions such as base support, utility systems, and training ranges. DOD has privatized aspects of its infrastructure assets, such

as housing on some bases, to leverage private capital to finance improvements. Since designating support infrastructure as a high-risk area in 1997, GAO has reported on several challenges DOD faces in reducing excess and obsolete infrastructure, including difficulties in achieving expected cost savings from the 2005 Base Realignment and Closure. DOD recognizes the need for a more efficient and appropriate infrastructure.

GAO will focus its future work on challenges DOD faces in meeting its support infrastructure requirements. These challenges include rightsizing its infrastructure to reflect expected force reductions and realignment, providing reliable and secure utilities, ensuring the adequacy of installations and training ranges to support military operations, addressing the impact of the environment on military operations, and ensuring the adequacy and reliability of business systems to support management decision making.

**Nuclear security enterprise, nuclear force structure, and associated weapons platforms:** The Department of Energy's National Nuclear Security Administration (NNSA) is responsible for developing, producing, and maintaining nuclear weapons. DOD is responsible for identifying military requirements for nuclear weapons and for operational employment of these strategic capabilities. The *2010 Nuclear Posture Review* stated that U.S. policy is to reduce the role of U.S. nuclear weapons while sustaining a safe, secure, and effective nuclear arsenal.

Consistent with this policy and to support nuclear weapons reductions ratified in 2010 under the New Strategic Arms Reduction Treaty, NNSA and DOD are investing hundreds of billions of dollars over the next two decades to sustain and modernize nuclear weapons research and production infrastructure, refurbish aging weapons, replace aging delivery systems and platforms, and modernize nuclear force structure and the nuclear command and control system. Meeting these challenges will require effective management of human capital and analyses of alternatives, as well as procurement, planning, contracting, and management systems to ensure efficient and affordable resource investment. Since 1990, GAO has identified contract and project management at NNSA as areas at high risk for fraud, waste, abuse, and mismanagement.

**Organizational structures and management processes:** In the past, as DOD responded to new missions or threats, it has generally added on new management layers instead of seeking efficiencies and challenging its existing organizational paradigms. DOD has taken some steps to reduce the size of its headquarters in the past 2 years, but the department may not have gone far enough to collapse layers of organization and management and reassess its requirements for the military and civilian employees and contractors. Instead, to address budgetary challenges, DOD has generally imposed modest reductions across the board to reduce personnel.

Throughout DOD, there are opportunities to restructure organizations and programs and areas for improved efficiencies and effectiveness. For example, DOD has taken steps to reform its business operations, such as establishing key leadership positions and business-related governance structures and continuing to update its strategic management plan. However, DOD has not demonstrated that its management oversight of reform efforts is producing tangible results in addressing long-standing deficiencies in key business areas, such as measuring progress on a department-wide basis. Therefore, in 2005, GAO added DOD's approach to business transformation to the High Risk List, which continues to include several DOD business operations that were originally added to the list in 1995, due to their vulnerability to waste, fraud, abuse, and mismanagement.

GAO's work can assist the Congress and federal leaders as they seek to reconcile competing priorities between existing and future military capabilities and missions, and in improving logistics support, acquisition, and other defense business operations to make the most of the nation's investments 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**

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##### **Key Efforts**

- Assess readiness and training of U.S. forces to accomplish missions.
- Evaluate plans for transforming active and reserve forces.
- 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**

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##### **Key Efforts**

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

### **Performance Goal 2.2.3**

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

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##### **Key Efforts**

- Assess DOD's approaches for determining requirements for and managing its military, civilian, and contractor workforces.
- Assess DOD's management of its financial resources and programs to compensate and support personnel.
- Assess DOD's policies and programs for addressing social and behavioral factors.
- Assess DOD's governance approach and plans for achieving efficiencies in providing health care to military personnel and beneficiaries.

### **Performance Goal 2.2.4**

#### **Assess the ability of weapon system acquisition programs and processes to achieve desired outcomes**

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##### **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 the cost, schedule, and performance problems that consistently affect weapon programs.
- Assess DOD's implementation of acquisition reforms.

### **Performance Goal 2.2.5**

#### **Assess DOD's progress in improving contract management**

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##### **Key Efforts**

- Analyze DOD's efforts to improve competition in the procurement of goods and services.
- Assess the extent to which DOD has improved services acquisition.
- Evaluate DOD's efforts to improve contractor oversight.
- Analyze DOD's development and use of tools and data to negotiate better prices.
- Assess the extent to which DOD has identified and implemented efforts to improve the planning, management, and oversight of operational contracting support.

### **Performance Goal 2.2.6**

#### **Assess DOD's progress in improving the maintenance and sustainment of weapons systems, inventory management, and other logistics functions and activities**

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##### **Key Efforts**

- Evaluate DOD's efforts to assess, manage, and control weapons systems costs throughout the life cycles of these systems.
- Evaluate the need and opportunities for improving logistics functions and systems.
- Assess efforts to provide timely support to the warfighter and address emerging requirements.

### **Performance Goal 2.2.7**

#### **Assess DOD's management of the defense support infrastructure**

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##### **Key Efforts**

- Evaluate DOD facilities' management, maintenance, and modernization.
- Assess DOD's implementation of the disposal of excess infrastructure capacities.
- Evaluate alternative financing initiatives that rely on private-sector capital.

### **Performance Goal 2.2.8**

#### **Assess efforts of NNSA and DOD to maintain and modernize the nuclear security enterprise, nuclear force structure, and associated weapons platforms**

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##### **Key Efforts**

- Assess NNSA's programs and projects to modernize the nuclear security enterprise.
- Evaluate NNSA and DOD efforts to manage the U.S. nuclear weapons stockpile, including identifying requirements, refurbishing aging systems, and maintaining systems that are safe and reliable.
- Evaluate NNSA's human capital, procurement, planning, contracting, and management systems to ensure efficient resource investment.
- Assess NNSA's and DOD's implementation of effective and efficient security programs to protect nuclear weapons, materials, and information.
- Assess the structure, organizational capabilities, sustainment, and modernization of DOD's nuclear forces and the nuclear command, control, and communications system.

## **Performance Goal 2.2.9**

### **Assess DOD's efforts to adapt and leverage organizational structures and management processes to maximize efficiencies and performance**

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#### **Key Efforts**

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



## STRATEGIC OBJECTIVE 2.3

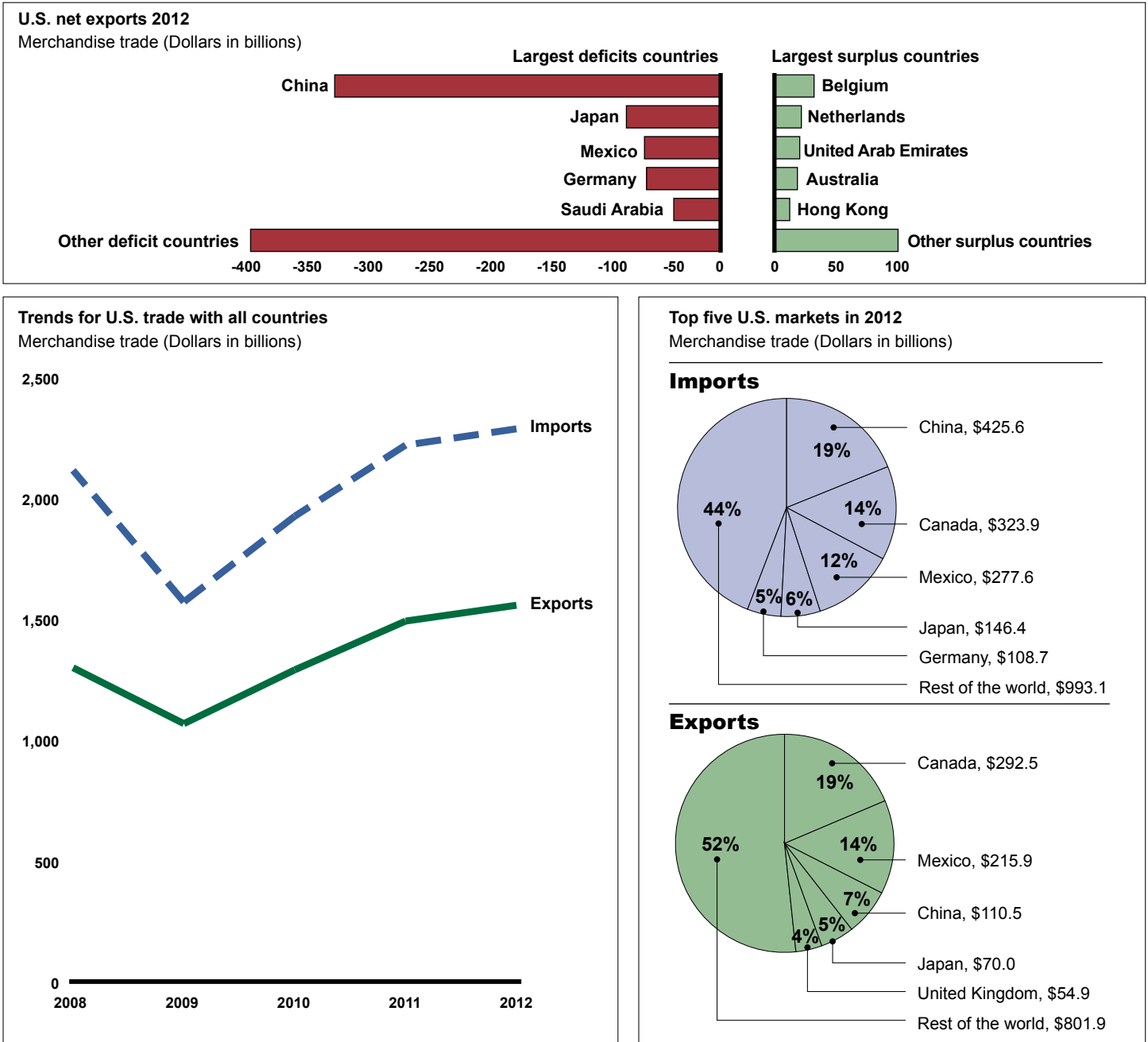
### Advance and Protect U.S. Foreign Policy and International Economic Interests



U.S. policymakers face the ongoing challenge of advancing and protecting the nation's foreign interests while having to react to an ever-changing international environment. Fundamental shifts in mission are under way as U.S. military involvement in Afghanistan winds down and attention turns to building foreign partners' capacity to counter terrorist and other transnational threats.

However, U.S. foreign affairs agencies face a volatile security, political, and economic environment as they work to combat global disease, reduce poverty, increase global food security, address climate change, and stabilize the world economy. Nations such as China are exerting rising prominence in regions such as sub-Saharan Africa. U.S. trade deficits continue despite some success in increasing U.S. exports (see [fig. 56](#)).

**Figure 56: Overview of U.S. International Trade**



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

Note: Percentages may not add to 100 percent because of rounding.

This volatile environment creates a variety of institutional challenges. Multilateral institutions, such as the United Nations, face continued questions about their management and effectiveness. In the wake of attacks against U.S. personnel and facilities overseas, costly adjustments to enhance the security of the U.S. diplomatic presence are under way and are critical to the U.S. image and security of U.S. citizens abroad. DOD's reliance on a global supplier base to develop

weapons such as the F-35 carries potential threats such as theft, espionage, and tampering of critical technologies. Agencies such as the Department of State and the U.S. Agency for International Development (USAID) seek to build more integrated approaches, international partnerships, and capacity building abroad, thereby elevating the need for strengthening management controls, strategic planning, and interagency coordination.

**Countering overseas threats:** The United States continues to face a diverse and changing set of overseas threats to its national security, including transnational threats, destabilizing effects of the Arab Awakening, and rising military strength of regional powers challenging U.S. interests.<sup>36</sup> With the planned withdrawal of most military forces from Afghanistan, the United States increasingly confronts dispersed transnational terrorist threats, including al Qaeda, its affiliates, and others from havens in the Middle East and Africa. Transnational proliferation—North Korean and Iranian nuclear programs, Syrian chemical weapons, and Libyan anti-aircraft missiles—continues to threaten U.S. interests. Also, transnational narcotics and arms trafficking affect regional stability in strategically important areas of Asia and Latin America.

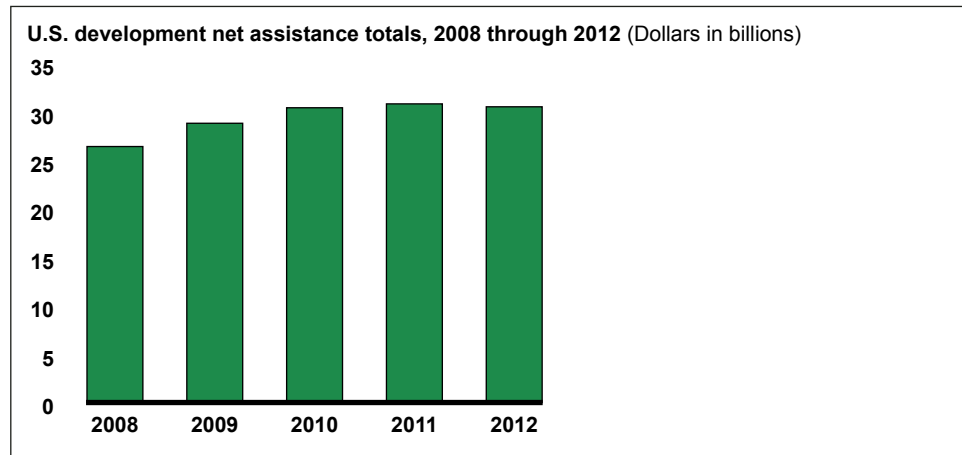
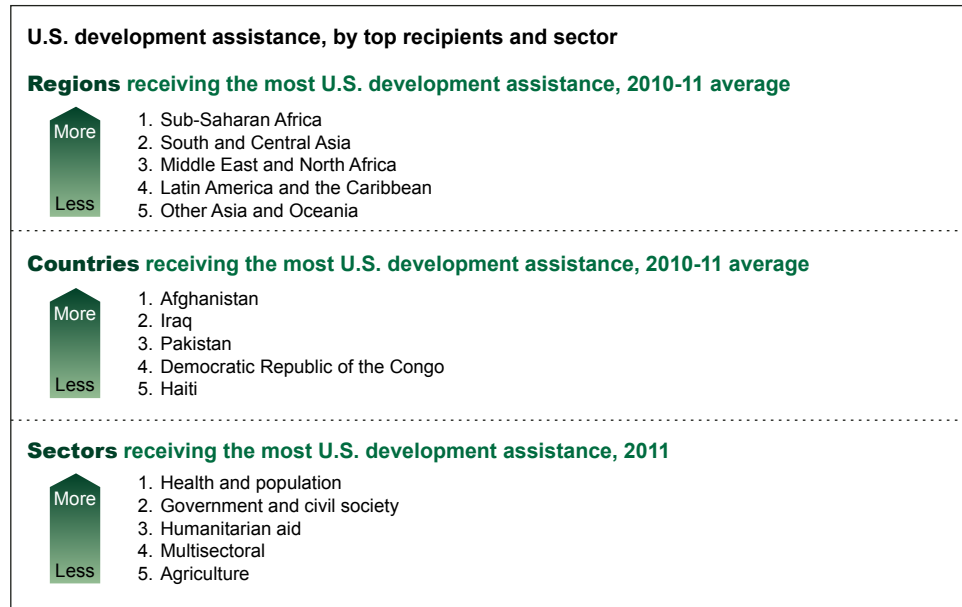
To address these changing and diverse threats, the U.S. government established a variety of programs under a whole-of-government approach, which involve tens of billions of dollars in spending and aim to, among other things, (1) help partner nations build sustainable capacity to address security challenges; (2) promote partner support for U.S. interests through cooperation on law enforcement, counterterrorism, counternarcotics, combating organized crime and arms trafficking, countering weapons proliferation and terrorism, intelligence and information sharing, and peacekeeping efforts; and (3) strengthen collective security and multinational defense arrangements and organizations.

**Bilateral and multilateral foreign assistance:** Foreign assistance is an important tool not only for improving the standard of living in the world's developing nations but also for advancing U.S. interests. To assist nations facing diverse challenges, State, USAID, and other agencies deliver assistance that addresses many aspects of development, including economic growth, health and education, democracy and rule of law, humanitarian and disaster relief, and food security (see [fig. 57](#)). The U.S. government had planned to direct about \$29 billion in foreign assistance funding in fiscal year 2013, both bilaterally and multilaterally, through various international organizations and development institutions.

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<sup>36</sup>In public statements, the State Department has used the term “Arab Awakening” to refer to the recent unrest in the Arab world.

**Figure 57: Overview of U.S. Development Assistance**



Source: (Top) Organisation for Economic Cooperation and Development (OECD) official development assistance statistics; (Bottom) OECD official development assistance statistics.

With constrained budgets, U.S. agencies must focus on how best to meet pressing needs. For example, despite major gains the President’s Emergency Plan for AIDS Relief has made in lowering treatment costs and helping expand services to nearly 10 million HIV-infected people, about 16 million still lack treatment. With rising food and transportation costs, agencies also will need to manage food assistance programs more effectively to meet demands in crisis environments created by human conflict or natural disasters and achieve long-term food security globally. To increase the efficiency and impact of its assistance, USAID has launched a major reform initiative—USAID Forward—that includes increasing direct partnerships with foreign governments and organizations. Establishing robust management controls is critical for ensuring accountability over foreign assistance funds. This includes obtaining adequate financial information to monitor implementation and performance information to evaluate results.

**International trade and finance:** Restoring global financial health and increasing trade to promote prosperity remain critical U.S. foreign policy objectives. U.S. trade is rebounding from its 2009 dip, reaching \$3.8 trillion in 2012. U.S. government efforts to increase trade have shifted, including expanded financing of U.S. exports and other support for small- and medium-sized exporters. Pursuit of lower trade barriers has focused on regional agreements and efforts to build multilateral consensus on a more targeted package in World Trade Organization negotiations. Challenges include government interventions in foreign exchange markets that can undercut U.S. producers in global competition, difficulties achieving consensus on how best to balance trade with security and other concerns, and the limited capacity of trade partners, such as those in Africa, to take advantage of favorable access to U.S. markets. U.S. agencies also face challenges in collecting duties and determining unfairly traded imports and counterfeit goods.

To address these challenges, the agencies that advance U.S. trade interests—including the Office of the U.S. Trade Representative, the Department of Commerce, the Export-Import Bank, and those responsible for Customs and Border Protection’s revenue and enforcement functions—will need to clarify program goals and strategies, enhance coordination and communication, and improve efficiency in a constrained budget environment. The United States also seeks to assure global financial stability. Yet it remains to be seen whether institutions such as the World Bank and the International Monetary Fund can effectively mitigate systemic risks like those posed by high national indebtedness in the European Union.

**U.S. diplomatic presence and management:** The U.S. diplomatic presence is critical to advancing U.S. interests in an interconnected world. The United States maintains more than 270 diplomatic posts worldwide. U.S. agencies are responding to emerging and evolving threats by operating in increasingly dangerous locations, as highlighted by the attacks in Benghazi, Libya. Protecting U.S. personnel and facilities overseas costs more than \$1.5 billion annually, and these costs will continue to grow. New secure embassy compounds are costly to construct and operate, which increases the importance of accurate staff level projections.

State must also coordinate with other agencies, such as DOD and USAID, to ensure staffing and operational efficiencies. Efforts to enhance passport and visa processes to protect U.S. borders and prevent the entry of terrorists, criminals, and illegal immigrants will require continuous revision to confront changing threats. Diplomatic readiness also requires having the right number of people with the right skills in the right places. For example, State must continue to address shortfalls in foreign language capabilities and staffing gaps at critical overseas posts. Ensuring effective engagement with audiences abroad through public diplomacy programs will remain essential to enhancing the U.S. image as well.

Although multilateral organizations—including the United Nations and the World Bank—facilitate international cooperation, questions continue to arise about their effectiveness and ability to achieve goals that reflect U.S. interests. The United States will remain an advocate of actions to make them efficient, effective, and accountable. In particular, management reform at the United Nations, such as in internal oversight and human resources, will merit attention.

**Global supplier base:** Globalization of the supplier base has changed the way the United States obtains technologies and capabilities to best serve its national security interests. Domestic firms that develop defense products, parts, and weapons and integrate and maintain those systems often rely on a supplier network that includes foreign firms. DOD has shown a willingness to acquire goods and services from foreign suppliers and to partner with foreign allies to develop weapon systems such as the F-35 aircraft.

Drawing from a global supplier network presents opportunities, such as the potential to speed innovation and reduce costs, but also carries potential for threats to the technological superiority of the United States, whose technologies are often targets for theft, espionage, and tampering. New approaches to protect U.S. national security interests that weigh competing and sometimes conflicting economic and foreign policy interests may be required. Because of weaknesses identified in federal programs to protect technologies critical to national security interests, GAO added this area to its High Risk List in 2007. Further insights into the effects of increased reliance on a global defense industrial base will provide DOD with the information needed to better manage critical technologies and its interactions with that base.

GAO's work can help the Congress and federal agencies ensure that the capacities needed to help advance U.S. foreign policy and international economic interests abroad are in place. To do so, GAO has established the following performance goals and key efforts:

### **Performance Goal 2.3.1**

#### **Analyze the implementation and results of U.S. and international efforts to counter and address threats to the United States and its foreign partners' national security**

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##### **Key Efforts**

- Evaluate U.S. and multilateral security assistance and cooperation efforts to enhance and build foreign partner capacity and stabilize regions in conflict.
- Evaluate U.S. efforts to address terrorist threats emanating from abroad.
- Evaluate U.S. efforts to counter overseas narcotics trafficking and other transnational threats to U.S. interests.

- Assess the effectiveness of U.S. and international efforts to prevent proliferation of sensitive materials and technologies associated with nuclear, biological, chemical, radiological, and conventional weapons.
- Assess the management and effectiveness of U.S. and multilateral controls over exports of goods and technologies.
- Evaluate the implementation and impact of U.S. and multilateral sanctions on countries of concern.

### **Performance Goal 2.3.2**

#### **Analyze the implementation and management of U.S. bilateral and multilateral foreign assistance, including development, humanitarian, and economic assistance and efforts to promote democracy and human rights**

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##### **Key Efforts**

- Evaluate U.S. efforts to provide economic development assistance.
- Examine U.S. efforts to provide key program assistance in areas such as health, education, and democracy.
- Analyze U.S. activities to provide assistance in man-made or natural disaster environments.
- Assess agency performance and financial controls and monitoring.

### **Performance Goal 2.3.3**

#### **Analyze how international trade programs serve U.S. interests and how the United States can influence improvements in the world economy**

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##### **Key Efforts**

- Examine efforts to ensure and increase access to foreign markets and sources, including trade agreements and enforcement.
- Review programs that promote U.S. exports.
- Evaluate U.S. programs to expand trade and build partner trade capacity in support of development.
- Assess the effectiveness of duty collections, trade remedies against injurious or intellectual property right-infringing goods and other illicit trade, and other import programs.
- Analyze emerging trade policy issues and crosscutting trade management challenges.
- Assess the operations of international financial institutions in which the United States is a member.
- Provide insight about international debt, investment, and exchange issues.
- Evaluate U.S. government export financing and investment guarantees.



#### **Performance Goal 2.3.4**

##### **Assess the management and effectiveness of the U.S. diplomatic presence and its membership in multilateral organizations**

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###### **Key Efforts**

- Assess U.S. efforts to protect overseas personnel, facilities, and interests.
- Evaluate efforts to achieve the optimal level of U.S. presence overseas and to construct secure and appropriately sized embassy facilities where they are most needed.
- Analyze efforts to reduce duplication and overlap among foreign affairs agencies.
- Assess U.S. efforts to improve passport, visa, and other processes to help prevent terrorists, criminals, and illegal immigrants from entering the United States.
- Assess efforts to improve U.S. diplomatic readiness.
- Evaluate the efficacy of programs to enhance the U.S. image abroad.
- Assess the efforts of multilateral institutions to modernize and reform their management processes.

#### **Performance Goal 2.3.5**

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

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###### **Key Efforts**

- Evaluate the effectiveness of U.S. government programs designed to protect critical technologies.
- Assess DOD's insight into and management of its global supplier base.
- Evaluate qualitative and quantitative approaches to balance the effects of a global supplier base while preserving U.S. economic and national security interests.



# GOAL 3

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## Help Transform the Federal Government to Address National Challenges

**G**AO's third strategic goal is to help the federal government transform to address national challenges. The evolving issues and risks confronting the federal government are increasingly complex and cut across geographic boundaries, programs, levels of government, and sectors. Transforming the government by, for example, reforming national tax laws; modernizing outdated financial regulatory systems; improving acquisition management; and strengthening the performance of government programs must consider global and local risks, connections, and implications to be effective. Further, this transformation is occurring amidst a landscape of fiscal uncertainty. GAO's federal simulations show that absent policy changes, the federal government faces rapid, unsustainable growth in debt and a growing imbalance between revenue and spending.

Successfully addressing these critical challenges depends on government's ability to

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

To address the fiscal realities of the next 5 years, the federal government must address the long-term fiscal outlook. To create much-needed flexibility to meet the nation's needs, the government must examine all aspects of fiscal policy, existing programs, and tax administration for opportunities to reduce fraud, waste, abuse, and mismanagement. Moreover, government managers and policymakers need clear, timely, realistic assessments of the government's performance management, financial condition, and cost of operations. Yet given significant deficiencies in these areas, much work lies ahead to strengthen performance management, federal financial management, and accountability.

Government agencies need to address performance and management challenges and high-risk issues with better strategic planning and crosscutting approaches to provide the public with the demonstrable results it reasonably expects. Creating a culture that embraces risk management will be critical to successfully navigating rapid change, uncertainty, and fiscal strain. Further, increasing interdependence means that the federal government must work closely with state and local governments, nongovernmental organizations, and the



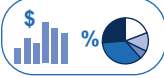


private sector—domestically and internationally—to achieve results. Accordingly, GAO will focus on the government’s role in achieving results in an increasingly globalized environment and on the government’s ability to report on, deliver, and account for high, cost-effective performance.

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

- 3.1:** Analyze the Government’s Fiscal Condition and Opportunities to Strengthen Approaches to Address the Current and Projected Fiscal Gaps
- 3.2:** Support Government Accountability by Identifying Fraud, Waste, and Abuse, and Needed Improvements in Internal Controls
- 3.3:** Support Congressional Oversight of Crosscutting Issues and Major Management Challenges and Program Risks
- 3.4:** Establish and Maintain Government Auditing Standards and Standards for Internal Control in the Federal Government

# STRATEGIC OBJECTIVE 3.1

## Analyze the Government’s Fiscal Condition and Opportunities to Strengthen Approaches to Address the Current and Projected Fiscal Gaps

Performance Goals for Strategic Objective 3.1				
 <p>Analyze the implications of commitments, information, processes, and controls on the federal short- and long-term budget outlook, debt management, and agencies’ budget decisions and operations</p>	 <p>Monitor and examine the federal government’s response to state and local governments’ short- and long-term fiscal condition</p>	 <p>Assess the reliability of financial information on the government’s fiscal position and financing sources</p>	 <p>Contribute to congressional deliberations on tax policy</p>	 <p>Identify specific opportunities to reduce the tax gap by improving taxpayer voluntary compliance and IRS’s ability to pursue noncompliance</p>

In the near term, annual deficits are expected to continue to decline from recent historic highs as the economy recovers and actions taken by the Congress and the President begin to take effect. Limits on discretionary budget authority established by the Budget Control Act of 2011 mean that discretionary spending as a share of the economy is projected to be lower in 2023 than at any point in the last 50 years. Nevertheless, absent further policy action, the gap between revenues and spending will remain, as will historically high levels of debt held by the public as a share of GDP. This will limit the federal government’s budgetary flexibility to address emerging issues and unforeseen challenges.

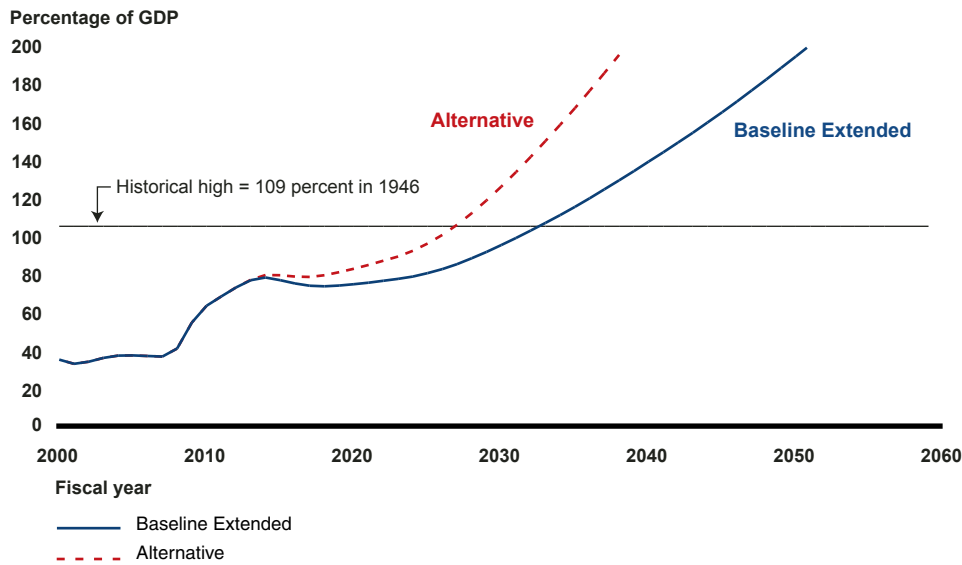
On the spending side of the budget, the nation’s fiscal outlook in the coming years will be shaped largely by demographics and health care costs. The oldest members of the baby boom generation are already eligible for Social Security and Medicare. A range of other federal fiscal exposures—that is, responsibilities, programs, and activities that may either obligate the government to future spending or create the expectation for future spending—also bind the nation’s fiscal future. The federal government needs to balance long-term fiscal pressures with short-term budgetary constraints that affect agencies’ abilities to manage now. This will help agencies protect key investments that ensure their continued ability to achieve their missions.

**Long-term fiscal outlook:** GAO’s simulations show that the nation’s long-term fiscal outlook remains unsustainable. By 2028, debt held by the public as a percentage of GDP could exceed the historical high of more than 100 percent of GDP reached in the aftermath of World War II and grow at a steady rate thereafter (see [fig. 58](#)). Further, a variety of fiscal exposures have grown over the past decade due to events and trends—such as the financial crisis, severe weather-related events, and rising health care costs—and the government’s response to them.

These fiscal exposures will require future federal spending and absorb resources that could have been available for other activities.

Understanding the near- and long-term budget implications of policy decisions at the time those decisions are made permits more informed discussion of both the overall program and any specific program design features. To support the Congress in its efforts to provide enhanced control and oversight over federal resources, GAO's planned work will focus on better understanding the sources of fiscal exposures and how they are changing.

**Figure 58: Debt Held by the Public under Two Fiscal Policy Simulations**

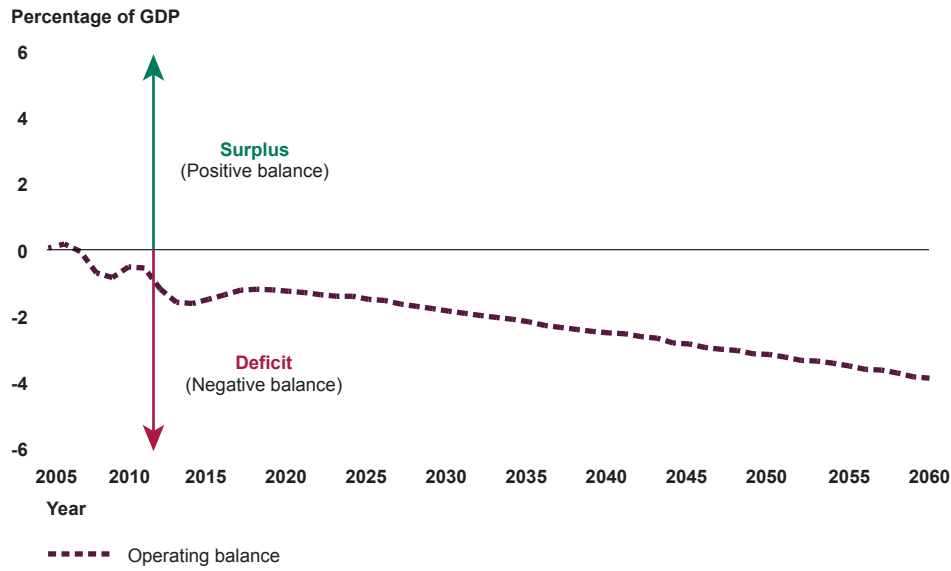


Source: GAO.

Note: Data are from GAO's spring 2013 simulations.

GAO's simulations also show that, like the federal government, state and local governments will continue to face fiscal challenges (see [fig. 59](#)), which will be even more acute during periods of higher unemployment, constrained revenue, and increased demands for services. These simulations have consistently shown that, absent any policy changes, the state and local sectors will face an increasing gap between receipts and expenditures in future years. The recent bankruptcies of cities such as Detroit, San Bernardino, and Stockton provide compelling examples of what such gaps may ultimately lead to, and highlight the importance of understanding the implications that municipal fiscal distress may have for federal programs.

**Figure 59: State and Local Operating Balance Measure, as a Percentage of Gross Domestic Product**



Source: GAO simulations, updated April 2013.

Note: Historical data are from the Bureau of Economic Analysis's *National Income and Product Accounts*. Data in 2012 are GAO estimates aligned with published data where available. GAO's simulations are from 2013 to 2060, using many Congressional Budget Office projections and assumptions, particularly those for the next 10 years.

The operating balance is a measure of the sector's ability to cover its current expenditures out of current receipts. The operating balance measure is all receipts, excluding funds used for long-term investments, minus current expenditures. To develop this measure, GAO subtracted funds used to finance longer-term projects—such as investments in buildings and roads—from receipts, since these funds would not be available to cover current expenses. Similarly, GAO excludes capital-related expenditures from spending. While most states have requirements related to balancing their budgets, deficits might arise because of unanticipated events such as a recession. These deficits can occur because the planned annual revenues are not generated at the expected rate, demand for services exceeds planned expenditures, or both, resulting in a near-term or operating deficit. States have tapped fiscal reserves to cope with revenue shortfalls during recent recessions, as indicated by their reported total balances, which are comprised of general fund ending balances and amounts in state budget stabilization “rainy day” funds. This figure depicts the state and local operating balance only, and does not include fiscal reserves or other budget measures used to cope with revenue shortfalls.

As the administration and the Congress work to address fiscal imbalances, forward-looking information about the fiscal, economic, and social implications of possible changes to long-standing programs and policies will be critical. GAO will work to recommend ways federal agencies can find opportunities to build a culture for effective risk management in critical program areas, including financial regulation, health care, defense, and homeland security.

**Financial reporting and debt management:** The government's economic stimulus and recovery efforts have created unprecedented federal financial reporting and debt management challenges. When interest rates return to normal levels, federal interest spending could increase substantially, absorbing resources that could have been available for government programs and reducing flexibility to address emerging challenges. Examining how financing needs and financial market conditions affect Treasury's debt management decisions



and options to minimize borrowing costs will be important. Further, accurate, timely information about government spending will help policymakers assess and manage the country's fiscal condition and economic progress in the coming years. GAO's planned work reflects significant developments, such as

- *The estimated trillions of dollars in loans, credit guarantees, and other assistance that Treasury, the Federal Reserve, Federal Housing Administration, or other government entities have committed to date to address the financial crisis.* In the near term, oversight is needed to ensure that the government's financial responses achieve their intended goals.
- *The potential \$282 billion funding commitment to Fannie Mae and Freddie Mac under agreements between Treasury and the enterprises.* The future structures of these two government-sponsored enterprises and the roles they will serve in the mortgage market must still be determined. Notably, Fannie Mae and Freddie Mac together own or guarantee roughly half of U.S. residential mortgage debt.
- *High-risk areas of government operations vulnerable to economic weakness.* For example, the Pension Benefit Guaranty Corporation's (PBGC) pension insurance programs remain exposed to the threat of terminations of large underfunded pension plans sponsored by financially weak firms, as well as the threat of insolvency of large multiemployer pensions plans. PBGC's deficit at the end of fiscal year 2012 stood at \$34 billion—a figure that may worsen if the economic recovery slows or financial markets weaken. The U.S. Postal Service is also facing a deteriorating financial situation as it reached its borrowing limit of \$15 billion in fiscal year 2012 and finished the year with a reported net loss of almost \$16 billion.
- *The federal government debt limit and the effects of Treasury's actions to avoid exceeding the debt limit.* GAO will continue to provide information to the Congress as it considers ways to better link decisions about the debt limit with decisions about spending and revenue to avoid potential disruptions to the Treasury market and to help inform the fiscal policy debate in a timely way.

Dealing with longer-term fiscal challenges will also require examining the revenue side of the budget. For example, absent changes in tax policy, during periods of economic strain and higher unemployment, tax revenue will likely decline at the same time that public expenditures and demand for public services increase. In the longer term, both the amount of revenue to be raised to finance federal expenditures (including tax expenditures), and how to raise it, will need to be carefully considered.

**Financial information:** With the federal government facing serious fiscal challenges, the need is greater than ever for timely, accurate, and reliable financial information to measure and control costs,

manage for results, and make fully informed program and resource allocation decisions. Achieving these objectives 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;
- presenting federal financial information in a form that is useful for deliberating on the nation's budget, debt, and long-term fiscal challenges; and
- presenting financial information with a view toward better recognizing certain elements of government operations, such as the extent of the federal government's social insurance commitments.

Of particular importance in the coming 5 years is 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 Schedule of the Federal 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), the Bureau of Consumer Financial Protection, and Treasury's Office of Financial Stability. 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.

**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. 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. One form of tax reform could involve broadening the current tax base by eliminating certain tax expenditures.

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 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 more than \$1 trillion in 2012. Little is known about the effects of many of these provisions.

**Taxpayer compliance:** Federal revenues are also reduced to the extent that taxpayers do not fully comply with paying their tax liabilities. The most recent estimate of the net tax gap—that is, the gap between

taxes owed and paid after IRS enforcement and late payments—is \$385 billion for 2006. 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 will also depend on innovative solutions involving external parties, such as paid tax return preparers, and legislative changes, such as those to simplify the tax code. Enforcing tax laws continues 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.

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 short- and long-term budget outlook, debt management, and agencies’ budget decisions and operations**

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##### **Key Efforts**

- Analyze the transparency and the implications of current and emerging longer-term fiscal exposures on the federal fiscal outlook.
- 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.
- Examine how federal debt and financial market trends affect debt management and financing costs.

### **Performance Goal 3.1.2**

#### **Monitor and examine the federal government’s response to state and local governments’ short- and long-term fiscal condition**

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##### **Key Efforts**

- Examine how federal policies and economic trends affect the short- and long-term fiscal capacities of states and localities to pursue national objectives.
- Assess how states and localities use federal funds, including how states and localities combine various resources to fund initiatives.
- Monitor fiscally distressed states and municipalities and their potential impacts on, and implications for, federal programs and funding.

### **Performance Goal 3.1.3**

#### **Assess the reliability of financial information on the government's fiscal position and financing sources**

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##### **Key Efforts**

- Annually audit the government's consolidated financial statements, related internal controls, and legal compliance, and assess challenges that cause a disclaimer of opinion.
- Audit financial statements, related internal controls, and legal compliance of various federal entities and components, including those with regulatory responsibilities.
- Annually audit Treasury's revenue collections and federal debt activity and related balances.
- Address opportunities to improve auditing and reporting on federal agency and U.S. government consolidated financial operations.
- Assess whether efforts to improve federal financial management are effectively focused on providing useful cost and other financial data.

### **Performance Goal 3.1.4**

#### **Contribute to congressional deliberations on tax policy**

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##### **Key Efforts**

- Analyze how changes in the tax system affect objectives, such as equity, economic efficiency, simplicity, revenue, and administrability.
- Evaluate oversight of tax expenditures and the effectiveness and impact of specific tax expenditures on tax revenue, taxpayers, and the economy.
- Analyze how the tax code affects individual and business decisions, such as where to locate and how to structure operations.

### **Performance Goal 3.1.5**

#### **Identify specific opportunities to reduce the tax gap by improving taxpayer voluntary compliance and IRS's ability to pursue noncompliance**

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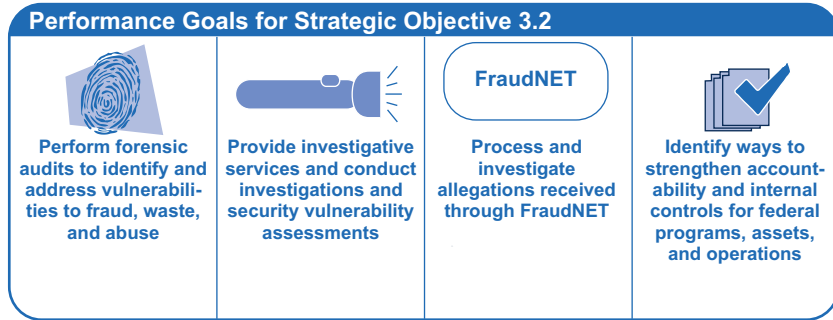
##### **Key Efforts**

- Identify potential improvements to IRS taxpayer service, such as easier tax return filing; faster refund processing; and more informative telephone, website, 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 leverage paid preparers, tax preparation software companies, and information return reporters to ensure timely, accurate filing of tax returns.

- Evaluate IRS's efforts to modernize its expenditure plans and its information systems.
- Assess IRS's efforts to improve planning, resource allocations, and evaluation of operations, including using research and data to enhance compliance programs.

## STRATEGIC OBJECTIVE 3.2

### Support Government Accountability by Identifying Fraud, Waste, and Abuse, and Needed Improvements in Internal Controls



Evidence suggests that fraud, waste, and abuse cost the federal government billions of dollars annually. For example, GAO's work has demonstrated that reported improper payments—estimated at nearly \$108 billion in fiscal year 2012—are a long-standing and widespread problem. Medicare and Medicaid, which together provide health insurance for one in four Americans, accounted for about \$63.2 billion (59 percent) of that amount. GAO's work indicates that, although federal agencies have taken steps to improve accountability in government programs, instances of fraudulent activity, improper and overlapping payments, inadequate documentation, and other indications of fraud, waste, and abuse persist across a wide range of federal programs and activities. To assist in the prevention and detection of these activities, GAO performs forensic audits, internal control reviews, and special investigations targeted at highly vulnerable federal programs and funding. To do so, GAO uses data mining, covert testing, and law enforcement tools including the Financial Crimes and Enforcement Network and the National Crime Information Center, among others. It is also critical to enhance government-wide efforts to reduce improper payments by (1) identifying and analyzing root causes, (2) implementing effective controls for prevention, and (3) enhancing detection and recovery.

GAO's focus on preventive controls and effective fraud prevention programs is also integral to other GAO efforts. For example, as previously discussed, over the next 5 years, GAO will continue to focus on the nation's health care programs and other areas at high risk of fraud, waste, and abuse.

**Forensic audits and investigations:** GAO's ability to conduct forensic audits and investigations of programs across the government uniquely positions it to apply knowledge gained of lessons learned and best practices across government to other programs and operations. 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 highlight these issues to the Congress and the public and often result in positive change. For example, in recent years, GAO has used forensic audits and special investigations to identify government-wide fraud and abuse in areas such as Medicare Part D and prescription drugs, the Service-Disabled Veteran-Owned Small Business Program, psychotropic prescription drugs for foster children, and counterfeit military-grade electronic parts.

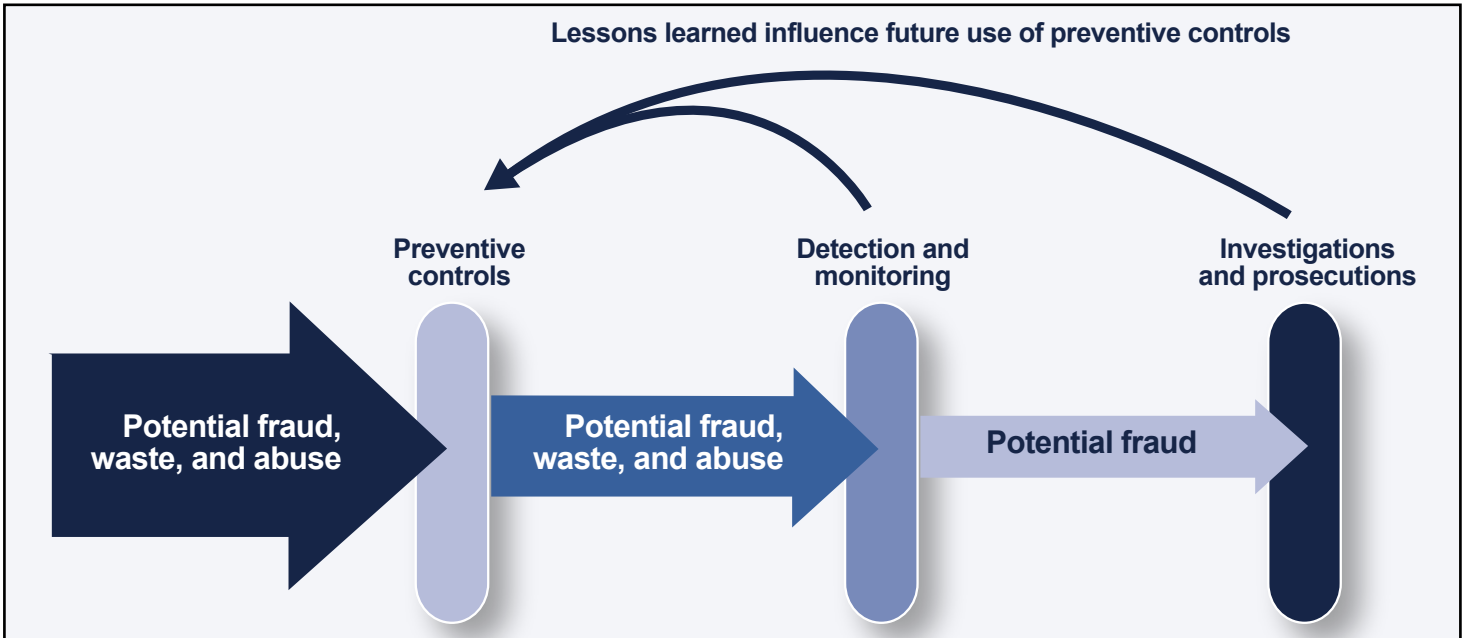
**Consequences resulting from investigations and security**

**vulnerability assessments:** An important element of the federal government’s ability to deter fraud is to have consequences for those who fail to pay their tax liabilities or who commit fraud against the federal government. Through forensic audits and investigations, GAO has identified 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. In 2012, GAO referred more than 70 cases of potential fraud or other impropriety to executive branch agencies, leading to actions such as recoupment of improperly received funds and conviction for theft of government property. Over the next 5 years, GAO will also continue to use tips received through 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.

**Strengthening accountability and internal controls:** 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 have been disbursed fraudulently or improperly, the government is likely to recover only a few pennies on the dollar. As seen in [figure 60](#), GAO’s fraud prevention framework provides an overview of how preventive controls help screen out ineligible entities, and how monitoring controls and prosecutions can help further minimize the extent to which a program is vulnerable to fraud.



**Figure 60: GAO’s Fraud Prevention Framework**



Source: GAO.

Leveraging this framework, GAO will continue to focus its work on identifying vulnerabilities in agency preventive controls and providing recommendations to strengthen them. Key areas of focus for the next 5 years include Medicare, Medicaid, and other federal health care programs; other federal entitlement programs and federal procurement efforts; food assistance; federal disaster response outlays; and housing recovery programs. GAO will continue to coordinate and, where appropriate, work closely with auditors, investigators, and law enforcement agencies from federal, state, and local governments to conduct investigations and develop 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.

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 federal health care programs.
- Evaluate and investigate federal disaster response outlays.

- Evaluate and investigate entitlement programs and federal procurement efforts.
- Evaluate and investigate housing recovery programs, including mortgage and refinancing programs.
- Evaluate and investigate federal benefit programs, to include debit card usage.
- Evaluate and investigate high-dollar programs that are at risk for improper payments.
- 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**

#### **Provide investigative services and conduct investigations and security vulnerability assessments**

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##### **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 as requested by the Congress and the Comptroller General.

### **Performance Goal 3.2.3**

#### **Process and evaluate allegations received through FraudNet**

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##### **Key Efforts**

- Process the more than 1,500 allegations made annually through FraudNet.
- Evaluate allegations received to identify trends in FraudNet allegations.
- Actively promote and advertise the FraudNet as a means for the public to report fraud, waste, abuse, and mismanagement to GAO.

### **Performance Goal 3.2.4**

#### **Identify ways to strengthen accountability and internal controls for federal programs, assets, and operations**

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##### **Key Efforts**

- Evaluate management controls over program payments, beneficiaries' access, and quality of services in federal health care, housing, entitlement, and procurement programs.
- Assess federal agencies' internal controls to identify opportunities to reduce risk of fraud, waste, and abuse.

- 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.
- Assess agencies' progress in estimating improper payments, identifying their root causes, and developing effective preventive and detective controls, including an emphasis on recovery audits.

# STRATEGIC OBJECTIVE 3.3

## Support Congressional Oversight of Crosscutting Issues and Major Management Challenges and Program Risks

Performance Goals for Strategic Objective 3.3							
 <p>Highlight high-risk federal programs and operations and monitor progress of needed management reforms</p>	 <p>Assess efforts to improve results-oriented management across the government</p>	 <p>Analyze and support efforts to develop an agile, skilled workforce, which is essential to the operation of high-performing federal agencies</p>	 <p>Identify ways to improve federal agencies' acquisition of goods and services</p>	 <p>Assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property and encourage innovation</p>	 <p>Assess the government's planning, implementation, and use of IT to improve performance and modernize federal programs and operations</p>	 <p>Identify ways to improve the collection, dissemination, and quality of federal information</p>	 <p>Identify ways to improve the administration and management of grants and other types of assistance across all levels of government to achieve greater efficiency, effectiveness, accountability, and transparency</p>

As one of the world's largest, most complex entities, the federal government is central to effectively and responsibly addressing major issues, including public safety and security, job creation, oversight of financial markets, and emergency and disaster response. Given the public's demand for a more transparent and accountable government, federal agencies need to improve performance and focus on effective, efficient, and results-oriented management.

As systems and programs become more complex, government managers and policymakers will have to address many issues that transcend individual agencies, departments, or offices, including the following:

- Increased reliance on complex partnerships to achieve national objectives—often including multiple federal agencies, states and localities, domestic and international organizations, private and nonprofit contractors, and other entities—requires agencies to measure and manage the collective performance of these efforts.
- Numerous high-risk areas—such as food safety, oversight of toxic chemicals, the Postal Service, and DOD program management—require agencies to address issues holistically to ensure effectiveness.
- Continuing management challenges in human capital management, IT, and acquisition and contract management demand a more strategic approach.
- Science and technology innovations can have rapid, far-reaching, and even disruptive effects on what government does and how it does it.
- Individual programs or agencies can have a significant effect in other parts of government. For example, Decennial Census data affects funding formulas for billions of dollars in federal government

assistance in areas as diverse as health, highways, education, and housing.

- The growth in both the dollar amount and number of grants for states and localities underscores the importance of effective grants administration, management, and oversight at all levels.

**High Risk List:** GAO's High Risk List continues to be an important tool for 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. GAO's High Risk List currently identifies 30 high-risk areas, as shown in [table 1](#). The high-risk areas 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.

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.

**Managing for results:** The evolving nature of the issues, risks, and problems that the federal government confronts is growing increasingly complex. The federal government has adapted to these changing needs by creating new organizations and programs or adding onto existing ones. This has resulted in fragmentation and overlap of responsibilities and activities throughout government. Some fragmentation and overlap may be merited—for example, to have surge capacity to respond to national emergencies. However, it can also adversely affect efficiency and effectiveness. Congress mandated GAO to identify programs and entities with duplicative goals and activities and report annually on the effects of and ways to reduce that duplication.

The performance planning and reporting framework created by the Government Performance and Results Act of 1993 and significantly enhanced by the GPRA Modernization Act of 2010 established a new framework for a more crosscutting, integrated approach to improving federal performance. To assist the Congress, GAO was mandated to report on the act's initial implementation by June 2013, and will continue assessments of how the law is affecting federal performance management, including issuing summary reports in 2015 and 2017.

**Table 1: GAO's 2013 High Risk List**

<b>High-risk area</b>
<b>Strengthening the Foundation for Efficiency and Effectiveness</b>
■ Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks (new)
■ Management of Federal Oil and Gas Resources
■ Modernizing the Outdated U.S. Financial Regulatory System and Federal Role in Housing Finance
■ Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
■ Funding the Nation's Surface Transportation System
■ Strategic Human Capital Management
■ Managing Federal Real Property
<b>Transforming DOD Program Management</b>
■ DOD Approach to Business Transformation
■ DOD Business Systems Modernization
■ DOD Support Infrastructure Management
■ DOD Financial Management
■ DOD Supply Chain Management
■ DOD Weapon Systems Acquisition
<b>Ensuring Public Safety and Security</b>
■ Mitigating Gaps in Weather Satellite Data (new)
■ Strengthening Department of Homeland Security Management Functions
■ Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland
■ Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures
■ Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
■ Revamping Federal Oversight of Food Safety
■ Protecting Public Health through Enhanced Oversight of Medical Products
■ Transforming EPA's Process for Assessing and Controlling Toxic Chemicals
<b>Managing Federal Contracting More Effectively</b>
■ DOD Contract Management
■ DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management
■ NASA Acquisition Management
<b>Assessing the Efficiency and Effectiveness of Tax Law Administration</b>
■ Enforcement of Tax Laws
<b>Modernizing and Safeguarding Insurance and Benefit Programs</b>
■ Improving and Modernizing Federal Disability Programs
■ Pension Benefit Guaranty Corporation Insurance Programs
■ Medicare Program
■ Medicaid Program
■ National Flood Insurance Program

Source: GAO.

Federal agencies employ a variety of policy tools, such as tax expenditures, grants, and regulations, to achieve national objectives. As states and localities grapple with major budget pressures, effective coordination of and response to a complex array of economic, fiscal, and social challenges will be crucial to providing effective, efficient service delivery. Building organizational cultures in which managers actually use performance information and program evaluation in their decision making remains a challenge. Further, federal agencies and states are faced with unprecedented levels of data sharing and coordination. Collecting data from multiple sources, maintaining systems, and developing new tools to use and analyze “big data” also present growing challenges. GAO will work to inform congressional oversight with foresight analysis, which can help inform policymaking through illuminating the trade-offs and implications of change.

**Human capital management:** Current budget and long-term fiscal pressures, coupled with a potential wave of employee retirements that could produce gaps in leadership and institutional knowledge, threaten the government’s capacity to effectively address many national issues. To face these challenges, the Office of Personnel Management and agency leaders will need to develop the capacity to satisfy administrative, training, and other workforce planning requirements, and work collaboratively to make progress on these government-wide challenges. For federal agencies to cost-effectively carry out their missions, they must have the capacity to work seamlessly with other agencies and levels of government, and across sectors. Changes to how the government classifies, compensates, develops, and motivates its employees might be needed as well.

GAO will continue to examine the Office of Personnel Management’s progress in improving the federal hiring process and will assess agencies’ efforts to strengthen their talent management strategies, including the use of available workforce flexibilities, development of evidence-based workforce analytics, and targeted use of training resources. GAO will evaluate the ability of agencies to address critical skills gaps and to integrate their strategic human capital planning efforts with their broader organizational strategic planning to ensure their workforces have the skills, experience, and diversity needed to efficiently execute their mission and program goals.

**Acquisition management:** Because federal agencies have been depending increasingly on contractors to accomplish their missions—with procurement spending totaling more than \$500 billion annually—the government urgently needs to improve its acquisition business processes and workforce.

Achieving desired acquisition and contracting 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 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, and proper roles and responsibilities for, government and contractor employees. Separate from its audit function, GAO's 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 continue to have a profound impact on the nation and the lives of individuals, with both positive and negative effects on quality of life, national security, and economic growth. The United States is the largest single investor in research and development worldwide, accounting for nearly one-third of the global total. The federal government is a major contributor to this work, with approximately \$140 billion in annual spending on research and development. In addition, the United States has granted hundreds of thousands of patents on new innovations in recent years.

National policies and funding guide many of the activities of the nation's science and technology leaders, with broad implications for our national competitiveness and technological advancements. At the same time, the increased development and use of new technologies present the Congress with challenges to evaluate their potential and assess their effects on security, safety, privacy, and economic growth. Congressional oversight of science and technology issues is critical to ensuring that the substantial federal investment in science and technology is allocated and coordinated effectively among the many federal agencies involved; policy implications of current and emerging technologies, such as additive manufacturing systems, synthetic bioengineered systems, small modular nuclear reactors, and freshwater resource technologies, among others, are understood; and proper management leads to positive outcomes.

**Information technology:** Information technology (IT) systems have the potential to reshape government processes by improving performance, reducing cost, and enhancing transparency. The government spends more than \$80 billion annually on IT systems to support virtually all government operations and assets. Of this amount, at least \$56 billion is reportedly spent to operate and maintain such systems. Given increasingly austere budgets and the promise of efficiencies that IT can provide, additional focus will be needed to ensure effective management of IT systems under development as well as those in operations and maintenance. This includes ensuring the success of ongoing government-wide reform initiatives aimed at

lowering the cost of IT through the consolidation of hundreds of agency data centers and migrating applications to cloud-based solutions and related efforts to reduce or eliminate duplicative and overlapping systems.

The rapid pace of technological change and innovation means that government agencies have unprecedented opportunity 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 new, complex technologies effectively; interconnect diverse networks and systems securely and reliably; and strengthen the technical capacity of personnel.

**Information management:** Proper management of vital government information is essential, yet managing this critical strategic asset requires confronting unique and sometimes conflicting demands between protecting privacy and ensuring access to government records. With greater opportunities to provide access to public records comes a growing need to collect, preserve, and successfully manage the growing cache of information and knowledge. Further, increasing concerns about the extent to which everyday data such as telephone conversations, credit card purchases, and Internet interactions are recorded and potentially used will likely lead to a continued focus on protecting the privacy of individuals' personal information from both federal and private-sector systems and sources.

The next 6 years are crucial for the 2020 decennial census, as data from the enumeration are used to apportion and redistrict the Congress, help allocate billions of dollars in federal assistance, and inform major public- and private-sector decisions. In light of the nation's significant budget challenges, traditional approaches to conducting the census may not be fiscally sustainable. The Census Bureau is taking steps to become a high-performing organization and is exploring ways to control the cost of the 2020 Census while maintaining accuracy. Given increased access to information, privacy concerns, and limited resources, it is critical to coordinate efforts across federal statistical agencies to avoid unnecessary duplication. GAO's review of how federal statistical agencies in concert with OMB deal with these and other emerging challenges to the U.S. statistical system will help provide insights toward improving it.

**Grants management:** The use of grants to achieve national objectives and address emerging trends—such as changing demographics and changing threats to homeland security—has grown significantly. In fiscal year 2012, grant outlays to state and local governments exceeded \$544 billion, up from \$135 billion in 1990. The growth in both the number of grant programs for state and local governments and the level of funding for these programs has increased diversity and complexity in grants management processes. Substantial variation in how grants are administered has further increased their complexity.

These factors underscore the importance of effective grant administration, management, and oversight across all levels of government. For example, effective federal oversight and internal control are important to provide reasonable assurance to federal managers and taxpayers that grants are awarded properly, recipients are eligible, and federal grant funds are used as intended and in accordance with applicable laws and regulations. At the same time, grant-making agencies and recipients need adequate capacity—including organizational, human capital, and financial—to manage these programs. For example, organizational capacity may include having appropriate leadership, management structure, and size to efficiently and effectively implement and manage 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 3.3.1**

#### **Highlight high-risk federal programs and operations and monitor progress of needed management reforms**

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##### **Key Efforts**

- Update progress in addressing high-risk areas with every new Congress and identify areas to be newly designated as 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 of and continuing challenges related to government-wide management reform initiatives, including risk management.

### **Performance Goal 3.3.2**

#### **Assess efforts to improve results-oriented management across the government**

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##### **Key Efforts**

- Assess and identify opportunities and strategies to reduce or eliminate fragmentation, overlap, and duplication in government programs and activities.
- Assess how agencies use various policy tools (e.g., tax expenditures, grants, and regulations) to achieve results and address challenges in measuring performance.
- Monitor and evaluate agency and OMB efforts to develop and use performance information, program evaluation, and government data sets to improve performance.

- Facilitate congressional use of performance information in decision making.
- Evaluate the federal government’s efforts to collect, use, and make publicly available performance information to increase transparency and accountability.
- Identify and disseminate useful strategies and methodological tools for strategic planning, performance measurement, program evaluation, and policy analysis.
- Identify opportunities to improve the coordination, collaboration, and governance of domestic and international networks of governmental and nongovernmental organizations.

**Performance Goal 3.3.3**

**Analyze and support efforts to develop an agile, skilled workforce essential to the operation of high-performing federal agencies**

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**Key Efforts**

- Assess the leadership, management, and delivery of human capital products and services needed to efficiently carry out current and emerging agency missions.
- Evaluate efforts to integrate workforce, organizational, and strategic planning to ensure agencies have the proper skill mix to carry out their missions.
- Assess the federal government’s efforts to attract, develop, and retain a workforce that is flexible, motivated, and capable, and addresses mission-critical skills gaps.
- Assess policies and practices designed to enhance individual performance and agency outcomes while creating an inclusive environment and leveraging diversity.

**Performance Goal 3.3.4**

**Identify ways to improve federal agencies’ acquisition of goods and services**

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**Key Efforts**

- Suggest ways to improve agencies’ acquisition business processes and workforce.
- Analyze agencies’ efforts to improve competition in the procurement of goods and services.
- Help improve agencies’ knowledge of the supplier base and their reliance on contractor support.
- Maximize quality acquisition outcomes and mitigate risk at major agencies, including DOD, DHS, and NASA.
- Assess the government’s use of tools and data to promote sound contract pricing and management.

### **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 and encourage innovation**

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##### **Key Efforts**

- Conduct evaluations, including technology assessments, of the status and implications of science and technology for public policy and congressional decision making.
- Assess implementation and coordination efforts of federal agencies to advance the federal science and research agenda.
- Evaluate the effect of federal policies and funding on national competitiveness and technological advancement.

### **Performance Goal 3.3.6**

#### **Assess the government's planning, implementation, and use of IT to improve performance and modernize federal programs and operations**

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##### **Key Efforts**

- Assess and promote the application and use of IT investment management best practices across the government.
- Promote the adoption of sound enterprise architectures and assess government efforts to develop business processes for implementing IT systems that optimize mission performance.
- Review federal agencies' management and effectiveness in carrying out systems acquisition, development, and integration—including complex, incremental, and multiyear modernizations.
- Assess the management of operating and maintaining IT systems, including initiatives intended to consolidate data centers and reduce duplication and overlap.
- Review the management of government telecommunications and interconnected systems and federal agencies' effectiveness in providing secure and reliable Internet connections.
- Review government progress in attracting, developing, and retaining 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**

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##### **Key Efforts**

- Assess the government's ability to protect the privacy of individuals' personal information and other data in an era of rapidly evolving technology.
- Review the government's effectiveness, including progress in using electronic technologies to collect, store, preserve, and disseminate federal records.
- Identify ways to improve the management and cost-effectiveness of the decennial census.
- Examine federal efforts to better coordinate and innovate alternative methods of data collection and to increase the transparency of federal data to the public.

### **Performance Goal 3.3.8**

#### **Identify ways to improve the administration and management of grants and other types of assistance across all levels of government to achieve greater efficiency, effectiveness, accountability, and transparency**

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##### **Key Efforts**

- Examine efforts to coordinate grant programs that cut across federal, state, and local levels of government to achieve efficiencies.
- Evaluate efforts to collect, use, engage the public in, and make available grant spending information to guide decision making and increase transparency and accountability.
- Evaluate federal agencies' grant management policies, administrative procedures, and workforce training efforts.
- Examine grant agencies' efforts to evaluate and strengthen grantees' capacities to provide services.
- Assess federal grant making agencies' design, implementation, and oversight of internal controls.

## STRATEGIC OBJECTIVE 3.4

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### Establish and Maintain Government Auditing Standards and Standards for Internal Control in the Federal Government



**G**iven the current challenges facing governments and their programs, the oversight, accountability, and transparency provided through auditing are more critical than ever.

Government auditing provides objective analysis and information that allow government officials to make program and agency management decisions that maximize federal, state, and local government effectiveness. Depending on their type and scope, audits can also provide the public with an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations.

**Auditing standards:** GAO develops auditing standards that are statutorily required to be used in the government environment and maintains regular contact with the accountability community both within and outside government to help ensure that the needs of users of audited information are met. GAO develops and promulgates *Generally Accepted Government Auditing Standards* (GAGAS), commonly referred to as the Yellow Book. These standards provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence. They provide the foundation for government auditors to lead by example in the areas of independence, transparency, accountability, and quality through the audit process. Auditing standards change to meet the ever-evolving demands of the users of audited information. Consequently, GAO's work in the standards area includes regular contact with auditors, program and agency management at all levels of government, and other standard-setting organizations in the United States and internationally.

GAGAS is for use by auditors of government entities and entities that receive government awards and audit organizations performing GAGAS audits. GAGAS contains requirements and guidance to assist auditors in objectively acquiring and evaluating sufficient, appropriate evidence and reporting the results. When auditors perform their



work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, and accountability.

**Internal control standards:** A key factor in helping improve accountability and minimize operational problems is to implement an effective internal control system. Internal control serves as the first line of defense in safeguarding assets. An effective internal control system helps an entity manage and adapt to shifting environments, evolving demands, and new priorities. In short, internal control helps federal managers achieve desired results through effective stewardship of public resources.

Section 3512 (c) and (d) of Title 31 of the United States Code (commonly known as the Federal Managers' Financial Integrity Act [FMFIA]) requires the Comptroller General to issue standards for internal control in government. These standards, known as the *Standards for Internal Control in the Federal Government* (Green Book), provide the overall framework for establishing and maintaining an effective internal control system.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) updated its internal control guidance with the issuance of the revised *Internal Control—Integrated Framework*. COSO has introduced the concept of principles related to the five components of internal control. GAO will incorporate into the Green Book, as appropriate, the relevant internal control guidance developed by COSO.

### **Performance Goal 3.4.1**

#### **Develop and maintain standards for performing independent, high-quality government audit work that is transparent to the public and can enable management to improve government operations and services**

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##### **Key Efforts**

- Maintain a technical assistance line to address questions from the audit community.
- Develop interpretations of audit standards to address emerging practice issues.
- Communicate to all stakeholders requirements of the standards.
- Perform outreach to help ensure consistent application of the revised standards.
- Work closely with the accountability community both inside and outside government to help ensure that the needs of users of audited information are met.

## Performance Goal 3.4.2

### Develop and maintain standards for establishing and maintaining effective internal controls within the federal government

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#### Key Efforts

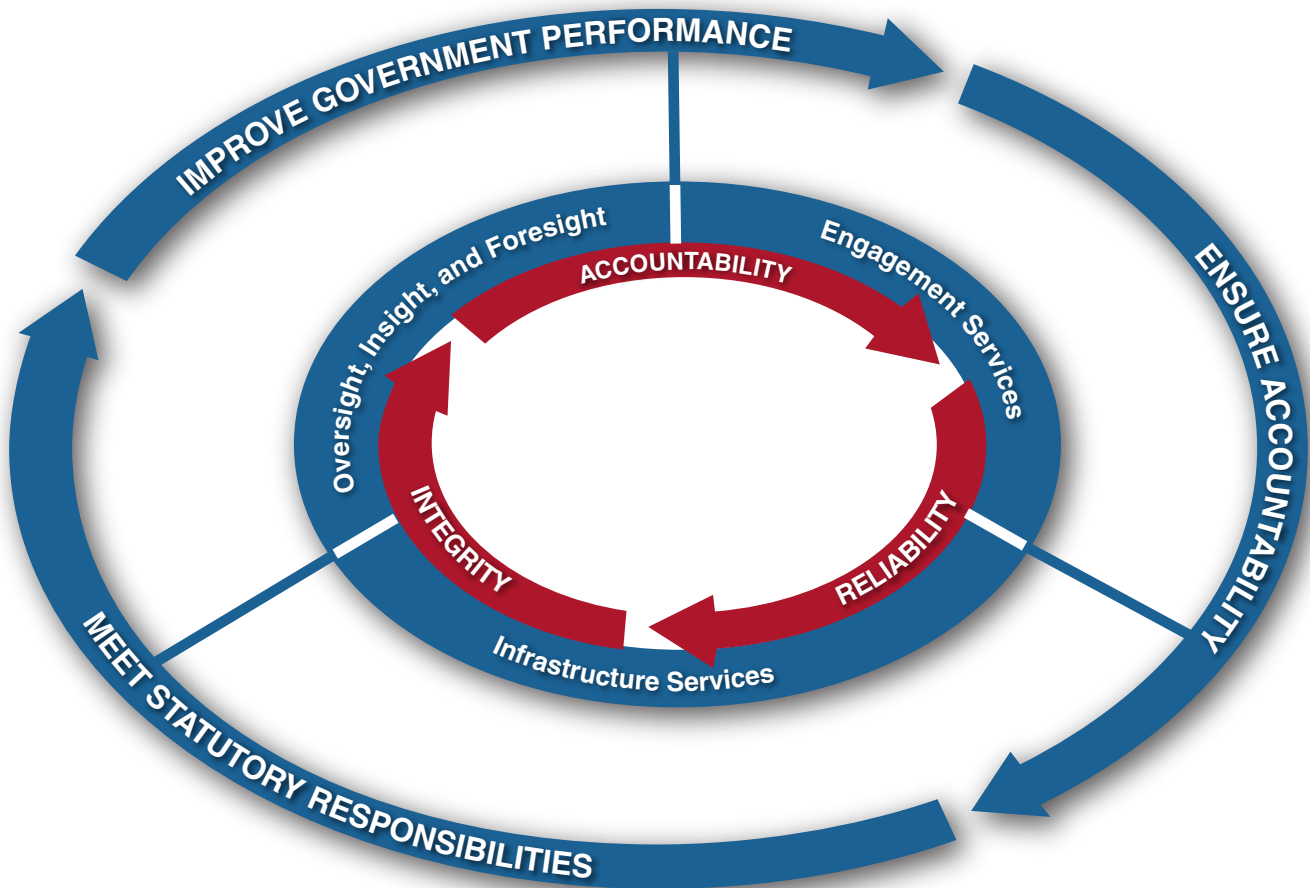
- Develop an internal control standards revision to the Green Book.
- Create a new Green Book external advisory council to oversee the Green Book revision and gain general public acceptance.
- Communicate through formal outreach to the financial management and audit community pending changes to the internal control standards.
- Harmonize internal control standards with the Committee of Sponsoring Organizations and International Organization of Supreme Audit Institutions standards and guidance, as appropriate.

# GOAL 4

## Maximize the Value of GAO by Enabling Quality, Timely Service to the Congress, and by Being a Leading Practices Federal Agency

**G**AO is operating in a dynamic, fiscally constrained environment where its work covers a broad range of current and emerging challenges and risks of national and international concern relevant to the American public. To successfully carry out its responsibilities, GAO must efficiently manage and prioritize its resources and workload to support the Congress's highest legislative and oversight priorities in a timely manner. GAO must focus on areas where there is the greatest potential for achieving results, identifying cost savings and revenue enhancements, and assisting the Congress in improving government's performance. Key to achieving these objectives is GAO's Shared Business Model, which reflects GAO's primary mission objectives, the organizational elements needed to fulfill our mission, and GAO's core values—accountability, integrity, and reliability (fig. 61).

**Figure 61: GAO's Shared Business Model**



Source: GAO.

Key to achieving these goals are the talent, creativity, and dedication of GAO's multidisciplinary workforce. To maximize staff effectiveness and efficiency while ensuring client and customer satisfaction, GAO must focus its hiring and retention programs to address succession planning and critical skill gaps and increase its overall staff capacity, continually optimize its processes, leverage technology to enhance efficiency, and ensure effective governance and resource utilization. GAO's fourth strategic goal—the only internally focused goal—embraces the spirit of continuous and focused improvement in order to sustain high-quality, timely, reliable, and constructive service to the Congress.

GAO will continue to focus on improving the efficiency with which it conducts mission work and communicates its message. GAO has already begun replacing outdated legacy systems, and will continue this effort so that all aspects of an engagement are supported by modern, integrated information systems. GAO will also modernize its content creation and dissemination processes by leveraging technology to efficiently manage content; standardize work activities to ensure consistent, repeatable outcomes; and provide results in a variety of easy-to-access formats in different venues, including multimedia and social media platforms to meet the emerging needs of clients and customers. In addition, GAO has a number of initiatives under way that will strengthen project management on engagements and reduce administrative burdens and cumbersome work practices.

Having a talented, diverse, high-performing, knowledge-based workforce is essential to GAO's mission. GAO will address several critical human capital management challenges, such as replacing knowledge and expertise that have been lost as experienced staff leave the workforce, increasing staff levels in a constrained budget environment, and fairly implementing workplace practices that help attract and retain staff with the needed skills and talents. Since people are GAO's primary asset, ensuring that staff are valued, treated fairly, and given opportunities to develop to their full potential and maximize their contributions to GAO's goals is essential, as is maintaining constructive relations with GAO staff, union partners, and employee organizations to ensure a productive, inclusive work environment. GAO will also place critical importance on improving its internal human capital processes, procedures, and personnel to ensure successful implementation of GAO's human capital goals.

In light of the increasingly complex, interdisciplinary, and global issues facing the government, GAO also must expand its relationships with other entities to promote professional auditing standards and audit 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 its internal operations and implement leading practices.

As the audit and investigative arm of the Congress and the auditor of the U.S. government's financial statements, GAO must responsibly manage its resources. Even though GAO is not subject to many of the laws that apply to the executive branch, GAO endeavors to hold itself to the spirit of many of these laws. GAO proactively applies statutory and regulatory requirements and other enhancements to its operations to ensure that it adheres to the highest standards, follows leading practices, and makes the most effective and efficient use of limited resources. GAO will also conduct process analyses to improve workflow, strengthen internal controls, enhance management oversight, and reduce infrastructure costs. GAO will continue to leverage technology to improve its business processes, particularly in areas that will enhance staff productivity and efficiency, facilitate management reporting and decision making, provide unified communications and connectivity, and reduce operational costs.

For 2014 through 2019, GAO will continue to orient its activities by strategic objectives and performance goals that focus on discrete areas of product support and business operations. To accomplish GAO's goal of enabling quality, timely service to the Congress and being a leading practices agency, 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 Strategically Targeted Recruiting, Hiring, Development, Reward, and Retention 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



While GAO's staffing level is the smallest it has been since 1935, its work has never been more important. With major fiscal and other challenges facing the nation, GAO must work more efficiently to support the Congress's highest priorities and provide critical insights into opportunities for improved federal performance in a timely manner, while operating under resource constraints.

In fiscal year 2011, GAO identified a new management challenge facing the agency—the need to improve the efficiency with which it conducts its audits and evaluations. After a year of planning and making minor incremental improvements, GAO is now poised to begin implementing a series of major process changes that will substantially transform the way GAO manages and conducts engagements. While technology plays a major role in many of these planned changes, other changes will address how GAO structures, staffs, and manages the flow of engagement work.

GAO has developed a process improvement framework and established a senior-level governance process to oversee and prioritize these efforts. GAO also will use a structured approach to analyze its engagement processes to identify further opportunities for improved efficiency and will standardize common work processes across the agency, while preserving the ability to adjust, as needed, to respond to specific client requests.

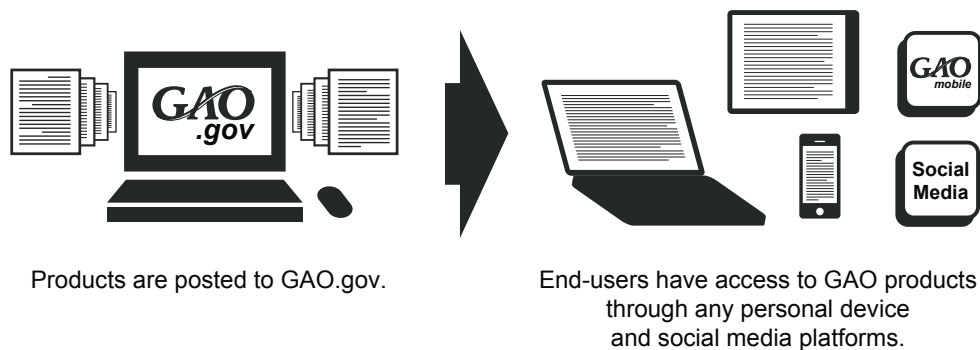
GAO will continue to replace outdated legacy data systems with modern, integrated, flexible information management systems, as funding permits, which will eliminate duplicative data entry and cumbersome, inefficient work practices, and significantly improve management information. Managers at all levels—from engagement

leaders to the Executive Committee—will be able to easily access and view information on engagements, and business intelligence analytics will be leveraged to support predictive, real-time management.

To ensure that it is spending its resources on the highest-priority issues, GAO will integrate its workforce planning and tactical planning for mission work processes to ensure the appropriate level of resources is devoted to the issues of significant national concern. In addition, GAO will clarify roles and responsibilities for staff and key stakeholders on engagements to ensure the right people with the right skills are involved at the right time, and that staff learn how to conduct important aspects of engagements in a repeatable, predictable manner.

GAO will also transform its existing manual, document-based product production process into an integrated system that automates document routing and approvals, management, and quality assurance steps and generates required documentation. The proposed system capability will also enable GAO to routinely publish content on GAO.gov, the GAO mobile site, and various social media platforms, as shown in [figure 62](#).

**Figure 62: Proposed Publishing Workflow**



Source: GAO.

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**

#### **Streamline how GAO manages and conducts engagements by leveraging business process re-engineering and information technology**

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##### **Key Efforts**

- Apply process analysis and diagnostic measures to identify and implement engagement process improvements.
- Implement new and enhanced “standard and common” practices on engagements to maximize GAO’s ability to use technology and ensure consistent, repeatable outcomes.
- Implement a unified system to manage engagements and provide a decision-oriented reporting capability while reducing administrative burden.
- Strengthen application of project management principles throughout the engagement process to increase efficiency and enhance GAO’s ability to develop predictable schedules.
- Modernize GAO’s content creation and dissemination process by using technology to efficiently manage content, facilitate concurrent actions, and standardize work steps.
- Revise GAO’s product line and communication delivery strategies to provide GAO’s message more effectively in concise, easy-to-access formats—including various multimedia and social media platforms—to meet the emerging needs of GAO’s clients and customers.
- Enhance GAO’s quality assurance framework to address internal and external peer review suggestions as efficiently as possible.

### **Performance Goal 4.1.2**

#### **Ensure client satisfaction and efficient and effective working relationships with audited entities**

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##### **Key Efforts**

- Enhance GAO’s ability to gain access to records through legislative and programmatic efforts.
- Review and enhance methods for measuring client satisfaction to ensure GAO obtains timely, meaningful feedback.
- Enhance communication and outreach to the client and audited agencies to promote effective and productive working relationships.

### **Performance Goal 4.1.3**

#### **Enhance GAO's ability to prioritize work and utilize staff more efficiently to ensure GAO responds effectively to the Congress's highest priorities**

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##### **Key Efforts**

- Enhance GAO's staffing practices to ensure staff are fully utilized and obtain needed developmental opportunities.
- Clarify stakeholder roles and responsibilities on engagements to ensure that the right stakeholders are involved at the appropriate time.
- Develop and implement a process to identify annual priorities that implement GAO's strategic plan in light of expected resources and congressional priorities.
- Monitor, track, and proactively provide input on existing and potential legislative mandates to better ensure GAO's resources are assigned to the highest-priority work.

## STRATEGIC OBJECTIVE 4.2

### Maintain and Enhance a Diverse Workforce and Inclusive Work Environment through Strategically Targeted Recruiting, Hiring, Development, Reward, and Retention Programs



Since fiscal year 2010, GAO’s staffing level has declined dramatically in response to budget constraints. GAO will continue to experience human capital challenges over the next 5 years—the most significant of which is maintaining a high-performing diverse workforce. Federal employees with the most experience have begun to leave the workforce—taking with them the institutional knowledge and critical perspectives gained over their careers. Also, with a significant number of executives and supervisory staff eligible to retire, GAO will continue to focus attention on staff development, advancement, and phased retirement as a means to achieve succession planning.

To help address these challenges, GAO will need to devote sufficient resources to recruit and hire employees, as well as provide meaningful rewards and retention programs to help attract and retain a highly skilled and diverse workforce. GAO has developed a multiyear strategy to rebuild its staff to the optimal level needed to ensure GAO has the depth and broad-based skills needed to contribute to the vast array of topics about which the Congress seeks analysis and advice.



Source: PhotoDisc.

GAO must also provide people with meaningful and targeted developmental experiences, training, and coaching for succession planning to ensure they feel valued and maximize their contributions to GAO's goals. GAO will equip its managers and supervisors with the requisite skills and incentives that are essential to develop staff effectively. GAO will continue to implement workplace practices that meet the needs of an ever-changing workforce in a fair and equitable manner by working with its union partners and employee organizations.

One of GAO's human capital goals is to ensure that all staff are assessed fairly for their contributions. GAO will also continue to provide a range of workplace and work-life balance programs to enhance employee retention, and work with staff to evaluate these programs and identify improvements. GAO recognizes the criticality of implementing leading practices and leveraging technology to improve the efficiency of human capital processes.

GAO's Human Capital Strategic Plan and its Diversity and Inclusion Strategic Plan provide a framework that supports GAO's vision for a work environment where all employees are valued, treated fairly, and given opportunities to develop to their full potential. 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.

To maintain and enhance a diverse workforce and inclusive work environment through strengthened recruiting and hiring initiatives, engaging and developing the workforce, and promoting an unbiased, collaborative work environment, GAO will implement the following performance goals and key efforts:

#### **Performance Goal 4.2.1**

##### **Strengthen recruiting and hiring initiatives to attract and retain a diverse workforce**

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###### **Key Efforts**

- Improve the efficiency and effectiveness of GAO's hiring processes by using leading practices and establishing relevant performance metrics.
- Develop annual recruitment and hiring plans that support workforce planning and diversity goals and incorporate use of flexibilities and incentives to help achieve these goals.
- Enhance GAO's recruiting and hiring processes to ensure hiring authorities and flexibilities facilitate GAO's ability to attract a talented, diverse workforce.
- Use recognition tools, retention incentives, and work-life flexibilities to attract, reward, and retain staff.
- Continue evaluation and expansion of GAO's telework program to provide additional work-life balance and reduce operational costs, while maintaining productivity and work quality.

#### **Performance Goal 4.2.2**

##### **Develop the workforce to meet succession planning and individual goals**

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###### **Key Efforts**

- Promote continuous learning and development of the workforce through formal and informal initiatives.
- Identify and adopt efficient and effective methods for engaging and developing the workforce in a virtual environment.
- Emphasize coaching, mentoring, and feedback training to improve performance management practices.
- Create a well-prepared pipeline for future vacancies through continued focus on mentoring, and strengthened knowledge transfer and succession planning efforts, including use of phased retirements.
- Expand efforts to empower GAO employees on important financial literacy issues.

### **Performance Goal 4.2.3**

#### **Promote a workplace culture that is fair and unbiased and that values opportunity and inclusiveness**

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##### **Key Efforts**

- Provide training and other initiatives to enhance awareness and promote an inclusive workplace culture where diversity is valued and all employees are treated with respect.
- Ensure employees are treated fairly and equitably and progress is made toward goals in the diversity and inclusion strategic plan through continuous review of and adjustments to human capital practices and outcomes.

### **Performance Goal 4.2.4**

#### **Enhance collaboration with internal employee organizations to ensure management and operational outcomes are in sync**

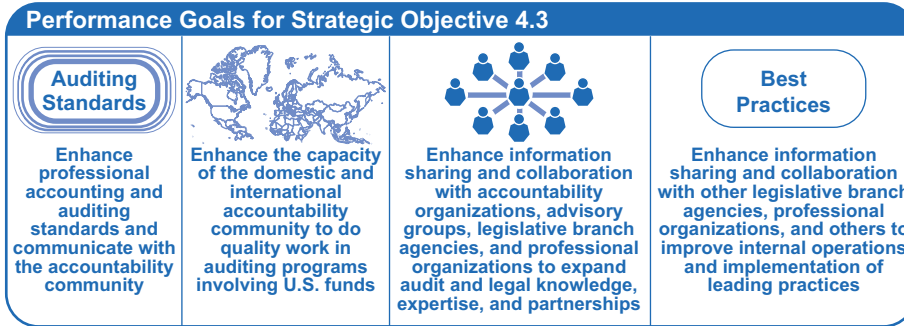
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##### **Key Efforts**

- 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.
- Work constructively with the GAO Employees Organization, International Federation of Professional and Technical Engineers (IFPTE), Local 1921 (APSS), to finalize a collective bargaining agreement.
- Work constructively with the GAO Employees Organization, IFPTE, Local 1921 (Analysts) and the GAO Employee Organization IFPTE, Local 1921 (APSS), to facilitate productive working relationships and carry out the existing collective bargaining agreement for analysts that sets forth agreed-upon working conditions, processes, rights of the parties, and shared values.
- Enhance information sharing and collaboration on human capital programs and practices to identify opportunities for improvement by building and maintaining effective partnerships with managers, the union, and employee groups.

# STRATEGIC OBJECTIVE 4.3

## Expand Networks, Collaborations, and Partnerships That Promote Professional Standards and Enhance GAO’s Knowledge, Agility, and Response Time



In the face of fiscal constraints and tighter government budgets, collaboration and partnership among the auditing and accountability community will be essential to meet the calls of citizens and taxpayers for greater oversight, efficiency, and effectiveness of government operations and spending. Increased public scrutiny of government in the aftermath of the global financial crisis has further underscored the importance of sound professional auditing and accounting standards. GAO will continue to be a leader in setting these standards and to coordinate with important stakeholders and partners to keep them current. Moreover, by leveraging its domestic and international partnerships, GAO will continue to build collaborative knowledge-sharing and capacity-building networks to enhance our ability to do audits, strengthen auditing standards, avoid duplication of effort, and share best practices with the wider audit and accountability communities.





Source: PhotoDisc.

The U.S. government increasingly confronts large, complex issues spanning multiple international and domestic jurisdictional boundaries. GAO's collaboration with external organizations creates opportunities to address common challenges and leverage available resources in a constrained fiscal environment. GAO's collaboration with external organizations—for example, to monitor international efforts to modernize and reform global financial regulations or to assess multilateral governance issues in a shared region like the Arctic—enhances the agency's audit capabilities and helps GAO to better respond to major cross-cutting issues.

Domestic coordination with federal inspectors general and state and local auditors—for example, in tracking the implementation of the federal stimulus and health care legislation, or in tracking emergency relief aid after natural disasters—demonstrates the increasing importance of coordinating intergovernmental auditing expertise to more efficiently and effectively monitor program implementation and safeguard taxpayer dollars. To gain additional insight and to enhance the agency's auditing capacity, GAO collaborates as appropriate with nonprofit and private-sector entities and supports knowledge-sharing forums that bring together auditors from federal, state, and local government. GAO's collaborative networks will allow us to identify lessons learned, leading practices, and emerging trends that benefit GAO's management teams and inform GAO's audit activities. Moreover, they provide a powerful knowledge base for addressing the increasingly complex challenges that face all levels of government.

GAO supports domestic and international audit capacity-building initiatives to help assure that billions of dollars of federal money spent through state, local, and international programs are not

subject to waste, fraud, and abuse. GAO will expand its outreach to governmental, nonprofit, and international organizations to further help ensure that U.S. taxpayer dollars are spent efficiently and as intended, domestically and internationally.

GAO sets U.S. government auditing and accountability standards for organizations both formally—through publication of government and internal control standards and federal appropriations law principles—and informally, in conducting itself as a model government agency. GAO will continue its work to strengthen public sector accounting and auditing standards by expanding its collaboration with domestic and international standard-setting bodies. These efforts are especially important amid calls for greater transparency and accountability in the aftermath of the financial crisis and renewed focus on government spending. GAO will also update professional auditing and accountability standards as needed to ensure they are robust in the future for the proper and efficient oversight of U.S. government spending.

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**

- Strengthen public-sector accounting and auditing standards through expanded coordination and collaboration with domestic and international standards-setting organizations.
- Monitor significant developments in accounting and auditing standards by domestic and international standards-setting bodies for the public, private, and nonprofit sectors.
- Improve audit processes and procedures through enhanced domestic and international accountability community knowledge of professional and accounting standards and guidelines.

#### **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**

- Provide leadership on updating the charters or strategic plans of the International Organization of Supreme Audit Institutions (INTOSAI), the National Intergovernmental Audit Forum, and the Regional Intergovernmental Audit Forums to support their effective and efficient operation.

- Expand capacity building in the international accountability community by advancing and supporting implementation of the INTOSAI Donors Funding Initiative and Capacity Building Goal.
- Enhance GAO's current business model for providing capacity building to the domestic audit and accountability community through improved efficiency and effectiveness.
- Develop strategies to respond to increasing requests for capacity-building assistance from national audit offices in developing and emerging countries.
- Create a Center of Auditing Excellence to provide learning opportunities to enhance the capacity of the domestic and international accountability community.

### **Performance Goal 4.3.3**

#### **Enhance information sharing and collaboration with accountability organizations, advisory groups, legislative branch agencies, and professional organizations to expand audit and legal knowledge, expertise, and partnerships**

##### **Key Efforts**

- Expand knowledge of audit approaches, identify emerging issues, inform our strategic planning process, and enhance intergovernmental information sharing through participation in domestic and international forums, task forces, working groups, communities of practice, and knowledge-sharing platforms.
- Pursue collaborations with public, private, and nonprofit sector organizations to expand GAO's partner network and enhance the efficiency and effectiveness of our audit work.
- Enhance communication and coordination with stakeholders, such as inspectors general, to minimize duplication of effort and ensure effective and efficient use of resources.
- Provide leadership on critical international accountability issues such as financial modernization and regulatory reform to promote dialogue and action.
- 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 other legislative branch agencies, professional organizations, and others to improve internal operations and implementation of leading practices**

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##### **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 in 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



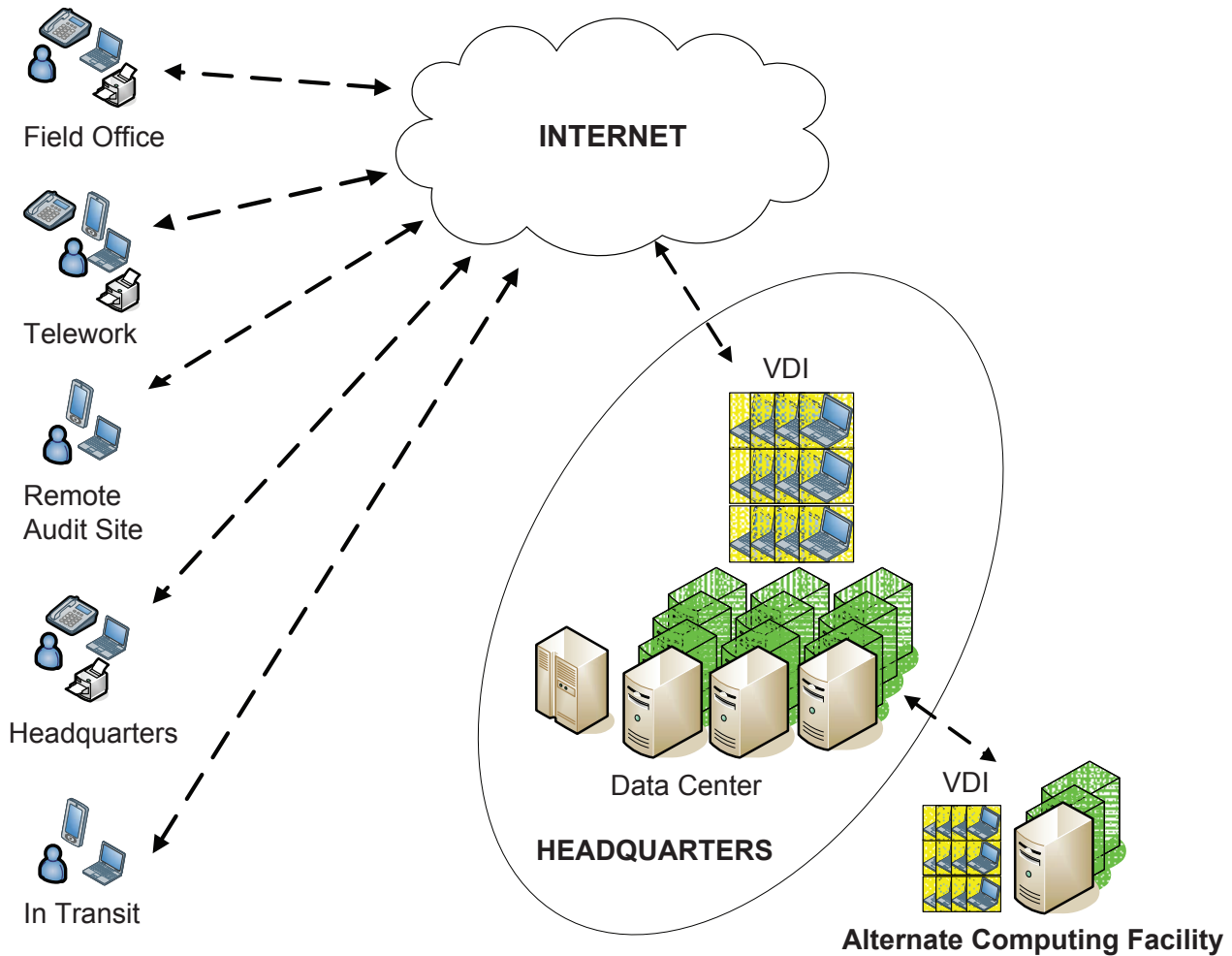
To continue to be a leading-practices agency, it is essential that GAO's business operations are efficient and effective and that agency systems provide the data needed to inform timely decisions. GAO continues to proactively address operational and management requirements to ensure excellence and aggressively pursues opportunities to improve operational efficiency while maintaining the quality of support provided to the Congress.

GAO will proactively apply statutory and regulatory requirements and other enhancements to its operations, as well as the proper internal controls, to ensure that it adheres to the highest standards and follows leading practices to ensure the most effective and efficient use of limited resources. GAO will enhance its guidelines and ensure use of leading practices in the areas of safety and security, protection of privacy information, facilities management, and energy efficiency.

GAO will continue to leverage technology to improve its business processes, particularly in areas that will enhance staff productivity and efficiency, facilitate management reporting and decision making, and reduce operational costs.

GAO will also enhance its information technology capabilities by streamlining our infrastructure and shifting to a virtualized "cloud" environment to enable a more mobile, virtual workforce through enhanced communications, collaboration, and productivity tools that allow staff to work securely and seamlessly from any location using any end-user device connected to the GAO network. GAO's target network infrastructure for server and desktop virtualization is shown in [figure 63](#).

**Figure 63: Target Network Infrastructure for Server Virtualization and Virtual Desktop Infrastructure (VDI)**



Source: GAO.

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 apply statutory and regulatory requirements and other enhancements for security, facilities, financial management, and other operational areas**

**Key Efforts**

- Enhance the protection of people and critical assets in headquarters and field offices through the use of physical security guidelines and leading practices for federal facilities.
- Strengthen GAO’s continuity planning and emergency preparedness activities to ensure that GAO effectively anticipates, monitors, and responds to emerging threats to our workforce and physical assets.

- Enhance information security to protect GAO information and systems by continuously monitoring for threats, educating staff, and implementing protective measures.
- Improve GAO’s privacy program protections over personally identifiable information by implementing leading practices and training staff.
- Develop and implement sustainability initiatives that support federal environmental goals to increase energy efficiency, reduce costs, and help prevent environmental degradation.
- Enhance GAO’s acquisitions program by implementing leading federal acquisition practices and expanding GAO’s Contracting Officer’s Representatives (CORs) certification and training program.
- Revise GAO’s internal control program to incorporate statutory and regulatory requirements and other operational enhancements implemented at GAO to ensure the continued integrity of data and systems.

**Performance Goal 4.4.2**

**Leverage technology and business process re-engineering to reduce costs, increase efficiency and effectiveness, and enable timely decision making**

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**Key Efforts**

- Streamline our information technology infrastructure and shift to a virtualized “cloud” environment to reduce costs, improve system performance, and increase data security.
- Use business process re-engineering to improve workflow, strengthen controls, and enhance system support and project management.
- Institutionalize a process improvement capability and enhance a culture of continuous improvement across the agency.
- Fully implement a business intelligence solution that integrates engagement, human capital, and financial data to support analysis, management reporting, and decision making.
- Enhance GAO’s financial management systems to integrate data needed for management decision making, and provide information more transparently and efficiently using a shared services approach.
- Leverage technology to improve business operations and processes to achieve greater effectiveness and efficiency.
- Identify additional opportunities to optimize workspace use, improve building efficiency, and achieve cost savings while maintaining a comfortable work environment.
- Further efforts to achieve cost savings in GAO’s travel program through expanded use of noncontract carrier air fares, web-based collaboration tools, and videoconferencing technology.



### **Performance Goal 4.4.3**

#### **Enable a more mobile virtual workforce**

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##### **Key Efforts**

- Provide a unified communications, collaboration, and productivity solution that enhances teamwork and collaboration capabilities using any end-user device connected to the GAO network.
- Improve the ability for GAO staff to work remotely, securely, and seamlessly from any location while maintaining quality, productivity, and efficiency.
- Assess the benefits and risks of enhanced telework to inform decisions on agency-wide implementation, including the impact on organizational culture and teamwork.

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