

Serving the Congress and the Nation: Strategic Plan 2002-2007
(19-JUN-02, GAO-02-430SP).

This report updates GAO's strategic plan for serving Congress from fiscal year 2002-2007. Although the overall framework of the old plan is still valid, greater emphasis is being placed in a number of areas to reflect the altered agenda of policymakers. Recognizing that Congress and the federal government will focus considerable effort and resources on homeland security, GAO is proposing to increasing its emphasis on overseeing the efficiency and effectiveness of effort across the public and private sectors to protect against and respond to various forms of terrorism. In light of the changing public expectations and needs as well as fiscal pressures, GAO has redefined one of its strategic goals to focus on transforming the federal government's role to meet the challenges of the 21st century--what it does and how it does business. Because of the far reaching demographic and fiscal trends that will affect the United States, GAO expects to add greater long-range focus to its work to support Congress in addressing program priorities and budget decisions.

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CORE VALUES

Fiscal 2002- 2007

Health care needs and financing Education and protection of children Work opportunities and worker protection

Retirement income security Effective system of justice

Viable communities Natural resources use and environmental protection

Physical infrastructure

Address Current and Emerging Challenges to the Well- Being and Address Current and Emerging Challenges to the Well- Being and Financial Security of the American People Financial Security of the American People related to . . . related to . . .

Diffuse security threats Military capabilities and readiness

Advancement of U. S. interests Global market forces

Respond to Changing Security Threats and the Challenges of Respond to Changing Security Threats and the Challenges of Global Interdependence Global Interdependence involving . . . involving . . .

Roles in achieving federal objectives

Human capital and other capacity for serving the public

Progress toward results- oriented, accountable, and relevant government Fiscal position and financing of the government

Help Transform the Federal Government Help Transform the Federal Government?s Role and How It s Role and How It Does Business to Meet 21st Century Challenges Does Business to Meet 21st Century Challenges by assessing . . . by assessing . . .

Client and customer service Leadership and management focus Institutional knowledge and experience

Process improvement Employer of choice

Maximize the Value of GAO by Being a Model Federal Agency and Maximize the

Value of GAO by Being a Model Federal Agency and a World- Class Professional Services Organization a World- Class Professional Services Organization in the areas of . . . in the areas of . . .

Provide Timely, Quality Service to the Congress and the Provide Timely, Quality Service to the Congress and the Federal Federal Government to Government to GOALS & OBJECTIVES THEMES

Demographics Security

and Preparedness

Globalization Changing Economy

Science and Technology

Quality of Life

Governance Accountability Integrity Reliability Accountability Integrity Reliability SERVING THE CONGRESS

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.

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From the Comptroller General

June 2002 I am proud to present GAO's strategic plan for serving the Congress from fiscal 2002 through 2007, an update to the strategic plan we issued 2 years ago.

Our first strategic plan, which was published in spring 2000, was an important milestone, providing a solid foundation for how we will support the Congress and serve the American people in the coming years. With the plan as our blueprint, we realigned GAO's structure and resources to better address long- term goals and objectives for helping the Congress in its legislative, oversight, and investigative roles. We also committed to updating the plan every 2 years, coinciding with each new Congress,

to make sure our efforts remain a vital and accurate reflection of the major issues facing the Congress and the nation.

In fact, the world has changed considerably since our last plan. Two years ago, we were in a period of peace and prosperity, with large budget surpluses projected into the future. Today, the country is at war against

terrorism, both within and outside our borders. The economic outlook, already uncertain before September 11, continues to be difficult to predict. And for the first time in several years, the federal government is facing the return of budget deficits.

At the same time, a number of other changes are occurring that also have significant ramifications for national policy, and consequently, for the Congress and GAO. The United States faces not only a major preparedness effort to address security threats, but it also has to come to grips with the long-term fiscal challenge of caring for a growing elderly population. It must also adapt its policies to a society and an economy that are increasingly global in nature, connected by new technologies, and supported by knowledge-based industries. Security and preparedness, the changing economy, globalization, changing demographics, advances in science and technology, concern for quality of life, and changing governance structures—these are the major forces shaping the United States and its place in the world, and are the themes for our strategic plan. They help frame the broad areas where we aspire to make important contributions.

While the overall framework of our strategic plan is still valid, we are placing greater emphasis in a number of areas to reflect the altered agenda of policymakers:

Recognizing that the Congress and the federal government will focus considerable effort and resources on homeland security, we are proposing to increase our emphasis on overseeing the efficiency and effectiveness of efforts across the public and private sectors to protect against and respond to various forms of terrorism.

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In light of changing public expectations and needs as well as fiscal pressures, we have redefined one of our strategic goals to focus on helping to transform the federal government's role to meet the challenges of the 21st century— what it does and how it does business.

Because of the far-reaching demographic and fiscal trends that will affect the United States, we expect to add greater long-range focus to our work to support the Congress in addressing program priorities and budget decisions not only for the near future but for the long term as well.

In sharing a draft of this strategic plan with Members of Congress, their staffs, and others in the accountability community, we sought to make sure that it reflects the needs of the Congress. We also sought feedback from our own staff, whose continued commitment and involvement are essential to meeting our goals.

Since the attacks on America began, the focus of citizens on government has

grown dramatically. GAO has a vital role to play in our system of government, by providing the oversight, insight, and foresight to support the Congress in fulfilling its constitutional responsibilities and by helping the government to work better on behalf of all Americans. This updated strategic plan will help to ensure that we succeed in that role.

If you would like to know more about specific areas of GAO's work, you will find detailed strategic supplements on our Web site at www.gao.gov/sp.html that describe the performance goals, key efforts, and potential outcomes for each of our strategic objectives. Links on that Web page will also take you to our agency's performance and accountability reports. If you have questions, please contact me, at 202- 512- 5500 or walkerd@gao.gov, or Gene L. Dodaro, Chief Operating Officer, at 202- 512- 5600 or dodarog@gao.gov.

Sincerely yours, David M. Walker Comptroller General of the United States

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List of Acronyms

AIDS acquired immunodeficiency syndrome CCDF Child Care and Development Fund
CFO Chief Financial Officer DOD Department of Defense FAR Federal
Acquisition Regulation FEMA Federal Emergency Management Agency FY fiscal
year GAO General Accounting Office GDP gross domestic product GNMA
Government National Mortgage Association (Ginnie Mae) GPRM Government
Performance and Results Act HHS Department of Health and Human Services HIV
human immunodeficiency virus HUD Department of Housing and Urban Development
IMF International Monetary Fund INS Immigration and Naturalization Service
IRA individual retirement account IRS Internal Revenue Service IT
information technology NATO North Atlantic Treaty Organization OASDI Old-
Age and Survivors Insurance and Disability Insurance OMB Office of
Management and Budget SBA Small Business Administration SES Senior Executive
Service TANF Temporary Assistance for Needy Families USAID U. S. Agency for
International Development VA Department of Veterans Affairs

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GAO's Mission, Responsibilities, Strategies, and Means 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.

Mission Statement

GAO examines the use of public funds; evaluates federal programs and activities; and provides analyses, options, recommendations, and other assistance to help the Congress make effective oversight, policy, and funding decisions. In this context, GAO works to continuously improve the economy, efficiency, and effectiveness of the federal government through the conduct of financial audits, program reviews and evaluations, analyses, legal opinions, investigations, and other services. GAO's activities are designed to ensure the executive branch's accountability to the Congress under the Constitution and the federal government's accountability to the American people.

Statutory Responsibilities

Through the Budget and Accounting Act of 1921, the Congress established GAO in the legislative branch with the broad role of investigating "all matters relating to the receipt, disbursement, and application of public funds" and to "make recommendations looking to greater economy or efficiency in public expenditures." Since World War II, the Congress has clarified and expanded that original charter:

The Government Corporation Control Act of 1945 provides GAO with the authority to audit the financial transactions of government corporations.

The Budget and Accounting Procedures Act of 1950 assigns GAO the responsibility for establishing accounting standards for the federal government and carrying out audits of internal controls and financial management.

The Legislative Reorganization Act of 1970 and the Congressional Budget and Impoundment Control Act of 1974 authorize GAO to conduct program evaluations and analyses of a broad range of federal activities.

The Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994 authorize GAO to audit agencies' financial statements and annually audit the consolidated financial statements of the United States.

Numerous other laws complement GAO's basic audit and evaluation authorities, including the Inspector General Act of 1978, providing for GAO-established standards for the audit of federal programs and activities, and the Competition in Contracting Act of 1984, providing for GAO's review of protested federal contracting actions.

Today, GAO examines the full breadth and scope of federal activities and programs, publishes thousands of reports and other documents annually, and provides a number of related services. The agency also looks at national and

international trends and challenges to anticipate their implications for public policy. By making recommendations to improve the practices and operations of government agencies, GAO

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contributes not only to the increased effectiveness of and accountability for federal spending, but also to the enhancement of the taxpayers' trust and confidence in their federal government. When considering GAO's strategic goals and objectives or weighing the potential outcomes of GAO's work, it is important to remember that GAO achieves its results mainly through the actions taken by the Congress and federal agencies in response to the information and recommendations GAO provides.

Strategies and Means

For GAO, achieving strategic goals and objectives rests, for the most part, on providing professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information. Most of the information is gathered and reported in response to congressional requests for specific work. As authorized by GAO's enabling legislation, the agency also independently undertakes research and development work. GAO develops and presents the information it gathers in a number of ways to support the Congress, including the following:

evaluations of federal programs, policies, operations, and performance;

oversight of government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;

investigations to assess whether illegal or improper activities are occurring;

analyses of the financing for government activities;

constructive engagements in which GAO works proactively with agencies, when appropriate, to help guide their efforts toward achieving positive results;

legal opinions to determine whether agencies are in compliance with applicable laws and regulations;

policy analyses to assess needed actions and the implications of proposed actions; and

additional assistance to the Congress in support of its oversight, appropriations, legislative, and other responsibilities.

GAO combines those general strategies with strategies specific to individual

strategic objectives. These specific strategies take the form of performance goals, each of which has a set of key efforts that connect with GAO's day-to-day work. The detailed performance goals and key efforts for each strategic objective are online in the "Strategic Supplements" section at www.gao.gov/sp.html.

In addition, GAO builds strategic working relationships with other national and international government accountability and professional organizations to broaden and leverage its institutional knowledge and experience, and in turn, to improve its service to the Congress and the American public. These relationships focus on (1) using advisory panels and other bodies to inform GAO's strategic and annual work planning and (2) initiating and supporting collaborative national and international audit, technical assistance, and other knowledge-sharing efforts.

Unlike large executive branch departments that manage federal lands or maintain extensive facilities and systems across the country and, in some instances, around the world, GAO is a relatively small agency that depends almost totally on one type of resource to achieve its strategic goals and objectives: its people. GAO's staff, numbering about 3,200, are arrayed in 14 research, audit, and evaluation teams backed by staff offices and mission support units (see fig. 1). Approximately three quarters of GAO's staff are based in the Washington, D. C., headquarters. The rest are deployed in field offices across the country (see fig. 2).

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Figure 1: GAO's Organizational Structure

To achieve its strategic goals and objectives, GAO must maintain a workforce of highly trained professionals with degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, and the social and physical sciences. To maximize their productivity, GAO must make steady investments in information technology. It must also ensure the safety and security of its people, information, and assets. The strategies GAO will use to ensure that it has the human capital it needs to carry out its responsibilities and that its human capital, business processes, information technology, and other resources are well managed and secure are covered under the fourth strategic goal of this plan.

Figure 2: GAO's Offices

Comptroller General Chief Operating Officer

Inspector General Opportunity and

Inclusiveness Chief Mission Support

Officer General

Counsel Quality and Risk

Management Field

Operations Product and

Process Improvement Congressional

Relations External

Liaison Public

Affairs Special Investigations Controller

Knowledge Services Human

Capital Information Technology

Acquisition and Sourcing Management

Defense Capabilities and

Management Financial

Management and Assurance

Health Care

International Affairs and Trade

Natural Resources and

Environment Strategic

Issues Teams

Applied Research and Methods

Education, Workforce, and Income Security

Financial Markets and Community

Investment Information

Technology National

Preparedness Physical

Infrastructure Tax

Administration and Justice

Seattle San Francisco

Los Angeles

Denver Dallas

Chicago Dayton Huntsville Atlanta

Norfolk Boston

Washington, D. C.

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THEMES FOR THE PLAN

Themes for the Plan:

Forces Shaping the United States and Its Place in the World

In charting GAO's work over the next several years, the agency's strategic plan takes into account the forces that are likely to shape American society, the United States' place in the world, and the role of the federal government. This section discusses these forces through the seven themes that form the context for what GAO hopes to accomplish- its goals and objectives- and that suggest the major trends ahead and their implications for congressional decision making.

Because the plan GAO published in 2000 presaged the diffuse nature of the threats to national security in the post- cold war period, the themes have not changed substantially. GAO has, however, updated them to factor in the changes in national and world conditions that have occurred in the last 2 years. Significant changes, of course, flow from the terrorist attacks on September 11: a war against terrorism and a national preparedness effort that may last for years to come.

But changes flow from other sources as well. GAO has, for instance, added a discussion of trends in the U. S. and world economies, such as the evolution of knowledge- based industries, that appear likely to affect public policy. It has also taken into account the results of the 2000 census in the discussion of demographics, as well as evolving dimensions of quality of life. The discussion of globalization was expanded to acknowledge the growing concerns of civil society groups about its adverse consequences, and the discussion of technology was broadened to include biotechnology and medical sciences in addition to information technology. Finally, the discussion of government performance and accountability was reoriented to

focus on governance issues, emphasizing particularly the importance of examining the different tools and actors involved in carrying out federal government policies.

The seven themes address

the national and global response to terrorism and other threats to personal and national security;

the increasing interdependence of enterprises, economies, civil society, and national governments, referred to as globalization;

the global shift to market-oriented, knowledgebased economies;

an aging and more diverse population;

advances in science and technology and the opportunities and challenges created by these changes;

the quality of life for the nation, communities, families, and individuals; and

the more diverse nature of governance structures and tools.

Any significant changes in these areas over the next 6 years, the period covered by this plan, will affect GAO's ability to meet its goals and objectives. GAO will therefore continue to track developments in these areas to make sure that its plan remains responsive to the needs of the Congress, the federal government, and the American people.

Security and Preparedness

The terrorist attacks of September 11 launched a series of profound changes. The resulting national imperative and resolve to prepare for and combat terrorism and other threats to personal, financial, and national security are now overarching forces likely to reshape American and international priorities, and consequently the roles of all levels of government. Every program team within GAO has

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reevaluated its priorities and assessed the effects of these changes, and they are reflected in each part of this strategic plan.

While many things have changed, others have remained stable, but nonetheless still critical. Consequently, it is important to evaluate the collective ramifications. The United States continues to maintain an asymmetric

relationship in many areas with many other countries and regions of the world. Expenditures for military technology (see fig. 3), education, health care, food production, research and development, biomedical studies, manufacturing, infrastructure, information technology, energy, and for many other areas significantly favor the United States.

Figure 3: Military Technology Investment, 1997

Note: Military expenditures per member of the armed forces serves as a rough measure of the level of military technology in a country.

Source: State Department.

Similarly, life expectancy, per capita income, access to computers and the Internet, and the like continue to grow in comparison to the rest of the world on the whole. In many instances, a lack of shared values, disagreements over foreign policy goals and objectives, and misperceptions of U. S. intent are contributing further to perceived differences.

This continued asymmetry, when combined with the other broad forces identified as themes in this strategic plan, are believed to have contributed to the nature and growth of viable global terrorist threats against U. S. interests, at home and abroad. Some commentators have noted that the widening

gaps in income, technology, military strength, and consumption have provided the philosophical underpinnings for the growth of terrorist groups. Some small countries, hostile groups, or even individuals pose threats to vulnerable civilian or military targets in unconventional ways to avoid direct confrontations with superior U. S. resources and to ?right? perceived inequities. While such threats have long existed, the ability of such adversaries to consummate the threat has changed. Increasingly, movement across geographical boundaries has become more fluid; chemical and biological weapons of mass destruction have become more accessible; and new technology, particularly Internet access, has made coordination and evasion more available and less costly. While before isolated and widely dispersed adversaries were not widely perceived as able to complete an attack successfully within U. S. borders, September 11 shockingly ended this false sense of invulnerability.

At the same time, more conventional threats persist, and American troops are likely to be deployed not only in Afghanistan but in troubled regions like the Balkans and the Middle East. The United States will continue to face the challenge of maintaining a well-trained, equipped, and ready defense force that can respond to more than one regional conflict at a time and that can perform well not just in combat but also in peacekeeping. And even as the environment changes, the United States must manage the modernization of its weapons systems and the safety and reliability of its nuclear weapons

stockpile.

Prior to September 11, many commentators, including GAO, highlighted the existence of numerous vulnerabilities susceptible to a variety of asymmetric attacks. But September 11 and the subsequent anthrax mail attacks underscored the extremely diverse ways in which instruments of normal daily life could be used by terrorists to exploit these vulnerabilities. September 11 also emphasized that symbols of U. S. asymmetric advantages, such as the World Trade Center and the Pentagon, are likely targets, as are more traditionally perceived targets such as military bases, nuclear power plants, and other critical elements of the transportation and utility infrastructure. Finally, September 11, the anthrax attacks, and the subsequent responses have emphasized the extensive

180.0 85.0 15.4

0 20

40 60

80 100

120 140

160 180

200 Developing Country Average Developed

Country Average U. S. Total

Dollars in Thousands per Member of the Armed Forces

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and varied safety, economic, political, and social consequences of both a terrorist attack and the efforts undertaken in response to such attacks.

Most of these conditions existed prior to September 11. What has changed significantly since is the level of public recognition of the seriousness of these threats and their varied consequences, the national resolve to fight back, the dedication of resources, and the priority given to the war against global terrorism. These changes constitute powerful new forces that have altered the context within which governmental roles, initiatives, programs, and priorities will be evaluated.

These forces present both risks and opportunities. Risks have been exposed in many aspects of normal life, with perhaps many of the greatest dangers

posed in areas that Americans have simply taken for granted. Terrorist weapons need not simply kill or injure large numbers to have the terrorists' desired impact. Bioterrorism poses risks of unprecedented magnitudes, potentially striking at air and water supplies and food production chains, while using instruments of normal life such as the mail or air conditioning systems. Hazardous materials storage sites, airports, train stations, water chlorination plants, power stations, bridges, natural gas pipelines, national monuments, and government office buildings, have now become potential targets and crime scenes in addition to critical elements of the American economy and lifestyle. The availability and safety of such resources can no longer be taken for granted, and efforts must now be taken to safeguard them without significantly diminishing the function they play in everyday life, and in ways that are both affordable and sustainable. At the same time, opportunities exist to harness the new resolve and dedication of resources to adapt existing mechanisms and structures to the new job of fighting terrorism, while simultaneously augmenting their ability to perform their normal function, and meet other challenges such as epidemics, natural disasters, or infrastructure rationalization or recapitalization.

This new context requires a changed analytical focus. Traditional threat, risk, and criticality assessments will remain as valuable tools in the fight against terrorism, but the use of such assessments must continue to be viewed as fundamental policy decisions that must be made in a broader national

preparedness context. These assessments are starting, not end, points. National preparedness, both domestically and internationally, is a broad context within which decision makers will balance the cost/ benefit of security measures; decide upon respective roles of government, the private sector, community groups and individuals; make sound investment decisions; and factor in the direct and secondary financial and societal impacts of both the responses to actual terrorist attacks and the preventative measures employed to prevent future attacks.

To be successful in a long- term fight against terrorism, the nation must embark upon strategies that are affordable, sustainable, and integrate the capabilities of all levels of government, the private sector, community groups, and individuals. The nation as a whole must foster and maintain capabilities that are adequate to address the broad, varied, and unpredictable nature of asymmetric threats. It is not affordable, sustainable, or feasible to attempt to have everyone prepare for every possible contingency. Regional approaches, public- private partnerships, mutual assistance agreements, and other capability- sharing methods will be increasingly employed. Composites or interlocking protective strategies that call for different sectors to take different but complementary protective measures may provide the most affordable and sustainable approaches. And the focus on what capabilities are necessary, where they are best resident, and

what information and resources must be shared to integrate these capabilities will significantly affect the policy, legislative, program, and budget decisions as the Congress debates how best to wage the fight against terrorism.

Thus, GAO has established a strategic framework to guide its efforts to support the Congress and make constructive suggestions to a wide range of public and private interests. It entails

1. examining the roles of government in fostering and maintaining integrated capabilities among all levels of government, the private sector, community groups, and individuals;
2. identifying threats and risks and critical nodes to prioritize for protection;
3. analyzing both the direct costs and secondary financial impacts of both response and preventative measures;

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4. identifying options for investment of human, time, and fiscal resources to achieve the greatest positive impact; and
5. examining the critical role of the public health system and emergency responders for both consequences management and prevention and education.

Globalization

With rapid advances in technology, and with easier movement of goods and people across borders, nations' economies, cultures, and governments have become increasingly interdependent- that is, globalized. By many measures, this interdependence has grown in recent decades.

One measure of growing worldwide interdependence is the total share of world goods and services that is traded. As shown in figure 4, from 1970 through 2001, world exports increased from about 12 percent to about 24 percent of world gross domestic product (GDP). Hence, all over the world, people are depending more and more on those in other nations to consume the goods they produce and to produce the goods they in turn consume.

Figure 4: World Exports of Goods and Services as a Percentage of World GDP, 1970 through 2001

Source: Calculated from International Monetary Fund data.

In the United States, where the economy was relatively self- contained

throughout much of the twentieth century, the importance of international trade, investment, and financial flows has grown noticeably in recent decades. U. S. exports as a share of U. S. GDP grew from about 6 percent to over 11 percent between 1970 and 2000 (see fig. 5). The rise in U. S. imports was even greater, increasing from about 6 to about 15 percent of GDP. These increases came during a period when overall U. S. output, adjusted for inflation, more than doubled.

Figure 5: U. S. Exports and Imports as a Percentage of U. S. GDP, 1970 through 2000

Source: Department of Commerce, Bureau of Economic Analysis.

A companion to growing international trade is a strong increase in international financial flows. The internationalization and liberalization of financial markets worldwide, along with growing wealth in many countries, have fueled huge increases in cross-border investments. Gross capital flows relative to GDP have grown almost 10-fold for industrial countries since 1970. For the United States, net financial inflows—comprising foreign holdings of U. S. stocks and bonds as well as foreign direct investment in the United States—rose from about 1 percent to about 11 percent of U. S. GDP between 1970 and 2000, as shown in figure 6. Net financial outflows—reflecting similar investments abroad from the United States—have fluctuated over this period, with an overall upward trend.

0 5

10 15

20 25

30 1970 1975 1980 1985 1990 1995 2000

Percentage of GDP

0 2

4 6

8 10

12 14

16 1970 1975 1980 1985 1990 1995 2000

Percentage of GDP

Exports Imports

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THEMES FOR THE PLAN Figure 6: U. S. Financial Flows as a Percentage of U. S. GDP, 1970 through 2000

Source: Department of Commerce, Bureau of Economic Analysis. An important part of the trend toward globalization is the growth of multinational enterprises. These firms- based in the United States with foreign affiliates or based in another nation with U. S. affiliates- find advantages either in serving foreign markets more directly or in supplying their home markets more cheaply. In 1999, more than a third of sales of goods and services by U. S. firms in foreign markets, and by foreign firms in U. S. markets, were through multinationals. Thus, while their heightened role is to some extent reflected in increased international trade, it is also evident in measures of increasing flows of foreign direct investment among industrialized countries, which have grown more than 15- fold since the mid- 1970s.

These linkages mean that governments must increasingly be aware of international dimensions when weighing policy options and taking action. For example, a financial crisis that began in east

Asia in 1997 subsequently spread across major Asian and Latin American economies. This created repeated pressure on the United States to take action, not simply to assist other nations but also to protect an international financial system that is vital to the United States' own well-being. Recently, the spread to other nations of the economic slowdown in the United States, a slowdown exacerbated by terrorist attacks and threats, has highlighted the role of global trade and investment as a transmission channel for economic trends.

Globalization affects individuals, business and other organizations in a myriad of ways. Expanded markets for U. S. producers and the broader array of goods available to U. S. consumers are among the opportunities that economic globalization can provide. And increasing international economic linkages have been associated with a rise in economic growth, both in the United States and worldwide.

However, while many countries have benefited from greater economic linkages, huge income disparities remain across countries and regions. As can be seen in figure 7, differences in per capita income across countries have largely continued over the past 25 years, although China and India stand out as poor countries that have shown significant gains. Even when differences in cost of living across countries are taken into account, average incomes in 1999 were about 13 times higher for countries in the high- income grouping than in the low- income grouping, compared with about 14 times higher in 1975. Many analysts believe that these gaps pose increasing challenges for U. S. economic and security policies, as greater flows of people and information across borders increase awareness of differences and foster resentments.

0 2

4 6

8 10

12 1970 1975 1980 1985 1990 1995 2000

Percentage of GDP

Net U. S. Financial Outflows Net Foreign Financial Inflows

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THEMES FOR THE PLAN Figure 7: Trends in Per Capita Income across Country Groupings, 1975, 1987, and 1999

Note: These country groupings contain 28 low- income, 45 middleincome, and 30 high- income countries as grouped by the World Bank based on 1975 per capita income. China and India are shown as a distinct grouping due to their size and strong income growth over the period. Countries' per capita incomes are converted into dollars using purchasing power parity exchange rates, which take into account differences in costs of living across countries.

Source: GAO analysis of data from the World Bank, World Development Indicators 2001.

Concerns that globalization itself is adversely affecting individuals within the United States and in other countries have become an increasing focus of discussions about international trade and development policies. Civil society groups around the world have demonstrated, sometimes violently, at major gatherings of international organizations over the last 2 years. The groups' concerns vary. Some, for instance, are concerned about how increased globalization affects workers in traditional manufacturing industries within the United States. Others focus on questions about the extent to which developing countries are affected by increasing trade and international investment flows. Still others believe that globalization poses a threat to the common good, such as when corporations based in countries with tough environmental safeguards opt to carry out environmentally destructive activities in countries where safeguards are less stringent. These concerns have been joined recently by a heightened awareness, even among strong proponents of

increased international economic flows, of the security dimensions of extensive international flows of financial assets, goods, and individuals.

These concerns confront U. S. policymakers in domestic and bilateral discussions and, increasingly, in multilateral settings such as the World

Trade Organization, the International Monetary Fund, the World Bank, and the United Nations. To address these concerns, policymakers need extensive information and analysis across a range of complex questions.

The Changing Economy

Many of the issues facing the Congress and the nation stem from the complex and changing nature of domestic and global economies. The last few years of the 1990s saw a dramatic surge of productivity and economic growth, fueled in part by the nation's shift to a knowledge-based economy, the adoption of new technology, and a greater emphasis on public policies that rely on market forces and competition. In the coming years, the United States faces the challenge of recovering from the current recession and returning to strong economic growth while meeting increased demands for spending to counter terrorism and improve security. Over the longer term, declining personal saving, coupled with the overall aging of the population, presents significant challenges to meeting the commitments to Social Security, Medicare, and other national priorities.

After two decades of diminished expectations and reduced economic performance, the GDP grew dramatically. As shown by figure 8, labor productivity growth accelerated from 1.5 percent per year in the early 1990s to 2.8 percent per year between 1996 and 2000. This growth can be attributed, in part, to the move away from the nation's traditional, manufacturing-based economy to one characterized by the production of information and services. In fact, for most of the past two decades, high-technology manufacturing and knowledge-based services have grown at roughly double the rate of other manufacturing industries. In light of forecasts for a shift downward in labor productivity growth for the remainder of this decade, the challenge for the future will be to sustain GDP growth.

1975 1987 1999 0 5,000

10,000 15,000

20,000 25,000

30,000

In Constant 1999 Dollars

China/ India Low- Income Countries Middle- Income Countries High- Income Countries

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THEMES FOR THE PLAN Figure 8: U. S. Productivity Growth, 1961 through 2010

Note: Changes to labor productivity growth for the periods 2001- 05 and 2006- 10 are estimates.

Source: Department of Commerce, Bureau of Labor Statistics, and DRI- WEFA (an economic information company).

The growing use of technology and knowledgebased services raises a number of policy issues. Because intellectual assets are the underpinning of a knowledge- based economy, investment in human capital is fundamental to continued growth. For policymakers, this shift requires greater attention to education and training, both for children and adults. The methods of preparing children for their futures as citizens and workers will have to be adapted for new needs. New importance will also have to be given to continuing education and training for adults, whose longer life expectancies will allow them to stay in the workforce longer- a prospect that also holds significance for retirement policies.

The shift to a knowledge economy also has implications for immigration policy. The emergence of technology- oriented industries has tended to create both high- paying jobs in computing and information technology and low- skilled jobs ultimately delivering the services these industries provide. To fill these jobs, the United States has come to rely

increasingly on workers from other countries. At the same time, in light of heightened concern for homeland security, the relatively easy flow of workers into the country may be reassessed. Moreover, the need for both high- and low- skilled workers may also contribute to a long- term trend of inequality in income in which those in the richest segments of society see their incomes increase far more than those in the poorest segments do.

Consumer and investor protection policies are also affected by the growth in knowledge- based industries. With human capital capacity and technological capabilities as the principal assets of these companies, valuation of corporate assets has become particularly difficult. Moreover, many of these companies- in the financial services sector, for example- are in the business of selling a range of new and complex services whose value is also difficult to calculate. While accurately and rigorously evaluating intangible assets and complex goods and services has always been difficult, these new features raise additional disclosure and reporting challenges for boards of directors and investors, as well as for auditors and government regulators.

Finally, the shift in the U. S. economy to knowledge- based industries calls into question whether GDP, the traditional indicator of economic performance, should take into account investment in human capital and in other intangible assets, such as research and development. As a result, the public policy issues of the future are likely to demand new metrics that can

measure the long- term strategic impact of government choices.

Other changes in the U. S. and world economies have occurred because of government policies that liberalize trade and draw on greater market competition. The U. S. government and, increasingly, foreign countries have moved away from heavily regulated or state- owned enterprises to more competitive markets. In the United States, the federal government has deregulated industries such as trucking, electricity, and telecommunications. In Europe and elsewhere, governments have privatized formerly publicly owned industries, and many formerly planned economies have reorganized to be more market oriented. Consequently, formerly regulated industries have been forced to become more efficient as new competitors enter previously protected markets. Nevertheless, as the blackouts in California and the problems besetting the airline industry illustrate, effective government oversight remains important.

2.3 2.4 2.6 1.5 1.3 1.7

1.2 2.3

2.0 3.7

0.0 0.5

1.0 1.5

2.0 2.5

3.0 3.5

4.0 1961-

65 1966- 70 1971-

75 1976- 80 1981-

85 1986- 90 1991-

95 1996- 2000 2001-

05 2006- 10

Annual Percentage Change

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Although the economy was still growing at the end of the last decade, the sustainability of this growth was already becoming more of a concern because

of a serious decline in the personal saving required to fuel investment. Saving and investment drive the productivity growth that allows personal incomes to rise without accelerating inflation. Since 1990, personal saving declined from 6 percent of GDP to about 1 percent in 2001 (see fig. 9). In recent years, low personal saving was offset by government budget surpluses and sustained by foreign investment in the United States. To the extent that these offsetting trends change, personal saving must rise if growth in investment and productivity is to continue at recent levels.

Figure 9: Declines in U. S. Personal Saving, 1990 through 2001

Source: Department of Commerce, Bureau of Economic Analysis.

By mid- 2001, the U. S. economy was experiencing a recession that was exacerbated by declining consumer confidence in the wake of terrorist attacks. Moreover, the likely increased spending on national defense and homeland security will add to an already intense competition for resources among many national priorities. In the longer term, the level of aggregate saving may place even greater constraints on federal spending for national priorities, particularly Social Security and Medicare. GAO's long- term budget model shows that simply paying for the higher retirement and health care costs associated with the baby- boom generation will limit budgetary flexibility (see fig. 10), while

leaving few resources for investment in new technology. This budget outlook reinforces the importance of long- term growth- fueled by efficiency, saving, and investment- that will allow the nation to support its commitments to future generations.

Figure 10: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP and the Tax Cuts Do Not Sunset

Note: In this simulation, discretionary spending grows with the economy after 2002, and the expiring tax provisions under the Economic Growth and Tax Relief Reconciliation Act of 2001 are extended through the end of the simulation period.

Source: GAO analysis, March 2002.

Demographics

Profound changes in the characteristics of the U. S. population will occur in the coming decades because the population is growing older and becoming more diverse. According to the 2000 census, the median age of the population is now the highest it has ever been, and the most rapidly increasing age group is the 45- to 54- year- olds- the baby boomers. As the baby boomers age, the share of the population aged 65 or older is projected to grow from 12 percent in 2000 to about 20 percent in 2030. At the same time, the growth

of the labor force is expected to slow considerably, becoming negligible by 2050 (see fig. 11).

Personal Saving Net National Saving 0

1 2

3 4

5 6

7

Percentage of GDP

1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 0

10 20

30 40

2000 2015 2030 2050 Net Interest Social Security Medicare and Medicaid All Other Spending

Revenue Percentage of GDP

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THEMES FOR THE PLAN Figure 11: Labor Force Growth, 1975 through 2075

Note: Projections based on the intermediate assumptions of the Trustees' report. Source: The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

This decline in the number of working-age people compared with the rise in the number of elderly has obvious implications for the financial status of the Social Security and Medicare Trust Funds. Today, about 3.3 people pay into Social Security for every person receiving benefits (see fig. 12). By 2030, this ratio is projected to decline to about 2 to 1.

Figure 12: Social Security Workers per Beneficiary, 1955 through 2075

Note: Projections based on intermediate assumptions of the Trustees' report. Source: The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds.

Unless productivity increases, low labor force growth will lead to slower growth in the economy- and to slower growth in federal revenues at a time when the expenditure demands on federal programs for the elderly are increasing. This slowing labor force growth is likely to raise questions about current retirement policies and whether people ought to be encouraged to stay in the workforce longer and to be given opportunities to continue their education and training. As with demand for scarce technical skills and low- cost labor, the slowing growth in the labor force increases pressures to import workers, thereby raising questions about immigration policies.

The implications of a growing elderly population are likely to extend far beyond the financial status of Social Security, Medicare, Medicaid, and retirement programs. The number of people served by housing, transportation, and other government programs for the elderly will grow. Both publicly and privately provided services, including communications and financial services, are likely to change in response to the needs of this population.

This demographic shift will affect other industrialized nations as well. For example, in some European countries, social program costs are projected to consume a greater share of total GDP than in the

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United States. As the health and retirement costs of these nations burgeon, their budgets may become more constrained, which in turn could affect U. S. interests. For example, while U. S. assets today represent a significant share of foreign portfolios, European lending to the United States is likely to be scaled back as the continent has to finance the consumption needs of their elderly populations. The United States' international interests could also be affected if Europe and other major donors are forced to curtail their contributions to international lending institutions, peacekeeping missions, and aid to developing countries.

While the U. S. population is growing older, it is also growing more diverse, in large part because of record numbers of immigrants. Between 1990 and 2000, the number of foreign- born people in the United States grew by 43 percent to total more than 28 million- the largest number of foreign- born residents in U. S. history. While these foreign- born residents make up about 10 percent of the U. S. population overall, in some parts of the United States, the numbers are especially high. For example, 26 percent of California's population comes from Mexico and Asia. Although over one-fourth of these immigrants are college educated, foreign- born residents are more likely to be less educated and more likely to live in poverty than residents who were born in the United States, placing special demands on education and social service systems.

This more diverse population means that minorities, as well as women, will continue to represent a continuously increasing share of the workforce. Currently, women constitute 47 percent of the American workforce, up from about 42 percent in 1978, a proportion expected to increase further (see fig. 13). African Americans, Hispanics, Asians, and other minorities are projected to account for about 18 percent of the total labor force by 2008, but will account for almost 60 percent of all new workers between 1998 and 2008. These trends of slow labor force growth and increased diversity have implications for federal policies and programs in education, training, child care, and immigration, among others.

Figure 13: Women and Minorities in the Labor Force

Notes: ?Women? refers to all women, regardless of minority status. ?Minorities? includes women and men. Source: Bureau of Labor Statistics, ?Labor Force Projections to 2008: Steady Growth and Changing Composition,? Monthly Labor Review, Nov. 1999.

Science and Technology

Technology influences every aspect of American life and touches the lives of Americans in thousands of ways. While information technology is a major technological force of this era- linking individuals, organizations, and economies around the world- other kinds of scientific and technological advances also are creating significant changes. For example, the rapidly increasing understanding of the human genome is leading to new developments in genetic engineering. For society and government, these developments in science and technology present vast opportunities to improve the quality of life, the performance of the economy and the government, and the relationship of government to its citizens. At the same time, the increased development and use of new technologies challenge the government?s and the Congress?s ability to evaluate their potential and assess their effect on security, safety, privacy, and equity. Within this context, the Senate Legislative Branch Appropriations bill for fiscal year 2002 directed GAO to conduct a pilot program in technology assessment and to evaluate the future potential of such a program.

47.5 46.3 45.0 41.7

12.3 13.9 16.2 18.1

0 5

10 15

20 25

30 35

40 45

50 1978 1988 1998 2008 Women Minorities

Percentage

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The positive outcomes from technological developments are well illustrated by information technology, which contributed to the substantial gains in productivity that fueled the U. S. economy in the 1990s, and which opened the workforce to people who were previously barred by physical handicaps or geographic distance. Electronic commerce in the United States far outpaces the rest of the world and is expected to grow exponentially over the next few years (see fig. 14). Information technology has begun to alter the way citizens interact with government, making it easier for them to get information and assistance, identify and obtain services, file applications and taxes, and conduct other transactions with government. Information technology has also begun to transform the way that government is organized and operates by reducing levels of bureaucracy and "middlemen" to better serve citizens and to communicate with the businesses that government regulates. Multiagency portals- Web sites providing a single point of access to information and services from multiple government departments and agencies- are based on the needs of citizens rather than on the structure of the government providing the resources.

Figure 14: Worldwide E- Commerce Growth, 2000 through 2004

Notes: Worldwide total equals United States plus rest of world. Source: Forrester Research, Inc.

Developments in biotechnology are also bringing forth many benefits. The improved understanding of diseases and how the human body operates has led to new therapies and treatments and may lead to the elimination or significant control of some diseases. In addition, genetically modified crops have

the potential to dramatically improve the health and nutrition of many of the world's poorest people.

But these opportunities are also rife with challenges. The growth of electronic commerce, for example, has made it more difficult to determine the source and character of taxable income and sales, thereby complicating division of the tax base across national, state, and local jurisdictions. As organizations become more interconnected, the ability to share data among

systems can provide greater efficiencies, but can also lead to inappropriate access to medical records, credit histories, and other personal and confidential data. And fundamental access to technology will continue to prompt debate over the digital divide- the disparity in the ability of different socioeconomic groups to access and use technology.

The widespread interconnectivity of computer systems with the critical operations and infrastructures they support has also created new vulnerabilities. The nation's telecommunications, power distribution, public health, national defense (including the military's warfighting capability), law enforcement, financial, government, and emergency services all depend on computer operations. Because financial markets and other critical infrastructure are also reliant on information technology, the U. S. and world markets can be attacked even without an actual physical assault. To maintain information superiority, the United States must depend on an interconnected global network of sensors, communications technology, command and control assets, and highly lethal weapons possessing precisionstrike capabilities. At the same time, the nation's security increasingly depends on intelligence gathering through electronic as well as more traditional means, supported by knowledge- management systems enabling the analysis of data.

Many of biotechnology's advances raise concerns as well. Although they hold great promise for improving health care, the affordability of new diagnostic and treatment methods is becoming a growing issue for federal and state government health care programs. Newer treatments may not reach poorer countries, where even treatments currently available in the United States are out of reach because of their costs. Many advances in biotechnology also raise a number of difficult ethical and

0 1000

2000 3000

4000 5000

6000 7000

2000 2001 2002 2003 2004 United States

Total Dollar Value in Billions of Goods Traded Online

Rest of World

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legal questions that society has not had to address before. For example, the

rapid progress of the Human Genome Project opens the possibility of identifying a genetic predisposition for diseases in individuals and thereby, the opportunity for preventive interventions. At the same time, this information may make people more vulnerable to discrimination by employers and insurance companies.

Quality of Life

In many respects, the quality of life for Americans has dramatically improved. Large segments of the population enjoy greater economic prosperity than ever before. In 2000, over 94 percent of the workforce was employed and the median annual household income was over \$42,000. Two-thirds of American households own their own homes, and children are graduating from high school and going on to college at record rates. The quality of the physical environment has also improved, with air and water pollution declining over the last couple of decades and larger numbers of hazardous waste sites cleaned up.

Americans are also living longer, with the average life expectancy now up to 77 years, a trend likely to continue with advances in genetics and biotechnology. In the last decade, the availability of new drug therapies has increased dramatically. By the end of the decade, roughly 50 percent more drugs were coming on the market each year than in the early part of the 1990s.

These improvements have not been without cost, however, and can be jeopardized by a prolonged economic downturn. Spending on prescription drugs, for instance, has grown much faster than health care spending and GDP (see fig. 15). Beyond the costs of treating and preventing illness, the costs of providing long-term care facilities for the growing elderly population can be expected to burgeon. For the federal government, these trends are of enormous consequence to the future scope and coverage of the Medicare and Medicaid programs, as well as the defense and veterans' health care programs.

Figure 15: Growth in National Expenditures for Prescription Drugs, 1993 through 2000

Source: Health Care Financing Administration, Office of the Actuary, and Bureau of Economic Analysis.

Regardless of the costs of achieving and maintaining these improvements in the quality of life, they have not been evenly distributed across the population. In 2000, about 39 million Americans still lacked access to health care because they did not have health insurance. Unemployment rates for African Americans and Hispanics were nearly twice the rate for whites. These groups also include proportionally fewer college graduates, their average income levels are considerably lower, and their poverty rates are

more than double those of white Americans. Violent crime rates remain high in certain geographic areas and for certain parts of the population, although they have fallen considerably across the nation as a whole. Affordable housing remains out of reach for many.

Moreover, prosperity itself has placed greater stresses on the quality of life. Greater economic activity, for example, is producing more air and highway traffic and heightening concerns about safety and environmental quality. Families are struggling to balance the demands of work and home and to find and pay for good day care. Parts of the country that have seen rapid development- particularly the Southeast and Southwest- are facing increased competition for water, land, and other natural resources. Population and economic growth also create demand for new transportation and

0 2

4 6

8 10

12 14

16 18

20

Percentage of Annual Growth

	1993	1994	1995	1996	1997	1998	1999	2000
Prescription Drug Expenditures								
Health Care Expenditures								
Gross Domestic Product								

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other physical infrastructure, and place strains on existing capacity. In the future, the need for new investments will increasingly come into competition with other national priorities, including spending on Social Security and Medicare as well as for national preparedness to confront security threats- thus creating difficult budgetary choices for the federal government.

Governance

As the pace of change accelerates in every aspect of American life, government is faced with new and more complex challenges resulting from the public's growing expectations, demographic pressures, technological opportunities, and the emerging fiscal challenges ahead. The attacks of September 11 reminded the nation that the effectiveness of government

programs and agencies is critical to day-to-day security. These events have placed new fiscal demands on federal, state and local governments, underscoring the government's obligation to enhance its fiscal flexibility and capacity to address a rapidly evolving set of challenges facing the nation both today and over the longer term.

As America takes on a new set of commitments necessary to protect the nation from the threat of terrorism, it must also be mindful of the fiscal challenges facing future generations in addressing the retirement and health care costs of the baby boomers' retirement. To help safeguard the capacity of future generations to finance an aging society and respond to their own unforeseen challenges, government must begin to reexamine and update its priorities, processes and portfolio of federal programs and policies. Emerging needs and effective programs can be addressed, while outdated programs can be either eliminated or improved. Coping effectively with these challenges ultimately calls for a fundamental rethinking of the federal role and commitments.

The foundation for much of this effort has already been laid through the implementation of critical strategic planning, performance, and information management reforms during the 1990s. Because of these reforms, information on the performance of existing programs and operations is now generated systematically. Likewise, the legislative foundation

for financial management reform is now in place and, when agencies are able to systematically supply it, critical cost information will also be available to manage and assess program performance. Using this information, decision makers will be better able to sort out and measure the effects of federal actions and policies on the broad outcomes and mission areas that matter most.

Going forward, addressing emerging needs and chronic performance gaps in existing programs will entail focusing on an evolving agenda of reforms in the management of people and technologies, the metrics developed to track results, and the frameworks articulated for governmentwide leadership necessary to achieve important objectives cutting across agencies and governmental boundaries. The people working for government are the most important asset in addressing the emerging challenges facing the nation. The aging of the federal workforce as well as the growing competition for bright new entrants makes it imperative that the federal government equip itself with new tools necessary to recruit, retain, and reward talented workers. Moreover, the competencies that are sought and rewarded should be aligned with broader strategic objectives and performance goals. The strategic deployment of technology is also becoming more essential to realize the kinds of major improvements in efficiency necessary to respond to the nation's expectations for service delivery. The Web and other major advances in networking provide unprecedented opportunities to use technology as a

driver for change in the way that government agencies are structured to do business internally and across boundaries with state and local governments, private businesses, and with individual citizens.

Promoting a more strategic focus on the broad goals for government programs is essential to bring about a more results-oriented debate about what government should be doing. But reassessing the federal role and measuring performance and accountability has also grown more complex. In most federal mission areas- from low-income housing to food safety to higher education assistance- national goals are achieved through the use of a variety of policy tools and, increasingly, through the participation of many organizations that are beyond the direct control of the federal government. The policy tools- direct spending, tax preferences, loans and

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guarantees, grants, and regulations- have often been considered individually in a fragmented fashion, even though they are all associated with critical national outcomes. Assessing the coherence of all related policy tools to ascertain whether they are aligned and relevant for a changing society will be a critical task in rethinking and updating the federal government's role. While programs and policy tools evolved piecemeal for many mission areas, an integrated and multidisciplinary approach will be needed to address the broader performance outcomes the nation expects from government.

Such an integrated perspective must address the fundamental role played by third parties involved in achieving national goals- state and local governments, nonprofit institutions, private corporations, and even international institutions and governing bodies all play vital roles in formulating and implementing federal initiatives. Figure 16 suggests one indicator of the growing involvement of third parties. Since at least the 1960s, the number of federal employees has dropped even as federal outlays have risen partly because the dollars that fund federal programs are increasingly flowing to nonfederal entities. Promoting effective partnerships with third parties in the formulation and design of complex national initiatives will prove increasingly vital to achieving successful policy outcomes in the years ahead. Protecting the nation from the threat of terrorism, for instance, will require a concerted effort by all three levels of government as well as key private sector leaders responsible for critical infrastructure and resources.

Figure 16: Federal Civilian Employment and Outlays, Fiscal Years 1950 through 2001

Note: Figures for executive branch civilian employees exclude the U. S. Postal Service. Legislative and judicial branch personnel constitute less

than 2 percent of total federal personnel.

Source: Office of Management and Budget.

This growing interdependence has important ramifications for governance and accountability. The public rightly expects to hold the federal government accountable for achieving important national outcomes. Certainly, involving state and local governments and other types of organizations in the federal mission can add new capacities and efficiencies and can promote responsiveness to a wider range of local interests. However, unique accountability challenges arise as well, both from the involvement of independent interests operating under their own sovereignty and from the reliance on ever more complex networks to deliver federal services. The challenge for the federal government will be to design, select, and manage the various tools of governance- regulations, grants, tax preferences, or loans- to prompt these independent interests to work together in pursuit of common national goals. Metrics defining and tracking progress against broader national objectives will be an important leadership tool to focus the attention of these different interests on common goals and challenges. The existing reforms developed to improve the management of federal agencies will have to be applied to also improve the way that federal agencies manage across governmental and institutional boundaries.

Federal Civilian Employment Total Federal Outlays

GOAL 1

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Goal 1

Provide Timely, Quality Service to the Congress and the Federal Government to 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 several aspirations of the American people that were defined by the Founding Fathers: to "establish justice, insure domestic tranquility, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity." The nation's aging and more diverse population, rapid technological change, and Americans' desire to improve the quality of life have major policy and budgetary implications for the federal government. In particular, growing commitments to the elderly will crowd out the capacity of a smaller generation of workers to finance the competing needs and wants brought to the federal doorstep.

The first goal in this updated plan, therefore, continues to be to help the

Congress and the federal government address the challenges that affect the well-being and financial security of the American people. As the tragic events of September 11 revealed, domestic policies and programs have become integral to national security. Accordingly, each major objective in this plan has been shaped to accommodate the implications of the terrorism threat to GAO's work in those areas.

GAO also recast its objectives under this goal in response to changes in the federal policy agenda to emphasize the need to better educate the population and prepare people for work. GAO's new objectives- one on the education and protection of children and one on the promotion of work opportunities and worker safety- expand on an objective in GAO's previous strategic plan that combined education and workforce issues and replace an objective on the social safety net. The objective on promoting investment in viable communities focuses greater attention on the federal role in helping various communities promote their own economic and housing goals.

GAO's objectives for this goal are to support congressional and federal efforts on

the health needs of an aging and diverse population,

the education and protection of the nation's children,

the promotion of work opportunities and the protection of workers,

a secure retirement for older Americans,

an effective system of justice,

the promotion of viable communities,

responsible stewardship of natural resources and the environment, and

a secure and effective national physical infrastructure.

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GOAL 1

Issue: Health care has been one of the most rapidly rising elements of federal spending,

growing at an average annual rate twice that of the rest of the federal budget over the last 10 years (see fig. 1.1). Expenditures on health-related programs are now one of the largest components of federal spending, totaling an estimated \$433 billion in fiscal year 2001, or about 23 percent of all federal spending that year. Health care also accounts for significant federal tax expenditures, with \$92 billion in forgone revenues projected for

2002 because of employer contributions to medical care and medical insurance. The cost pressures of serving a growing population are compounded by scientific advances in medical treatments, which can blur the lines between needs and wants and make it difficult to reasonably assess what society can afford.

Figure 1.1: Growth of Federal Health Expenditures, 1980 through 2001

Note: The 2001 number is an estimate. Source: Office of Management and Budget.

Of particular concern is the growth in Medicare expenditures, which are estimated to total about \$264 billion in 2002. Without changes, Medicare is expected to nearly double its share of the economy by 2030, crowding out other spending and economic activity of value. Indeed, one part of Medicare, the Medicare Hospital Insurance Trust Fund, is projected to begin running a deficit in 2016 and to be depleted by 2029. Also of concern are issues of (1) modernizing Medicare's management structure, payment policies and methodologies, and benefits package, and (2) reducing Medicare's administrative burden on providers. Moreover, because of its size and complexity, Medicare is inherently difficult to manage. About 50 insurance companies process and pay approximately 900 million claims annually to nearly 1 million health care providers. Consequently, the program is a target for fraud, waste, and abuse, and effective oversight is critical to protecting program dollars and promoting efficient program operations.

A strong private insurance market that provides access to affordable employer-based or individually purchased health coverage can reduce the demand for government-funded insurance programs. However, despite a strong economy for much of the last decade, the number of Americans without health insurance remains high. Although the introduction of competitive principles to health care helped to contain medical care cost increases for many years, costs are increasing significantly once again. These cost increases, in concert with a recent downturn in the economy, have important implications for the availability of employer-sponsored health insurance and for federal health care programs and outlays. Moreover, the public is concerned about the quality of care, consumer protection mechanisms, and the availability of information to allow purchasers to make informed insurance choices.

The government also must address pressing issues in its own system of hospitals and clinics. The Department of Veterans Affairs (VA)- one of the nation's

Strategic Objective: The Health Needs of an Aging and Diverse Population

0 100

200 300

400 500

600

Percentage Increases since 1980

Health Outlays All Other Federal Outlays 1980 1985 1990 1995 2000

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GOAL 1

largest health care systems- spends about \$21 billion a year to provide health care to approximately 4.3 million veteran patients. The Department of Defense's (DOD) health care system spends about \$25 billion annually to support health care to about 8.2 million eligible beneficiaries. Yet, much of VA's physical infrastructure is obsolete and burdened with excess capacity, and the size and other requirements for DOD facilities are currently at issue. Pressure is also mounting to integrate aspects of the two systems to increase their efficiency and effectiveness.

The efficiency and effectiveness of the government's public health programs are other areas of concern, including those administered by the National Institutes of Health, the Food and Drug Administration, the Centers for Disease Control and Prevention, and the Health Resources and Services Administration. These programs support and conduct research; provide grants to states for public health programs, such as maternal and child health services and AIDS prevention and treatment; and conduct regulatory oversight of the United States' new drug and medical device research. Questions have been raised about the government's ability to ensure the necessary protection of patients in research as well as to safeguard the public in the review of new pharmaceuticals, medical devices, and new food products. Additionally, the changing nature of public health threats domestically and internationally, such as antimicrobial resistance, HIV infection, and other emerging infectious diseases, poses significant challenges for the government. As diseases such as HIV and tuberculosis have become pandemics, the effectiveness of international health programs to prevent and adequately treat populations in developing countries is a growing concern. Government's ability to help surmount shortages of certain prescription drugs and vaccines is a worldwide concern as well.

Since September 11 and the first reports of anthrax in Florida, New York, and Washington, D. C., the public health infrastructure has experienced additional strain in responding to community demand for public health services. This has heightened concern about the adequacy of trained personnel, laboratory capacity, disease surveillance systems, and coordinated communication systems among state and local emergency

responders. Greater attention has since been given to state and local communities' capacity to develop coordinated plans for dealing with a potential biological attack and to develop emergency response

systems linking hospitals, emergency rooms, health personnel, and fire and police efforts to respond to any form of terrorism.

Finally, the baby-boom generation will undoubtedly place increasing pressure on the federal/state Medicaid program to help pay for nursing home and other community-based forms of long-term care services. Meeting an increasing demand for such services within the available funding will pose significant challenges for federal and state decision makers, with important implications for the services offered by each state. At the other end of the population spectrum are millions of uninsured children whose families have no health insurance. Medicaid and the State Children's Health Insurance Program help cover the health insurance costs of these low-income Americans and are often viewed as established programs that may be expanded to help reduce the number of the uninsured. However, the recent flux in the managed care market, which states increasingly rely on to deliver services, may hamper states in their ability to attract and retain managed care plans and providers and to ensure beneficiary access to needed, cost-effective services. Moreover, accounting for and overseeing these two programs represents a formidable challenge for the federal government because of the variation in state policies, procedures, and delivery systems.

Performance Goals: To support efforts by the Congress and the federal government to address

these issues, GAO will

evaluate Medicare reform, financing, and operations;

assess trends and issues in private health insurance coverage;

assess actions and options for improving VA's and DOD's health care services;

evaluate the effectiveness of federal programs to promote and protect the public health;

evaluate the effectiveness of federal programs to improve the nation's preparedness for the public health and medical consequences of bioterrorism;

evaluate federal and state program strategies for financing and overseeing chronic and long-term health care; and

assess states' experiences in providing health insurance coverage for low-income populations.

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Issue: Educating and protecting children are important to the continued vitality of this democratic

society and to its long- term ability to compete in a global marketplace. To this end, the federal government invests more than \$90 billion per year in programs that foster the development, education, and protection of children from childbirth through elementary and secondary school and postsecondary education. Although federal spending is only about 7 percent of total spending on education, the federal government's efforts are especially important in ensuring that all children have the opportunity to meet high academic standards from kindergarten through high school. The government's postsecondary efforts provide access to higher education for all through the use of loans, grants, and other financial tools, while protecting the financial interests of taxpayers.

According to the most recently available data, the federal government spent more than \$9 billion in fiscal year 1999 on 29 programs that have early childhood education or care as an objective. These programs, including Head Start, are geared principally toward disadvantaged children from infancy to age 5- a developmental period during which early investment may lead to better performance in school years. Beyond inherent concerns about fragmentation and overlap among these programs, there is also concern about their effectiveness. Although the Department of Health and Human Services (HHS) and the Department of Education are sponsoring research on some of these programs, little is known about their ultimate effect, especially on school- readiness and early literacy skills- two areas at the center of the federal education focus. Federal investment in child care has been growing, in part to support low- income mothers who have entered the workforce due to welfare reform (see fig. 1.2). Policymakers at the federal and state levels are concerned about the cost, quality, and availability of child care.

Figure 1.2: Growth of Federal Investment in Child Care, Fiscal Years 1997 through 2000

Note: Child Care and Development Fund (CCDF) amounts include dollars states transferred from their Temporary Assistance for Needy Families (TANF) programs to CCDF as allowed under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The amounts shown for TANF include only those TANF funds

expended for child care. Source: Administration for Children and Families, HHS.

Federal elementary and secondary school programs are especially designed to ensure that children in poor families and children who are disadvantaged are given the opportunity to meet challenging academic standards, which will give them the skills to succeed. The United States places a high priority on educating its children at the elementary and secondary levels and has increased the federal investment from over \$20 billion in fiscal year 2000 to nearly \$30 billion in fiscal year 2002. However, this increased investment is accompanied by an increased emphasis on accountability for schools to raise all students to proficient levels in math and reading. With the reauthorization of the Elementary and Secondary Education Act, the Congress has placed additional requirements on states, beyond those in the 1994 act. For example, the Congress

Strategic Objective: The Education and Protection of the Nation's Children

0 1000

2000 3000

4000 5000

6000 7000

1997 1998 1999 2000 TANF CCDF

Dollars in Millions

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GOAL 1

required testing in three additional grades and mandated actions for schools that fail to improve the performance of their students. All students- including those from poor families, with limited English proficiency, and with disabilities- are expected to meet challenging academic standards. However, an achievement gap exists between different groups of students, for example between white and African American students and between white and Hispanic students (see figs. 1.3 and 1.4). Dissatisfied with this continued achievement gap, policymakers are exploring a variety of school reform initiatives and strategies to improve school performance, improve teaching, reduce student dropout rates, and enhance educational options for the nation's children.

Figure 1.3: Achievement Gaps in Reading at Age 17

Source: National Center for Education Statistics, National Assessment of Educational Progress, 1999 Long- Term Trend Assessment.

Figure 1.4: Achievement Gaps in Math at Age 17

Source: National Center for Education Statistics, National Assessment of Educational Progress, 1999 Long- Term Trend Assessment.

The nation also needs to be concerned about protecting its children and ensuring that families have the financial means to provide for their children's needs. Each year, over 800,000 children are found to be the victims of abuse and neglect by their parents, relatives, or other caregivers. Tragically, over 1,000 children die each year from abuse and neglect. While responsibility for investigating reports of abuse and neglect and providing services to families falls primarily to state child protective service agencies, the federal government invests approximately \$6 billion annually to provide care for children who need placement outside their homes, services to help keep families together or to reunite them, and training and research activities to improve child welfare services nationwide. Moreover, nearly 23 million children live with only one of their parents. To help obtain the financial support noncustodial parents owe their children and to help single- parent families achieve or maintain economic self- sufficiency, the Congress established a joint federal/ state child support enforcement program in 1975 to help locate noncustodial parents, establish paternity and child support obligations, and enforce child support.

31 29 30

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40 1994 1996 1999 Score Difference between White and Black Students? Average Scores Score Difference between White and Hispanic Students? Average Scores

Score Differences Calendar Year

1994 1996 1999 Score Difference between White and Black Students? Average Scores Score Difference between White and Hispanic Students? Average Scores

Score Differences Calendar Year

31 27 27

22 21 22

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Beyond providing for basic educational needs, a competitive national economy depends, in part, on effectively preparing workers to compete in the labor force. To this end, the federal government currently supports over \$50 billion annually to enhance students' access to postsecondary, vocational, and adult education. In particular, the government's investment in supporting college students with direct loans and loan guarantees results in over \$30 billion of new loans annually. This is in addition to over \$8 billion yearly for Pell grants to college students from low-income families. The federal government also provides higher education subsidies for students or their families through such benefits as the Hope and lifetime learning tax credits and the deferral of tax on the earnings of contributions to qualified state tuition programs. These tax expenditures are just over \$12 billion annually. A major concern with the nation's investment in postsecondary education is its exposure to significant losses. While student loan default rates have decreased in recent years, student loan defaults still cost the federal government billions of dollars each year. For example, in fiscal year 2000, default costs for the Federal Family Education Loan Program were about \$1.4 billion, while defaults under the Federal Direct Loan Program exceeded \$600 million. The cumulative principal amount outstanding from defaulted student loans stood at about \$22 billion in fiscal year 2001 (see fig. 1.5).

Figure 1.5: A Growing Balance of Defaulted Loans Is Subject to Collection, 1993 through 2001

Note: Balances include defaulted loans under both the Federal Family Education Loan and Federal Direct Loan Programs. Fiscal year 2000 and 2001 data are from draft financial statements.

Source: Department of Education, Budget Service.

Performance Goals: To support efforts by the Congress and the federal government to

address these issues, GAO will

analyze the effectiveness and efficiency of early childhood education and care programs in serving their target populations;

assess options for federal programs to effectively address the educational needs of elementary and secondary students and their schools;

determine the effectiveness and efficiency of child support enforcement and child welfare programs in serving their target populations; and

identify opportunities to better manage postsecondary, vocational, and adult education programs and deliver more effective services.

Issue: A strong national economy depends, in part, on effectively preparing workers to compete

in the labor force, efficiently helping employers locate qualified job candidates, providing

a work environment that promotes productivity, and finding ways to help workers when they become unemployed. To this end, the federal government currently invests more than \$50 billion

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20 25

30 1993 1994 1995 1996 1997 1998 1999 2000 2001

Billions of Dollars Fiscal Year \$17.1

\$21.8

Strategic Objective: The Promotion of Work Opportunities and the Protection of Workers

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GOAL 1

annually to help new entrants to the workforce, support those who have become dislocated from their jobs and assist them in becoming reemployed, rehabilitate disabled and injured workers, help employers obtain adequate supplies of high- quality skilled labor, and protect employees' rights to fair and safe workplaces without unduly burdening employers. In addition,

federal policies for providing income support for the low- income population have increasingly focused on promoting work in exchange for government assistance.

The last half of the 1990s saw welfare use decline and work efforts increase among single mothers (see fig. 1.6), a population targeted under the 1996 welfare reform legislation. But the dramatic declines in welfare rolls nationwide slowed beginning in 2000; as the economy slowed in 2001, many states have begun to see their caseloads increase. As the nation emerges from an economic recession, the strength of these programs will be critical in maintaining a ready workforce and preserving economic stability. Furthermore, two key support programs- the Temporary Assistance for Needy Families block grant and the Food Stamp Program- are slated to be reauthorized in 2002. As the Congress faces reauthorization in a less favorable economy, it will need to consider the appropriate funding levels and structures, as well as experiences from implementation of the 1996 reforms.

Figure 1.6: Single Mothers? Work and Welfare Status, 1987 through 1999

Source: U. S. Census Current Population Survey data.

Technology is redefining the labor market for workers and employers, and federal employment support and worker protection programs must deal with these new challenges, in addition to encouraging a commitment to lifelong learning. New technologies, increased marketplace competition, and very tight labor markets have prompted employers to downsize, change employment patterns, move abroad, or seek qualified foreign workers to meet their needs. More than ever, today?s economy rewards skilled workers more than their unskilled counterparts. College graduates have experienced growth in real earnings from 1979 to 2000, while real earnings for those without a high school diploma have declined. In addition, medical and technological advances, as well as changes in the nature of work, have combined to offer workingage people with disabilities more opportunities to work than were available a generation ago. All of these new developments in technology and the labor market are challenging the Congress and the administration as they redefine the role of public policies in enhancing productivity, protecting workers? rights, and facilitating labor- management cooperation, even as unemployment edges upward.

Performance Goals: To support efforts by the Congress and the federal government to

address these issues, GAO will

0 10

20 30

40 50

60 70

80 90

1987 1989 1991 1993 1995 1997 1999

Percentage

Percentage Who Worked at Any Time during the Year Percentage Who Received Aid to Families with Dependent Children or Temporary Assistance for Needy Families during the Year

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assess the effectiveness of federal efforts to help adults enter the workforce and to assist lowincome workers,

analyze the impact of programs designed to maintain a skilled workforce and ensure employers have the workers they need,

assess the success of various enforcement strategies to protect workers while minimizing employers' burden in the changing environment of work, and

identify ways to improve federal support for people with disabilities.

Issue: Social Security has long served as the foundation of the nation's retirement income

system. About 39 million people receive Social Security retirement and survivor benefits and, for one-fifth of the elderly, Social Security is the sole source of income. Yet because of demographic changes under way in the nation, the ratio of workers to retirees is declining. This change will have fundamental implications for Social Security and the economy. Although Social Security payroll tax revenues exceed benefit expenditures today, projections suggest that beginning in 2017, spending will exceed revenues by growing proportions and that in 2041, the Social Security Trust Funds will be depleted (see fig. 1.7). However, depending on the strength of the economy, the trust fund may be depleted more quickly. Action must be taken in the near term to restore solvency and sustainability to the Social Security system, particularly as other, even more urgent priorities present claims on public funding and legislative agendas. A variety of proposals for such actions have been made, including some that would create individual retirement accounts for workers. The Congress has considered a number of these proposals, and is continuing these policy deliberations. Most of the

proposals would have major consequences for retirees? benefits, the federal budget, and the longterm economic growth of the country.

Figure 1.7: Social Security Trust Fund Faces Insolvency in 2041

Source: GAO analysis of data from the Social Security Administration's Office of the Actuary (2002 intermediate assumptions of the 2002 Annual Report of the Board of Trustees of the Federal Old- Age and Survivors Insurance and Disability Insurance Trust Funds). Pensions are also an important element in the

nation's approach to ensuring adequate retirement income, comprising 19 percent of retirement income in the United States (see fig. 1.8). Nonetheless, tens of millions of U. S. workers have no individual pension coverage, placing them at risk

Strategic Objective: A Secure Retirement for Older Americans

1000 -500

0 500

1000 1500

2000 2500

3000 3500

4000 2000 2005 2010 2015 2020 2025 2030 2035 2040

FY 2002 Dollars in Billions

Cash Surplus Cash Deficit Trust Fund Balance

Social Security cash deficit

2017

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during their retirement years. Only about half of the nation's workers are covered by employer pensions, and 48 percent of retirees do not receive any pension income. Determining the best way to increase pension coverage represents a continuing policy concern.

Figure 1.8: Sources of Income in the United States, Age 65 and Over, 2000

Note: ?Pensions? includes private pensions and annuities; government

employee pensions; Railroad Retirement; and individual retirement account (IRA), Keogh, and 401(k) payments. Source: Social Security Administration, Annual Statistical Supplement, 2001, p. 19.

Some workers with pensions are experiencing a new kind of coverage as a growing number of employers move away from traditional defined benefit plans to defined contribution plans. Furthermore, some employers are shifting to hybrid?

systems that retain the defined benefit structure while adopting certain features of defined contribution plans. These plans place greater responsibility on workers themselves to make prudent investment decisions about their retirement savings, but do not always provide workers access to the accurate and reliable information necessary for such decisions. Such changes will pose new challenges to workers, government regulators, and policymakers.

Long-term weaknesses in the solvency of the Social Security program and the sustained lack of pension coverage to half of the labor force necessitate that workers place a greater reliance on their own retirement savings to cover these gaps. Yet despite these potential shortfalls, personal savings rates continue to hover at historically low levels. Current economic uncertainties may exacerbate this trend, threatening the prospects for individuals' future retirement income as well as the nation's future economic growth.

Performance Goals: To support efforts by the Congress and the federal government to

address these issues, GAO will

assess the implications of various Social Security reform proposals;

identify opportunities to foster greater pension coverage, increase personal saving, and ensure adequate and secure retirement income; and

identify opportunities to improve the ability of federal agencies to administer and protect workers' retirement benefits.

Issue: Spending on law enforcement continues to grow at the federal, state, and local levels. In

constant 2001 dollars, federal spending will be about \$34 billion in fiscal year 2002, up from about \$15 billion in 1991 (see fig. 1.9). Most of the

increase has been to accommodate a shift in focus at the federal level from helping local governments control crime to emphasizing more distinct federal responsibilities, such as controlling illegal immigration and, more

recently, preventing terrorist attacks.

Other 3%

Pensions 18%

Asset Income 18%

Earnings 23%

Social Security 38%

Strategic Objective: An Effective System of Justice

GAO STRATEGIC PLAN 2002- 2007 27

GOAL 1 Figure 1.9: Federal Outlays for the Administration of Justice, 1991 through 2003

Note: The 2002 and 2003 numbers are estimates. Source: Budget of the U. S. Government, Fiscal Year 2003.

During the past several years, overall crime levels have been reduced. Nevertheless, the Congress and the public remain concerned and look to the federal government for leadership on how to control domestic and transnational crime, including terrorism, to prevent illegal drug use, to provide effective treatment for drug users, to deter illegal immigration, and to control prison costs. The USA Patriot Act, passed in October 2001, significantly expands federal law enforcement authority and, with billions of dollars in emergency supplemental funding, will greatly increase the federal counterterrorism role. In addition, the newly created Office of Homeland Security in the Executive Office of the President is expected to coordinate the executive branch's efforts to detect, prepare for, prevent, respond to, and recover from terrorist attacks within the United States. Many of these functions are the primary roles of law enforcement at the federal, state, and local levels- which heightens the importance of effective coordination and cooperation. Also, the Justice Department has begun to restructure the FBI and expects to redefine its mission and priorities in light of the increased focus on antiterrorism.

In the wake of the September 11 terrorist attacks in New York, Virginia, and Pennsylvania, the Congress authorized a Victim Compensation Fund through which the federal government will compensate any

individual (or their representative) who was physically injured or killed as a result of the terrorist-related aircraft crashes on that day. In November 2001, the Attorney General appointed a Special Master to administer the fund. The Justice Department, in conjunction with the Special Master, issued interim regulations in December, explaining the operation of the fund. In

addition, the master has issued a paper explaining how economic and noneconomic losses will be calculated.

The Immigration and Naturalization Service (INS), the largest federal law enforcement agency, has undergone dramatic growth in recent years. In constant 2001 dollars, its fiscal year 2002 budget of \$5.4 billion represents an increase of over 200 percent from its fiscal year 1993 budget and was subsequently increased further by the emergency supplemental funding to deal with the events of September 11. Ensuring that aliens entering the United States and staying here are authorized to do so has been a challenge for INS, one that took on a new sense of urgency as part of the nation's new counterterrorism strategy. The 2000 census results indicated that there were about 8 million illegal aliens residing in the United States, and that during the 1990s their numbers had been increasing dramatically. Recently, the Congress has addressed such issues as whether INS is properly structured to effectively carry out its enforcement and service missions. On the enforcement side, INS grapples with how illegal entry into the United States can be deterred and how the removal of illegal aliens can be expedited. On the service side, INS must determine how processes can be reformed for naturalization, immigrants' entitlements to welfare benefits, and admitting temporary agricultural and high-tech workers.

After several years of mandatory minimum sentencing, "three strikes and you're out" laws, and truth-in-sentencing grants, federal and state prisons are overcrowded. The size of the prison population will be the subject of increasing public debate as these policies' cost to the public escalates. Moreover, in constant 2001 dollars, the federal judiciary's fiscal year 2002 spending, estimated at about \$4.8 billion, was up nearly 100 percent from its fiscal year 1991 spending of about \$2.4 billion. In addition, the judiciary has faced an imbalance in its workload in recent years, particularly its criminal caseload, with some courts facing much higher

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40 1991 1993 1995 1997 1999 2001 2003

Fiscal Year 2001 Dollars in Billions

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workloads than others. Thus, the judiciary faces a major challenge in determining how to use its resources efficiently and effectively to address such workload imbalances and to coordinate its strategy with other affected agencies, particularly along the southwest border.

Performance Goals: To support efforts by the Congress and the federal government to

address these issues, GAO will

identify ways to improve federal agencies' ability to prevent and respond to major crimes, including terrorism;

assess the effectiveness of federal programs to control illegal drug use;

identify ways to administer the nation's immigration laws to better secure the nation's borders and promote appropriate treatment of legal residents; and

assess the administrative efficiency and effectiveness of the federal court and prison systems.

Issue: The economic and social well-being of the nation's communities has a great bearing on

the nation's overall growth and prosperity. Vibrant communities are integral to the quality of life of America's citizens. Community and economic growth is a multifaceted challenge involving state and local governments, nonprofits, and private entities covering a range of issues, including regional growth planning and management, local business development, home ownership, and disaster preparedness. As underscored by the events of September 11, where the critical role played by local governments in preparing and responding to terrorism attacks was highlighted for the entire nation, successful implementation of the many federal programs addressing these objectives depends on effective local governance and management.

The federal government operates more than 100 programs through multiple federal agencies and spends billions of dollars annually on grants, loans, loan guarantees, and other types of assistance for community and economic development. The sheer number of programs raises questions about the federal role in economic development- whether it should be focused on communities with special needs or more broadly directed toward all communities. In addition, a large share of the federal commitment is administered through state and local

governments and nonprofit organizations. This reliance on multiple layers of government and nonprofits presents coordination issues for the local

communities and oversight challenges for the federal government.

Small businesses play an important role in the nation's economy, employing more than half of the nation's workforce. The Small Business Administration (SBA), with a portfolio of loans worth more than \$50 billion, is the nation's single largest financial backer of small businesses and provides management and technical assistance to about 1 million small business owners annually. SBA also has oversight responsibility for federal contracting goals for small businesses. SBA has undertaken numerous initiatives to address management issues. As a result, the Congress needs up-to-date assessments of SBA's performance.

To promote affordable home ownership, a key element of a vibrant community, the federal government provides mortgage assistance through mortgage guarantees provided by the Federal Housing Administration and the VA and guarantees of mortgage securities by the Government National Mortgage Association (GNMA). It also provides a federal charter and other direct and indirect benefits to government sponsored enterprises- Fannie Mae,

Strategic Objective: The Promotion of Viable Communities

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Freddie Mac, and the Federal Home Loan Banks- that invest in mortgages that are not federally insured. The federal government must balance the benefit derived from achieving additional home ownership, especially among the underserved, against the financial risk it takes on directly or indirectly.

The Department of Housing and Urban Development (HUD) provides housing assistance programs to help families with lower incomes reside in safe, decent, and affordable housing. HUD's rental assistance programs remain at high risk of waste and abuse, and HUD faces numerous management challenges in human capital, contract management and information technology. Also, HUD and the U. S. Department of Agriculture's Rural Housing Service, which oversees rural housing programs, face challenges in ensuring that federally assisted properties are physically and financially sound and administered in a way that best serves the needs of lowincome households. All of these challenges point to the need to better understand the relationship between federally supported housing programs and community stability.

Since the late 1970s, the federal government provided over \$100 billion to help prepare for disaster and to assist disaster victims and their communities. In response to the recent terrorist attacks, billions of dollars have already been appropriated for recovery

and relief efforts. Establishing an efficient and costeffective approach to

disaster assistance is difficult in the face of pressures to provide relief for disaster victims. However, approaches that provide incentives for preventive activities and foster private insurance coverage are two avenues that both the Federal Emergency Management Agency (FEMA) and the Congress are interested in exploring.

Performance Goals: To support efforts by the Congress and the federal government to

address these issues, GAO will

assess federal economic development assistance and its impact on communities,

assess how the federal government can balance the promotion of home ownership with financial risk,

assess the effectiveness of federal initiatives to assist small and minority-owned businesses,

determine how federal disaster assistance can enhance national preparedness and capacity to respond to and recover from natural and manmade disasters, and

assess how well federally supported housing programs meet their objectives and affect the well-being of recipient households and communities.

Issue: The nation's natural resources and the systems associated with their use are under unprecedented

stress, generating intense debate and posing daunting challenges to policymakers at all levels of government. In part, this is the consequence of the country's growing population and economy, but other stress factors exist as well, such as the globalization of the world's economy and political tensions. Most glaringly, the tragic events of September 11 revealed the nation's vulnerability to hostile acts, mandating heightened protection of its critical natural resources, including the air we breathe, the

water we drink, the food we consume, and the energy supplies that keep the economy going.

Even before the tragic events of September 11, however, part of the country faced an energy crisis. The chaos in California's electricity market underscored the difficulties of crafting energy policies and regulatory approaches that adequately protect against price volatility and supply disruptions. Without the application of prudence and foresight in crafting the nation's strategic energy plan, similar crises could affect other areas

of the country in the

Strategic Objective: Responsible Stewardship of Natural Resources and the Environment

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electricity, natural gas, heating oil, and gasoline markets. The challenge is further complicated by the global nature of many energy markets, and growing doubts about the long-term sustainability of policies that demand increased production from the existing energy mix. Furthermore, strategies must now incorporate greater attention to the means of protecting a massive energy infrastructure that encompasses 5,000 power plants, 204,000 miles of high voltage transmission lines, and nearly 3 million miles of oil and gas pipelines. Finally, energy strategies must consider the environmental consequences of energy choices, as illustrated by issues surrounding the potential reemergence of the nuclear power industry. While increased nuclear power capacity would provide needed electricity, vexing questions would remain about where and how to store the byproduct radioactive waste in an environmentally sound manner as well as how to secure the plants and waste sites against possible future attacks.

The country's lands and waters are more than ever under increasing stress. This is evidenced by rapidly dwindling open spaces, declining biodiversity, depleted aquifers, and collapsing fisheries- the unintended consequences of economic growth and the need to sustain the lifestyle of a growing population. Reconciling and balancing the demands of often competing objectives- economic growth for today versus natural resource protection for the future- is a major challenge facing the American public and their elected leaders. The difficulties experienced in trying to reach agreement on whether, and how, the Arctic National Wildlife Refuge in Alaska should be used for oil and gas drilling is a prime example of this challenge. In this case, the issue pertains to the use of federal lands, which constitute about 30 percent of the country's total land surface, but similar controversies exist over privately held lands affected by federal law and regulations. The use of the nation's waters present equally sobering challenges, as pollutants and over fishing rapidly deplete coral reefs and offshore fisheries, while competition over rights to fresh water supplies grows among various interests, such as ranchers, communities, utilities, and recreational users. Conflicts over water are especially pronounced in arid areas of the West that have experienced a high population growth in recent years.

Food safety lies at the forefront of concerns about the country's agricultural resources, an urgent matter given the potential for agricultural bioterrorism. Besides this troubling matter, a whole range of

other food safety issues, while less ominous, nevertheless pose serious questions. These include questions about the adequacy of the government's recent devolution of food inspection authority, and its new "farm-to-table" food safety approach. Foreign concerns are increasing, meanwhile, about the safety of U. S. genetically modified crops and foods, an important development given the significant role that food exports play in the health of the U. S. agricultural economy. The Congress also faces other important issues as it debates the future direction of U. S. farm policy. Questions over the role of agriculture in land conservation, wildlife habitat protection, and energy production efforts are likely to figure prominently in the deliberations.

The increasing globalization of natural resource issues also affects pollution control matters, as seen in the federal government's discussions with other governments about global warming and what should be done about it. Such discussions add a new layer of complexity to the already difficult question of how to sustain economic growth when the engines of that growth—factories, cars and trucks, fertilizers, electricity generating plants—can adversely affect air and water quality. Another factor in attaining federal air and water quality goals is that land use practices, often resulting in "urban sprawl," are controlled mainly by local governments and private owners. Moreover, the federal government relies upon state and local governments for inspection and enforcement actions.

Finally, significant challenges remain in cleaning up the country's hazardous and radioactive waste sites. Today, an estimated 60 million Americans live within 4 miles of a hazardous site, and radioactive waste from weapons production still needs to be cleaned up at Department of Energy sites in 13 states. These sites' continued existence poses not only potential health and safety problems, but fiscal and economic problems as well. Delayed cleanup results in higher price tags for eventual cleanup, and in stunted economic development in the affected communities. Also, the terrorist attacks of September 11 underlined the need for steps to

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ensure the security of hazardous and radioactive materials during storage, transportation, and disposal. Performance Goals: To support efforts by the

Congress and the federal government to address these issues, GAO will

assess the nation's ability to ensure reliable and environmentally sound energy for current and future generations;

assess federal strategies for managing land and water resources in sustainable fashion for multiple uses;

assess federal programs? ability to ensure a plentiful and safe food supply, provide economic security for farmers, and minimize agricultural environmental damage;

assess federal pollution prevention and control strategies; and

assess efforts to reduce the threats posed by hazardous and nuclear wastes.

Issue: The nation's economic vitality and the quality of life of its citizens depend to an important

degree on the soundness and availability of its physical infrastructure. Transportation and telecommunications systems, for instance, provide the superstructure for the nation's economic engine, facilitating the movement of people, goods, and ideas. Adequate drinking water and waste treatment facilities are also essential to the well-being of all Americans. The nation relies heavily on its postal system for efficient mail delivery service. And thousands of federal facilities house and support human capital and the other assets needed to provide services to the American people.

In both the short and the long term, the nation faces important infrastructure challenges as federal, state, and local governments confront new demands brought on by changes in demographics, technology, and lifestyles. The challenges are complex, cutting across many interrelated issues, and require coordinated intergovernmental responses. For example, the vulnerability of infrastructure systems to terrorism requires effective efforts to identify, prevent, and respond to threats. In addition, longterm trends indicate that increasing numbers of motorists and air travelers are encountering increasingly congested highways and airport runways.

Suburban growth has raised demands for new roads, water and sewer systems, and access to telecommunications. At the same time, existing communities are demanding that the environment and their citizens' quality of life not be harmed by this growth. The cost of maintaining and modernizing its infrastructure is only one concern of a U. S. Postal Service that faces growing financial, operational, and human capital challenges. In addition, the deregulated transportation and telecommunications industries require continuous oversight to help ensure that firms have a level playing field on which to compete and that consumers receive the intended benefits of deregulation.

The responses of the federal government and other levels of government to these infrastructure challenges will have important consequences for the nation's future because of their effects on the quality of life and their significant costs. Furthermore, infrastructure needs must compete with noninfrastructure demands such as health care and the war on terrorism. As shown in figure 1.10, federal spending for nondefense infrastructure has

increased only slightly since 1981.

Strategic Objective: A Secure and Effective National Physical Infrastructure

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GOAL 1 Figure 1.10: Federal Spending on Infrastructure, 1981 through 1998

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

Given limited resources, decision makers must choose the investments that promise to be most cost-effective and targeted to address national infrastructure needs. These choices must be supported by credible data on needs and costs, performance information and measures highlighting outcomes from existing programs, and a budget process prompting a more explicit focus on investment spending across agencies.

It is therefore essential for government at all levels to have the information needed to make wellinformed decisions about how to allocate funds among competing priorities, evaluate the challenges to determine which solutions are most cost-effective, and implement these solutions as efficiently and effectively as possible.

Performance Goals: To support efforts by the Congress and the federal government to

address these efforts, GAO will

assess strategies for identifying, evaluating, prioritizing, financing, and implementing integrated solutions to the nation's infrastructure needs;

assess the impact of transportation and telecommunications policies and practices on competition and consumers;

assess efforts to improve safety and security in all transportation modes;

assess the U. S. Postal Service's transformation efforts to ensure its viability and accomplish its mission; and

assess federal efforts to plan for, acquire, manage, maintain, secure, and dispose of the government's real property assets.

Any significant changes in the major forces shaping the United States discussed earlier in this plan will affect GAO's ability to meet its goals and objectives. Already, the tragic events since September 11 have wrought major changes in the agenda of public policy issues facing the nation. Domestic policy and programs have become more intertwined with the nation's security challenges, as the threats penetrate the nation's borders. Each major objective in this plan has been changed to reflect the implications of

the terrorism threat for GAO's work in those areas.

However, much uncertainty remains. The scope of the threat itself could shift in unforeseen ways. As the specific nature of the threats continues to be defined, the consequences for domestic programs

and priorities are still unfolding. In some respects, federal, state, and local governments are just beginning the process of defining the most vulnerable facilities, areas, and services and designing effective strategies to both mitigate known threats and prepare the nation to respond. The consequences of these initiatives will extend beyond the confines of counterterrorism programs themselves- the Congress and the agencies will be challenged to redefine their budgetary and program priorities across the entire range of programs and activities to better focus limited resources on the major threats now facing the nation. As this process unfolds, GAO will be called upon to help define effective counterterrorism strategies as well as to identify other pro

0 20

40 60

80 100

120 140

160 180

200 1981 1985 1990 1995 1998

Fiscal Year 2000 Dollars in Billions Fiscal Year

Total Spending Defense Nondefense

External Factors that May Affect Achievement of Goal 1

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GOAL 1

grams and activities that are candidates for deemphasis or reductions based on long- standing problems with their performance.

The fiscal underpinnings for domestic policies and programs are also shifting in ways that are still unclear. The recent recession and the response to the terrorism attacks both have contributed to the shift in the nation's fiscal position from surplus to deficit, at least in the near term. Health care costs have accelerated recently as well. The short- term deterioration of the fiscal outlook will serve to further weaken the long-

term fiscal outlook, which is already unsustainable because of the aging of the population. Should deficits continue beyond the immediate downturn, renewed fiscal discipline will be necessary to restore the budget to balance and then a surplus, to better promote the level of savings necessary to prepare the nation for the longerterm challenges of an aging society. Unlike the

1990s when the budget was balanced in large part with cuts to defense, this time fiscal balance will have to be achieved by addressing other parts of the budget, possibly including many of the areas covered in goal 1. The economic downturn has implications for other areas covered by this plan. For instance, changes in the rates of return of major stock markets could dramatically affect retirement patterns and issues. Declining returns could place some private pension plans in jeopardy, cause some workers to postpone retirement, and force retirees to rely more on Social Security for their retirement income.

Any of these developments would reshape congressional needs for information and analyses. GAO will be prepared to respond to such a change by maintaining its expertise and the models needed for such analyses.

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Goal 2

Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence

As the world grows increasingly interconnected through more open markets and rapidly developing technology, the globalization of markets has created new opportunities for the nation as a whole and for American producers and consumers. At the same time, the United States is facing threats to its security and economy from sources that range from terrorism to regional conflicts to instability sparked by adverse economic conditions, corruption, ethnic hatreds, nationalism, and disease. Consequently, while seeking to anticipate and address diffuse threats to the nation's security and economy, the federal government also tries to promote foreign policy goals, sound trade policies, and other strategies to advance the interests of the United States and those of U. S. trading partners and allies in every corner of the world. In light of the globalization, technology, and security trends, the second goal of GAO's strategic plan is to help the Congress and the federal government respond to changing security threats and the challenges of global interdependence. GAO's specific objectives are to support congressional

and federal efforts to

respond to diffuse threats to national and global security,
ensure military capabilities and readiness,
advance and protect U. S. international interests, and
respond to the impact of global market forces on U. S. economic and security interests.

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GOAL 2

Issue: The United States and other nations face increasingly diffuse threats in the post- cold war

era. Adversaries have demonstrated they are more likely to strike vulnerable civilian or military targets in nontraditional ways to avoid direct confrontation with U. S. military forces on the battlefield. Porous borders and rapid technological change make such threats more viable. At risk are the nation's values, way of life, and the personal security of its citizens.

In response to the most recent attacks, the President, on October 8, 2001, established the Office of Homeland Security to develop and coordinate a national strategy. The office will coordinate the nation's efforts to prevent, respond, and recover from the aftermath of terrorist attacks and to plan and budget for its homeland security mission. To support this new strategy, there also will have to be

a concerted effort to improve the threat information the United States receives from foreign and domestic sources; to understand the nature of the threats to vulnerable assets and processes; and to protect the nation's military forces, critical infrastructures and computer and telecommunications systems, and population. As discussed earlier,

preparing and responding to these threats will entail a governmentwide effort involving both defense and domestic agencies and programs. Internationally, the United States and its allies will have to bolster their efforts to prevent the proliferation of dangerous weapons that can be used to carry out threats to the nation's security.

Performance Goals: To support congressional and federal decision making on governmentwide

preparation for and response to diffuse threats to national and global security, GAO will

analyze the effectiveness of the federal government's approach to providing

for homeland security;

assess U. S. efforts to protect computer and telecommunications systems supporting critical infrastructures in business and government; and

assess the effectiveness of U. S. and international efforts to prevent the proliferation of nuclear, biological, chemical, and conventional weapons and sensitive technologies.

Issue: After a decade of decline in defense spending, DOD has seen a gradual increase in

recent years. The fiscal year 2002 budget of about \$331 billion represented the largest increase in defense spending in recent years and came amidst growing concerns over the readiness of U. S. forces. The budget included additional resources for operational maintenance, quality-of-life programs, pay raises, and improvements to crumbling facilities. The most recent Quadrennial Defense Review

charts a new defense strategy emphasizing homeland security, military transformation, joint operations, and advanced capabilities related to information technology, intelligence, and space operations. Follow-on studies will more precisely define how existing defense programs and priorities will change. The new defense strategy also highlights the criticality of reforming the department's business practices, streamlining organizational struc

Strategic Objective: Respond to Diffuse Threats to National and Global Security

Strategic Objective: Ensure Military Capabilities and Readiness

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GOAL 2

tures, and eliminating excess infrastructure that unnecessarily diverts resources from other defense priorities.

Obviously, the nature and intensity of the expected defense debate changed on September 11. The terrorist attacks heightened the debate over types of military capabilities and tactics required to address this threat and ensure adequate homeland protection. The Congress appropriated \$40 billion in supplemental funds to deal with the immediate consequences of the attacks, with a large portion subsequently designated for increased defense spending. Requests for significant additional increases in defense spending are planned for fiscal year 2003 and beyond. The debate about what capabilities DOD must maintain and develop, where they should exist, and to what extent

additional defense spending is required will be significantly shaped by the debate over the military's role in homeland security and the augmentation of the civilian agencies' roles in the fight against terrorism. Nonetheless, the Quadrennial Defense Review is the linchpin tying many of these issues together (see fig. 2.1).

Figure 2.1: Key Topical Issues Framing the Defense Debate

Performance Goals: To support efforts by the Congress and the federal government to address

these issues, GAO will

assess the ability of DOD to maintain adequate readiness levels while addressing the force structure changes needed in the 21st century;

assess overall human capital management practices to ensure a high-quality total force;

identify ways to improve the economy, efficiency, and effectiveness of DOD's support infrastructure and business systems and processes;

assess the National Nuclear Security Administration's efforts to maintain a safe and reliable nuclear weapons stockpile;

analyze and support DOD's efforts to improve budget analyses and performance management;

assess whether DOD and the services have developed integrated procedures and systems to operate effectively together on the battlefield; and

assess the ability of weapon system acquisition programs and processes to achieve desired outcomes.

Weapon Systems Modernization

Quality of Life and Facilities Infrastructure Homeland

Security

Defense Challenges

Human Capital Challenges Guard

and Reserve Roles

Force Transformation Nuclear Stockpile

Capabilities Based Strategy

vs. 2 Theater Wars Improved

Business Major Practices Jointness

and Interoperability

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GOAL 2

Issue: Although U. S. leaders agree on the ultimate goal of promoting global peace, prosperity,

and stability, intense debate is occurring over how to achieve that goal.

Military and humanitarian interventions to make or keep the peace, stabilize and rebuild failed states, and deal with humanitarian emergencies have become major activities for the United States. These interventions are controversial, both domestically and internationally. They also are costly: the United States has spent more than \$23 billion in the Balkans since the early 1990s. Many billions more are likely to be spent fighting terrorism. Such interventions are likely to continue to play a prominent role in addressing the forces giving rise to terrorism.

Countries in transition to democracies and private market structures are critical to U. S. economic and security interests. The countries and regions in transition are large, having combined populations in excess of two billion, and some are of strategic importance to the United States. The United States supports and encourages these transitions to democracies through several means. These include rule-of-law assistance, measures to combat corruption, military support and training, and development assistance and humanitarian aid. The extent to which countries can successfully make the transition to and maintain democratic governments and market economies will significantly influence U. S. economic and security objectives and, ultimately, the U. S. budget. Countries failing to make the transition are more likely to embrace destructive nationalistic policies. The application and effectiveness of the tools available to the United States may affect the outcomes.

Strategic alliances established decades ago are undergoing changes to better reflect current and future needs and priorities. For example, the terrorist attacks in New York and Washington

have prompted calls to develop new coalitions to pursue military, political, and economic efforts to erode terrorists' networks and their sources of support. As the North Atlantic Treaty Organization (NATO) expands its membership eastward, its focus is changing from defending the territory of Western Europe to promoting peace and stability outside member countries.

NATO enlargement has important implications for U. S. relations with Russia, too. In addition, NATO's expansion in the Balkans has highlighted the significant gaps that exist between the military capabilities of the United States and those of other NATO members. These gaps are likely to grow, further complicating the ability of the alliance to conduct joint operations and exacerbating concerns over how roles and costs will be shared by NATO members.

Conducting foreign affairs is becoming more complicated as the lines between domestic and international issues blur and the threat of terrorist attacks on U. S. facilities and personnel overseas changes how America does business. About 35 federal agencies have around 19,000 U. S. staff assigned to overseas embassies (see fig. 2.2), and most federal policies have international aspects. The State Department plays a key role in coordinating U. S. policy and programs for a region or country. To carry out its responsibilities, the State Department operates more than 250 embassies and consulates located in over 160 countries. It either owns or leases about 12,000 properties at these locations. The reasonableness of the size and composition of the State Department's overseas infrastructure is being questioned, particularly in light of security concerns. Also being questioned are the practices for granting entry into the United States and the need to block the entry of terrorists and criminals while at the same time facilitating entry for legitimate travel key to the nation's prosperity. Moreover, recent attacks on the United States prompted a rethinking of U. S. public diplomacy

Strategic Objective: Advance and Protect U. S. International Interests

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GOAL 2

and public affairs activities and ways to better understand, inform, and influence foreign publics and policymakers.

Figure 2.2: Federal Agencies' 19,000 U. S. Employees Assigned to Embassies

Note: USAID stands for the U. S. Agency for International Development.

Source: State Department.

Performance Goals: To support efforts by the Congress and the federal government to

address these issues, GAO will

analyze the plans, strategies, costs, and results of the U. S. role in conflict interventions;

analyze the effectiveness and management of foreign aid programs and the tools used to carry them out;

analyze the costs and implications of changing U. S. strategic interests;

evaluate the efficiency and accountability of multilateral organizations and the extent to which they are serving U. S. interests; and

assess the strategies and management practices for U. S. foreign affairs functions and activities.

Issue: Globalization is increasing the interdependence of the world's economies and affecting

national security and the economic well-being of the American people. U. S. exports have grown much faster than the economy (see fig. 2.3). Moreover, the United States has been the principal architect of an open world trading system and, as the world's largest exporter of goods and services, has benefited immensely from global trade. But segments of the U. S. and world populations have not shared equally in these benefits and may not do so in the future. Moreover, global market forces have made the United States more vulnerable to overseas

economic crises. In addition, it has become more difficult for the United States to maintain control over critical technologies and the industrial base that U. S. economic and military security depends on. With the global reach of the Internet, electronic government and commerce applications move more easily across national boundaries. These applications thereby raise legitimate questions about legal responsibility, consumer protection, jurisdiction over offenses committed online, and many others. For policymakers, several aspects of these trends require particular attention:

State Department

40%

Defense Department

38%

Justice Department

6%

USAID

5%

Other Federal Agencies

11%

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

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GOAL 2 Figure 2.3: Growth in U. S. Exports Compared to GDP since 1970

Source: Calculated from International Monetary Fund data.

Trade agreements are increasing in number and importance to the U. S. economy. More than 300 international trade agreements affect hundreds of billions of dollars in trade and millions of U. S. jobs. The mutual dependence of international markets and the U. S. economy is expected to increase even further with China's recent admission to the World Trade Organization and the launching of new multilateral trade negotiations. Over 10 U. S. agencies have programs to promote U. S. exports. These programs include providing financial assistance through loans, loan guarantees, and grants as well as providing U. S. businesses with information on the export process.

The globalization of the defense industry, driven by the drop in governments' military investments worldwide, is following patterns similar to those found in other commercial sectors. Defense companies are engaged in a wide variety of business arrangements across national borders. For example, U. S. companies enter into offset agreements, in many cases developing long-term supplier relationships, which will change the nature of the market and the composition of the DOD supplier base. Although globalization has the potential to speed innovation and reduce costs, it also carries potential threats to the technological superiority of the U. S. military and may require even greater investments in weapons modernization.

Global financial health and the maintenance of the global financial and trade systems are critical to long-term U. S. objectives and are cornerstones of U. S. foreign policy. Financial crises in Argentina, Mexico, Asia, Russia, and elsewhere have raised questions about what can be done to prevent, solve, or contain the spread of regional financial crises and what can be done to reduce the debt burden on poor countries. International financial institutions, such as the International Monetary Fund (IMF) and the World Bank, are at the center of efforts to address financial crises. The United States is the major contributor to the IMF and relies heavily on it and the World Bank to promote world economic health. The operations and transparency of these institutions have come under increased scrutiny.

Oversight of financial institutions and markets has become increasingly

challenging. Each day, millions of households collectively have trillions of dollars flowing through the nation's financial institutions and markets. The globalization of financial firms and markets along with constantly advancing technology have created opportunities for increased efficiencies but also have increased the speed and potential scope of undesirable results that may occur, such as the flow of illegal finances or the spread of financial crises. The global scope of firms, along with difficulties in valuing knowledge-based assets, also raise questions about the accounting and disclosure models that underpin U. S. financial markets. Finally, the globalization of electronic commerce increases access but makes it harder to protect consumers and businesses from fraudulent and abusive marketing as well as adding to audit, security, backup, and disaster recovery concerns.

Performance Goals: To support efforts by the Congress and the federal government to

address these issues, GAO will

analyze how trade agreements and programs serve U. S. interests,

improve understanding of the effects of defense industry globalization,

assess how the United States can influence improvements in the world financial system,

0 100

200 300

400 500

600 1970 1975 1980 1985 1990 1995 2000

Index, 1970= 100 Exports Grew More than Twice as Fast as GDP

Exports GDP

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GOAL 2

assess the ability of the financial services industry and its regulators to maintain a stable and efficient global financial system,

evaluate how prepared financial regulators are to respond to change and innovation, and

assess the effectiveness of regulatory programs and policies in ensuring access to financial services and deterring fraud and abuse in financial

markets.

Other factors, in addition to those discussed earlier, could affect GAO's ability to achieve this goal. First, as the United States plans and executes its short- and long- term responses to recent terrorist attacks on the homeland, concerns about operational security are likely to be emphasized both at home and abroad. Consequently, it may be more difficult to obtain and report on operational and readiness-related information. GAO reports dealing with these areas may be subjected to greater classification reviews than in the past, which could limit their public dissemination. Moreover, historically GAO's access to the intelligence community for audit and information purposes has been limited. Continuation of this practice could hamper GAO's ability to fully assess progress in addressing the full range of homeland security issues.

Second, GAO has not had authority historically to access or inspect records, documents, or other materials held by other countries and at multilateral institutions that the United States works with to protect its interests. Accordingly, GAO's ability to conduct thorough analyses of some issues has been affected by the level of openness and voluntary cooperation. However, the recent terrorist attacks in the United States are producing unparalleled opportunities for international cooperation in some areas. Likewise, other changes in the international environment and unanticipated geopolitical crises could affect GAO's strategy and objectives. GAO will monitor international events, work closely with its congressional clients, and maintain broad-based staff expertise so that it can quickly adjust its work focus to meet emerging needs.

External Factors that May Affect Achievement of Goal 2

GOAL 3

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Goal 3

Help Transform the Federal Government's Role and How It Does Business to Meet 21 st Century Challenges

The federal government faces an array of challenges, including the national response to terrorism, transition to a knowledge- based economy, rapid technological advances, and changing demographics. These challenges require a fundamental reexamination of the government's priorities, processes, policies, and programs to effectively address shifting public expectations, needs, and fiscal pressures. What has become obvious since September 11 is that the federal government will need to work better with other governments, nongovernmental organizations, and the private sector- both domestically and internationally- to achieve results. A mixture of critical resources is

needed for the federal government to better deliver public services. Because the public expects demonstrable results from the federal government, government leaders need to increase strategic planning, address management challenges and high-risk issues, use integrated approaches, enhance their agencies' results orientation, and ensure accountability. Examining existing programs and operations for potential cost savings can create much needed fiscal flexibility to address emerging needs. Moreover, addressing today's priorities must be balanced against the longterm fiscal pressures of financing existing programs and operations.

GAO has refined its third strategic goal and the accompanying strategic objectives in light of the comprehensive reassessment called for in the current environment. Specifically, GAO now focuses on the collaborative and integrated elements needed to achieve results, and it highlights the intergovernmental relationships that are necessary to achieve national goals.

To ensure that GAO helps transform the role of government and how it does business to meet 21 st century challenges, it has established strategic objectives to

analyze the implications of the increased role of public and private parties in achieving federal objectives;

assess the government's human capital and other capacity for serving the public;

support congressional oversight of the federal government's progress toward being more results-oriented, accountable, and relevant to society's needs; and

analyze the government's fiscal position and approaches for financing the government.

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GOAL 3

Issue: Over time, as the federal government has sought to address more complex and pervasive

societal needs, the traditional "bright lines" between the public sector and the private sector and between the federal government and other public sector institutions have become increasingly blurred. In fact, since the 1930s there has been a largely overlooked revolution in which the traditional hierarchical federal agency model- that is, a federal agency implementing a program through annually appropriated funding- has been

essentially replaced by an incredibly diverse and blended service- delivery model involving many different parties and tools of intervention (for example, grants, tax expenditures, regulations, loans, guarantees, and insurance). Nowhere does this revolution become more evident and more confounding than in federal agencies? efforts to become more resultsoriented. In the 21 st century, federal agencies? performance and accountability will, to an ever greater extent, be seen as a function of nonfederal entities

and involve tools that are typically not subject to the same level of annual or even periodic oversight and reexamination as more traditional federal programs and activities.

Performance Goals: To inform the Congress of the implications of the increased role of public

and private parties in achieving federal objectives, GAO will

analyze the modern service- delivery system environment and the complexity and interaction of service- delivery mechanisms,

assess how involvement of state and local governments and nongovernmental organizations affect federal program implementation and achievement of national goals, and

assess the effectiveness of regulatory administration and reforms in achieving government objectives.

Issue: The federal government requires a mixture of critical resources- such as human capital,

information technology, and financial systems- to fulfill its roles and achieve intended results. Unfortunately, over the last decade, the federal government has missed opportunities to make needed investments in these resources effectively. For

example, agencies have only recently started the analysis necessary to link their human capital policies and practices to their missions and goals. This situation puts the government at risk because an increasing number of federal employees will become eligible to retire over the next several years (see fig. 3.1).

Strategic Objective: Analyze the Implications of the Increased Role of Public and Private Parties in Achieving Federal Objectives

Strategic Objective: Assess the Government?s Human Capital and Other Capacity for Serving the Public

GOAL 3 Figure 3.1: Employees Eligible to Retire at 24 Major Agencies, Fiscal Years 1999 through 2012

Notes: Estimates do not reflect likely attrition before becoming eligible to retire. "Employees" are career federal employees at agencies that fall under the Chief Financial Officers (CFO) Act, which account for about 98 percent of the executive branch's employees. The CFO Act agencies include the cabinet agencies and major independent agencies, such as the Environmental Protection Agency and the Social Security Administration, but exclude the U. S. Postal Service, the Federal Reserve, the Tennessee Valley Authority, and the intelligence agencies. Source: GAO's analysis of data from the Office of Personnel

Management's Central Personnel Data File as of Sept. 30, 1998.

Accordingly, GAO and the President have identified human capital as a critically needed management reform. In January 2001, GAO designated strategic human capital management as a governmentwide high- risk area. GAO's high- risk report outlined four pervasive human capital challenges facing the federal government:

strategic human capital planning and organizational alignment;

leadership continuity and succession planning;

acquiring and developing staffs whose size, skills, and deployment meet agency needs; and

creating results- oriented performance cultures. Moreover, the President's Management Agenda for Fiscal Year 2002 also identifies human capital as the first of five governmentwide areas for management reform (see fig. 3.2). It calls for workforce planning and restructuring in terms of each agency's mission, goals, and objectives. Both the administration and the Congress have proposed legislation intended to address human capital issues at the federal level.

Figure 3.2: The President's Management Agenda for Fiscal Year 2002: Governmentwide Initiatives

In addition, numerous poorly managed information technology systems have produced multimilliondollar cost overruns, schedule slippages, and poor results, and now the government's information technology and management infrastructure faces security threats. Similarly, the federal government's financial management has suffered from neglect and financial systems with serious shortcomings. One result of this condition is that many agencies prepare statutorily required annual financial statements, and receive unqualified audit opinions, only by using inefficient, time- consuming, and

costly processes to remedy inaccurate and untimely information produced by their financial systems. This approach does not result in significantly improved financial management and requires resources that could otherwise be used to address underlying financial management systems and control problems. Moreover, financial management success goes beyond an unqualified financial statement audit opinion- the federal government also must recognize the importance of success measures such as having financial information that is timely, reliable, and useful for managing operations day to day; financial systems that meet requirements; no material internal control weaknesses; and cost reporting that captures the full cost of programs and projects.

Agencies also are considering other approaches for achieving greater efficiency and effectiveness in their operations, including appropriate use of contracts with the private sector. In response to a congressional mandate, GAO convened the Commercial Activities Panel, chaired by the Comptroller General, to review the process and procedures agencies use to decide whether to have needed services performed by government employees or through contracts with the private sector. The panel issued its report to the Congress

0 10,000
20,000 30,000
40,000 50,000
60,000 70,000
80,000 2000 2002 2004 2006 2008 2010 2012

Fiscal Year Number of Employees 1. Strategic Management of Human Capital
2. Competitive Sourcing 3. Improved Financial Performance 4. Expanded Electronic Government 5. Budget and Performance Integration

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GOAL 3

on April 30, 2002. The panel developed a set of principles to be used in addressing sourcing decisions and recommended that competitions between the public and private sectors to perform commercial functions be conducted using the established framework of the Federal Acquisition Regulation (FAR). GAO will be following developments in this area closely in the coming years.

While it is important to enhance the government's use of new technologies to improve the collection and dissemination of government information, it is also important that this information- especially that collected for

statistical purposes- meets the current needs of federal programs and policymakers. In areas where the U. S. economic and social structure is undergoing major change, statistical agencies need to respond to these changes with relevant data on a timely basis.

Finally, despite recent reforms to transform the federal acquisition process, the government still does not have a world- class purchasing system. All too often, many of the products and services the government buys cost more than expected, are delivered late, or fail to perform as expected. No commercial business would remain viable for very long with results like these. Significant improvements- including the skills of the acquisition work force- are needed to produce better outcomes that

mirror the practices of the nation's best commercial companies.

Performance Goals: To assess the government's capacity to better deliver public services,

GAO will

identify and facilitate the implementation of human capital practices that will improve federal economy, efficiency, and effectiveness;

identify ways to improve the financial management infrastructure capacity to provide useful information to manage for results and costs day to day;

assess the government's capacity to manage information technology to improve performance;

assess efforts to manage the collection, use, and dissemination of government information in an era of rapidly changing technology;

assess the effectiveness of the Federal Statistical System in providing relevant, reliable, and timely information that meets federal program needs; and

identify more businesslike approaches that can be used by federal agencies in acquiring goods and services.

Issue: During the past decade, the Congress has sought to instill a greater focus on results and

accountability by enacting a statutory framework with the Government Performance and Results Act (GPRA) as its centerpiece. However, GAO has reported that performance improvements do not take place merely because a set of management requirements has been established and that building organizational cultures that help create and sustain a focus on results remains a work in progress. Linking the GPRA strategic planning process to

institutional and individual performance management and reward systems can serve to significantly accelerate movement toward a more results-oriented and accountable federal government. In GAO's governmentwide surveys, for example, federal managers have reported that their top leaders still do not show a consistently strong commitment to achieving results (see fig. 3.3).

Strategic Objective: Support Congressional Oversight of the Federal Government's Progress toward Being More ResultsOriented, Accountable, and Relevant to Society's Needs

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GOAL 3 Figure 3.3: Extent to Which Top Leadership Is Perceived as Demonstrating a Strong Commitment to Achieving Results, 1997 and 2000

Note: Survey respondents were both Senior Executive Service (SES) members and non- SES members. "Top leadership" refers to the leadership of the agencies in which the respondents serve.

Source: GAO survey data.

Also, in crafting GPRA, the Congress recognized that if federal managers were to be held accountable for program results, they would need the authority and flexibility to achieve those results. However, managers also reported that while they often are held accountable for results, they sometimes do not have the decision-making authority they need to accomplish agency goals (see fig. 3.4).

Figure 3.4: Extent to Which Managers Believe They Have Needed Decision-Making Authority and Are Held Accountable for Results, 1997 and 2000

Notes: "Needed" decision-making authority refers to the authority managers responding to the survey believe managers at their level need to help their agencies accomplish their strategic goals.

Source: GAO survey data.

Part of a results-oriented framework is relevance; that is, the extent to which programs meet society's priorities. Performance indicators can help decision makers gauge the relevance of programs in meeting societal needs.

The President's Management Agenda for Fiscal Year 2002 also seeks to instill a greater focus on governmental results, presenting a number of governmentwide initiatives, including the aforesaid human capital goals, and program-specific initiatives intended to improve federal management and to deliver results. For example, consistent with GAO's position, the agenda identified improving financial performance as an important initiative to stop erroneous benefit and assistance payments and to ensure that agencies

supply reliable, accurate, and timely information to enhance accountability to the American people. Furthermore, among the specific initiatives is the development of better criteria for federal investment in science and technology. Although science and technology are major factors in economic growth, there must be accountability for the investment of the federal money supporting these activities in terms of effectiveness in achieving specific goals.

52 56 72 76

0 10

20 30

40 50

60 70

80 90

100 1997 2000

Percentage

Non- SES SES Had Decision- Making Authority

Held Accountable for Results

56 34 51

29 66 62 62

54

0 10

20 30

40 50

60 70

80 90

100 Non- SES SES Non- SES SES

Percentage 1997 2000

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Also, today, there are widespread concerns about the accountability profession's role in serving the public's interest. GAO assists the Congress in this important area, such as by overseeing the governance of the auditing profession, setting the standards auditors use to perform audits of federal funds and activities, and working collaboratively with the inspectors general to issue a methodology for conducting federal financial statement audits.

Performance Goals: To support congressional oversight of the federal government's progress

toward being more results-oriented, accountable, and relevant to society's needs, GAO will

analyze and support efforts to instill result-oriented management across the government,

highlight the federal programs and operations at highest risk and the major performance and management challenges confronting agencies,

identify ways to strengthen accountability for the federal government's assets and operations,

promote accountability in the federal acquisition process,

assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property, and

identify ways to improve the quality of evaluative information and explore the use of governmentwide performance indicators to gauge progress in meeting societal needs.

Issue: The federal budget is the principal annual vehicle through which the Congress and the

President balance competing views about the allocation of federal resources, accountability for those resources, and the allocation of responsibility between the public and private sectors and among levels of government. After many years of attempting to balance the federal budget in the face of chronic deficits and mounting federal debt, federal fiscal policy in recent years focused on saving surpluses and reducing debt. In the past year, however, the near-term budget outlook has worsened with deficits projected for the next few years. GAO's long-term budget model has consistently suggested that without changes for the major retirement and health care programs, large deficits and mounting debt will emerge over the long term.

It will be difficult to address today's urgent need to deal with terrorism and to increase national preparedness without unduly exacerbating the nation's

long-term fiscal challenges. The budget controls instituted to achieve balance have recently expired, but no agreement has been reached on the appropriate structure or process for focusing on the fiscal challenges that now move to center stage.

To understand the context for near-term budget decisions more fully, it is important to look at trends in revenue sources and the distribution of expenditures. These trends show (among other things) growth in the relative share of revenues derived from employment taxes, such as those for Social Security (Old-Age Survivors and Disability Insurance), and a dramatic change over time in composition of spending, with a growing share devoted to health and interest on the debt, as figures 3.5 and 3.6 show.

Strategic Objective: Analyze the Government's Fiscal Position and Approaches for Financing the Government

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GOAL 3 Figure 3.5: Composition of Federal Receipts by Source, Fiscal Years 1962, 1982, and 2002

Note: Fiscal year 2002 data are the current services estimates of the Office of Management and Budget.

Source: Budget of the U. S. Government, fiscal year 2003. Figure 3.6: Composition of Federal Spending by Budget Function, Fiscal Years 1962, 1982, and 2002

Note: Fiscal year 2002 data are the current services estimates of the Office of Management and Budget.

Source: Budget of the U. S. Government, fiscal year 2003. In rethinking federal fiscal policy and preparing for the long-term budgetary challenges, policymakers have the opportunity to consider what the federal government does and how to finance those activities. American taxpayers annually pay about \$2 trillion

in taxes to fund the federal government. The federal tax system includes numerous tax provisions intended to influence taxpayers' behavior throughout the economy, but little is known about the effects of many of these provisions. Given the size and complexity of the federal tax code, the Congress remains interested in tax reform, particularly simplification. As the nation's chief tax collector, the Internal Revenue Service (IRS) interacts with more Americans than any other government agency, and

compliance with tax laws is a significant burden imposed on businesses and individuals. IRS is in the midst of implementing major legislatively mandated reforms in how the nation's tax system is administered, and congressional interest remains focused on what progress IRS is making.

Congressional attention will also continue to focus on controlling spending. A key to making resource decisions is having reliable, useful, and timely financial information routinely available. Such information is also necessary to ensure financial accountability and to improve the economy, efficiency, and effectiveness of government actions that have a direct effect on achieving a more results-oriented government.

Performance Goals: To analyze the government's fiscal position and identify ways to

strengthen approaches for financing the government, GAO will

analyze the long-term fiscal position of the federal government,

analyze the structure and information for budgetary choices and explore alternatives for improvement,

contribute to congressional deliberations on tax policy,

support congressional oversight of IRS's modernization and reform efforts, and

assess the reliability of financial information on the government's fiscal position and financing sources.

Individual Income Taxes Corporation Income Taxes Social Insurance Excise Tax and Other

17% 17%

45% 21%

33% 11%

48% 8% FY 1962 FY 1982 FY 2002

35% 7%

48% 10%

FY 1962 31% 6%

13% 50%

FY 1982 34% 11%

9% 21% 25%

FY 2002 33%

18% 9% 17%

23%

Defense Social Security Medicare and Medicaid Net Interest All Other
Spending

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GOAL 3

Efforts to improve the government's performance and accountability could be affected by (1) the heightened priorities now assigned by the administration and agency management to homeland defense in response to the terrorist attacks that began on September 11, (2) the capacity within agencies to develop and use performance and cost information effectively to make improvements, (3) the level and management of resources provided for needed investments in agencies' management systems, and (4) the evolving fiscal position of

the government, as it is affected by both the economy and policy decisions. While recent events are likely to lead to significant competition for, and increases in, federal spending on homeland defense issues, GAO will emphasize the importance of improved business practices and useful performance and cost information to better ensure the cost-effective use of federal resources.

External Factors that May Affect Achievement of Goal 3

GOAL 4

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Goal 4

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization

To successfully carry out its responsibilities to the Congress for the benefit of the American people, GAO's work must be professional, objective, factbased, nonpartisan, nonideological, fair, and balanced. GAO should also lead by example. The focus of goal 4 is to make GAO a model organization-one that is client and customer driven; exhibits the characteristics of leadership and management excellence; leverages its institutional knowledge

and experience; is devoted to ensuring quality in its work processes and products through continuous improvement; and is regarded as an employer of choice.

In this respect, the focus of goal 4 for the period 2002 through 2007 is largely unchanged from the previous plan. GAO has, however, made some refinements. For example, rather than have a separate strategic objective for information technology (IT), GAO has integrated technology efforts throughout this strategic plan because technology significantly contributes to GAO's performance and affects many agencywide efforts. Furthermore, GAO has added a strategic objective on knowledge sharing to ensure that as a knowledge-based organization, it collects, shares, and leverages its institutional knowledge on emerging issues that shape America today and in the future.

To accomplish GAO's goal of being a model federal agency and a world-class professional service organization, the strategic objectives are to sharpen GAO's focus on clients' and customers' requirements, enhance leadership and promote management excellence, leverage GAO's institutional knowledge and experience, continuously improve GAO's business and management processes, and become the professional services employer of choice.

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GOAL 4

Issue: GAO interacts and works with a diverse set of external clients and internal customers.

GAO's principal client is the Congress, but its work is also important to other stakeholders, including federal, nonfederal, and international agencies, organizations, and institutions. GAO's internal customers are its own staff. They are the principals responsible for delivering quality products and services to GAO's clients. Therefore, being a model agency depends on both determining and meeting the requirements of clients and internal customers.

For external clients, GAO plans to continuously update its understanding of their needs and expectations through expanded outreach efforts and strategic planning. GAO also plans to develop and use quality measurement systems and feedback mechanisms to obtain external clients' views on GAO's products and services. In addition, to complement congressional protocols implemented during the previous planning cycle, GAO will develop

protocols for each major stakeholder group- agencies and international organizations- to help govern interactions and manage expectations.

For internal customers, GAO plans to identify their needs and expectations through expanded outreach and planning efforts. GAO will identify and develop high- quality measurements to assess customer satisfaction, business processes, and accomplishment of the agency's strategic direction. In addition, GAO will develop policies and procedures to guide how its work responds to customer needs.

Performance Goals: To support the objective to sharpen GAO's focus on clients' and customers'

requirements, GAO will

continuously update client requirements,

develop and implement stakeholder protocols and refine client protocols, and

identify and assess customer requirements and measures.

Issue: GAO intends to establish results- oriented agency management practices that will establish

the agency as a leader among high- performing professional services organizations. To accomplish this objective, GAO will build on its established base of strategic planning, performance management, sound financial management, IT best practices, and leadership initiatives. GAO will also need to institute new ways of doing business to create management and leadership systems that are practical,

flexible, and that enable managers to efficiently use resources to solve problems. GAO will lead by example.

Performance Goals: To support the objective to enhance leadership and promote

management excellence, GAO will

foster an attitude of stewardship to ensure a commitment to GAO's mission and core values,

implement an integrated approach to strategic management,

Strategic Objective: Sharpen GAO's Focus on Clients' and Customers' Requirements

Strategic Objective: Enhance Leadership and Promote Management Excellence

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GOAL 4

continue to provide leadership in strategic human capital management planning and execution,

maintain integrity in financial management,

use enabling technology to improve GAO's crosscutting business processes, and

provide a safe and secure workplace. Issue: GAO is a knowledge-based professional

services organization. It needs to use a wide and expanding variety of media to communicate the results of its work to its clients and the public. It also needs to preserve information from its work for the long-term and to share knowledge among its staff and with others so that it can improve service to its clients, the executive branch, taxpayers, and other governments, both domestic (state and local) and international.

Performance Goals: To support the objective to leverage its institutional knowledge and

experience, GAO will

improve GAO's Web-based knowledge tools;

develop a framework to manage the collection, use, distribution, and retention of organizational knowledge; and

strengthen relationships with other national and international accountability and professional organizations.

Issue: GAO, as the federal government's accountability organization, evaluates the economy, efficiency,

and effectiveness of a wide range of federal policies and programs to assist the Congress for the benefit of the American people. By continuously assessing and improving its products, as well as its business and managerial processes, GAO can determine whether the organization's operations are aligned with its strategic direction and comply with applicable professional standards in the conduct of its work.

Performance Goals: To support the objective to continuously improve its business and management

processes, GAO will

improve internal business and administrative processes,

improve GAO's product and service lines to better meet client needs, and

improve GAO's job management processes.

Strategic Objective: Leverage GAO's Institutional Knowledge and Experience

Strategic Objective: Continuously Improve GAO's Business and Management Processes

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GOAL 4

Issue: To be a model organization, GAO hopes to build and maintain a diverse work environment

that is conducive to performance excellence; encourages full participation by the workforce; and supports personal, professional, and organizational growth. GAO wants to be regarded as an employer of choice- one that recruits and retains excellent employees, and is considered one of the best places to work. The agency is committed to treating all employees fairly, respecting their diversity, and valuing their contributions. GAO's human capital initiatives should enable employees to develop and use their full potential, as aligned with agency objectives.

Performance Goals: To become the professional services employer of choice, GAO will

maintain an environment that is fair, unbiased, family- friendly, and promotes and values opportunity and inclusiveness;

improve compensation and performance management systems;

develop and implement a training and professional development strategy targeted toward competencies; and

provide GAO's people with tools, technology, and a working environment that is world- class.

A significant constraint to achieving GAO's objectives under this goal relates to the security situation facing the nation and the Congress since the events of September 11. The attacks of September 11 have caused GAO to completely rethink many of the principles of physical and information security that apply to its day- to- day operations. Moreover, the Congress's use of the GAO's headquarters building for contingency operations in the

wake of the anthrax attacks on the U. S. Capitol caused GAO to quickly shift substantial mission support resources to respond to its congressional client's immediate needs. The potential for the House and the Senate to rely on GAO for similar direct support in the future could significantly affect areas of the plan related to continuity of operations, physical and information infrastructure, and security. It could also result in changed priorities and delays in achieving some of GAO's other stated objectives.

The availability of resources could also affect GAO's timely achievement of objectives under this goal. Specifically, the agency envisions relying, to a great extent, on in-house expertise as it develops the necessary strategies, policies, and process changes

identified with each of the five strategic objectives. This approach will require GAO to apply the knowledge, skills, and abilities of its current staff to the diversity of strategic needs identified in the plan. However, in-house expertise alone will not be enough to fully accomplish GAO's objectives. This is especially true with regard to GAO's human capital, business process, and enabling technology initiatives. To bring a fresh perspective, subject expertise, and knowledge of best practices to these issues, GAO will need to rely on assistance from external consultants and contractors. In the event that its planned resources need to be diverted to respond to changing national priorities or cannot be made available because of changing budget priorities, GAO's ability to achieve its stated objectives could, at minimum, be delayed.

GAO will work closely with its oversight and appropriations committees to help ensure that it remains responsive to its clients' needs and changing national priorities and that needed resources are available to address emerging contingencies.

Strategic Objective: Become the Professional Services Employer of Choice

External Factors that May Affect Achievement of Goal 4

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In updating this plan, GAO relied on a variety of information sources about past performance to determine priorities for the future. GAO will continue to rely on these sources and other evaluations to judge progress toward its strategic goals and objectives over the period of this plan. GAO intends to continue refining its performance indicators as part of a balanced scorecard approach to performance measurement that focuses on the agency's clients, the results achieved, and its employees.

Key Performance Measures

GAO uses both quantitative and qualitative performance measures to assess

progress in achieving its strategic goals and objectives. Collectively, these measures help demonstrate the degree to which GAO

provides timely, quality service to the Congress and the federal government so that they can respond to current and emerging challenges and

helps the government meet 21 st century challenges by transforming its role and its ways of doing business.

To assess GAO's progress toward its external strategic goals (that is, goals 1, 2, and 3) and their objectives, the agency uses two types of quantitative measures. First, GAO assesses its efforts to provide support to the Congress and the federal government in terms of the number of recommendations GAO has made, the percentage of its products that contain recommendations, the percentage of recommendations implemented, the number of testimonies GAO has given before the Congress, and the timeliness of its products. Second, GAO goes beyond these measures of services provided to assess the results or outcomes related to the services it has provided. GAO does this by tabulating both the financial benefits to the taxpayers and the improvements to government programs and services that result when action is taken in response to information and recommendations it provided. GAO sets performance targets for all of these quantitative measures annually and compares its actual performance with the targets.

Quantitative Measures for GAO's External Strategic Goals (Goals 1, 2, and 3)

To complement GAO's annual quantitative measures, the agency sets multiyear qualitative performance goals for each of its strategic objectives that help it assess whether it has done the work it planned to do for its congressional clients. These performance goals reflect the breadth and depth of GAO's work, and each includes a set of key efforts to be undertaken during the first 2 years of this plan: fiscal years 2002 and 2003. Potential outcomes are also listed for each performance goal to highlight the improvements that may result if the Congress and the federal government use the information and recommendations GAO provides. (To review these key efforts and potential outcomes, please see the "Strategic Supplements" section at www.gao.gov/sp.html. Annual reports on GAO's progress toward its goals and objectives and updates to its plan are also posted on the Web page.)

Performance Measures and Evaluations

Financial benefits that are documented as either directly attributable to, or significantly influenced by, GAO's work; these include reductions in annual operating costs, reductions in the costs of multiyear projects, reductions in costs of entitlements, and increased revenues from asset sales and changes in tax laws or user fees

Other benefits that take the form of improvements in government programs to which GAO's work contributed, such as improving programs' economy, efficiency, and effectiveness and better financial or information management systems

Testimonies delivered, an indicator GAO uses as a measure of direct support to the Congress

Recommendations made and those subsequently implemented to correct the underlying causes of problems that impede government efficiency and effectiveness- measured in terms of (1) the number of recommendations made, (2) the percentage of products containing recommendations, and (3) the percentage of recommendations implemented 4 years after they were made

Timeliness of GAO's products, as measured by the extent to which they are delivered to clients by agreed- upon dates

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GAO will measure its success in meeting its qualitative performance goals by having senior managers assess the extent to which GAO does the work the key efforts describe for each goal. GAO expects that information should be provided or recommendations made on at least 75 percent of the key efforts for a performance goal to be met.

For its fourth strategic goal- which calls for GAO to become a model federal agency and a world- class professional services organization- the agency relies on qualitative measures to assess its progress in making the internal improvements necessary to achieve that goal and its objectives. As with GAO's external strategic objectives, each objective under the internal strategic goal has a set of multiyear qualitative performance goals with key efforts that will be assessed after 2 years. The assessments of whether these performance goals have been met are made by senior managers based on the work done on the goals' key efforts. GAO expects that for one of these performance goals to have been met, 75 percent of the key efforts should have been completed.

GAO is continuing to refine its measures, working toward a 'balanced scorecard' that evaluates performance from three key perspectives: GAO's clients, GAO's results, and GAO's people. The agency plans, for instance, to establish a client feedback measure and indicators that assess its efficiency and effectiveness in supporting its staff in their efforts to serve GAO's clients and the American people.

Evaluations

For the purposes of this plan, GAO used several periodic evaluations to help

review and revise its strategic objectives. One of the essential steps in the planning process for goals 1, 2, and 3 was an evaluation of actions taken by federal agencies and the Congress in response to GAO's recommendations. GAO actively monitors the status of open recommendations and uses the results of its analysis to determine the need for further work in an area. If, for example, an agency has not undertaken a recommended action that GAO considers still valid and worthwhile, GAO may decide to pursue further action with agency officials, with congressional committees, or to undertake additional work.

Another major evaluation GAO used to inform the update of the strategic objectives under goals 1, 2, and 3 was the January 2001 edition of GAO's biennial

Performance and Accountability Series: Major Management Challenges and Program Risks. This series addresses a range of challenges and opportunities to enhance performance and accountability governmentwide and at 21 agencies. A companion volume provides a status report on those major government operations considered "high risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. The series is, among other things, a valuable planning tool for GAO, helping it identify those areas where its continued efforts are needed to maintain the focus on important policy and management issues facing the nation.

GAO also used a number of studies and evaluations to help review and update the strategic objectives on improving its internal operations under strategic goal 4. These studies and evaluations- many of which were identified in GAO's initial strategic plan (covering fiscal years 2000 through 2005)- include

a comprehensive assessment of GAO's human capital policies and practices;

a first- ever knowledge and skills inventory that will identify skill gaps and provide the basis for sound succession planning within the agency;

a comprehensive review of GAO's IT infrastructure to identify opportunities to increase the agency's efficiency, effectiveness, and productivity;

a security evaluation of GAO's IT systems; and

a case study of GAO's initial strategic planning process.

Finally, GAO's Office of the Inspector General evaluates the administration of the agency, including an assessment of key performance measurements. The Inspector General's evaluations are useful for ensuring that GAO's operations are efficient and economical and serve as another input for updating the objectives under strategic goal 4.

A number of planned evaluations should benefit GAO's future strategic planning efforts. GAO will continue to monitor the status of open recommendations to determine the need for additional work.

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In fiscal year 2003 and every 2 years thereafter, GAO will again report on major management challenges and high- risk areas in federal agencies, publishing analyses that, among other things, serve to identify areas for continued GAO efforts. Meanwhile, in fiscal year 2002, GAO will have an independent review of the financial audits it conducted in fiscal year 2001 to assess its quality controls. As outlined in the discussion of strategic goal 4, GAO

also plans to evaluate in fiscal years 2002 and 2003 (1) the effectiveness of GAO's risk management approach to designing engagements and developing quality products that meet GAO's core values and professional standards and (2) a number of GAO's core and support business processes to determine how to make them more efficient and effective.

Because GAO's mission, goals, and objectives are to support the Congress in its decision making, GAO consulted with Members and their staff in drafting this updated strategic plan and continued to seek their views as the plan evolved. The feedback from those consultations allowed GAO to make adjustments to its planned work so that it better serves the Congress's institutional interests. While GAO will continue to respond to congressional requests for work much as it always has, it expects that its plan will help it to be more efficient and effective in meeting those requests because it will be better able to anticipate congressional needs and deploy its resources accordingly.

Although GAO is unique in the scope of its activities to support the Congress and to improve the performance and accountability of government, it works closely with other members of the accountability community. Each member of this community has different roles, responsibilities, and expertise,

but collectively, they advance the principles of good government through a variety of activities. To take advantage of opportunities to work collaboratively,

GAO continues to ensure that its work complements the efforts of others and that crosscutting goals are mutually reinforcing and efficiently implemented. As part of GAO's periodic meetings and other interactions, it consulted with key members of the accountability community, including the inspectors general, the chief financial officers, the heads of state audit agencies, and the executives of other nations' audit agencies. GAO also shared a draft of this plan with them. In addition, GAO consulted and shared

the draft with officials from the Office of Management and Budget, the Congressional Budget Office, the Congressional Research Service, and other federal agencies. GAO also consulted with experts outside of government- including those on the Comptroller General's Advisory Board and Educators' Advisory Panel- and sought their views on a draft of this plan.

Consultations and Relationships with Other Agencies

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CONSULTATIONS AND RELATIONSHIPS

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CORE VALUES

Accountability Integrity Reliability

This strategic plan and our performance and accountability reports are available through our Web site at www.gao.gov/sp.html.

Linked to that same page is our full family of strategic planning and performance and accountability publications.

Other Web pages of possible interest:

GAO's audit and evaluation reports and testimonies www.gao.gov/audit.htm
GAO's legal products www.gao.gov/legal.htm FraudNet www.gao.gov/fraudnet.htm For the press www.gao.gov/pressmain.html Employment opportunities www.gao.gov/jobopp.htm

www.gao.gov

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