EXPLORING GAO'S HIGH-RISK LIST AND OPPORTUNITIES FOR REFORM

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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EXPLORING GAO'S HIGH–RISK LIST AND OPPORTUNITIES FOR REFORM

Thursday, February 14, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
WASHINGTON, D.C.

The committee met, pursuant to call, at 10:53 a.m., in Room 2154, Rayburn House Office Building, Hon. Darrell E. Issa [chairman of the committee] presiding.

Present: Representatives Issa, Mica, Turner, Duncan, Jordan, Chaffetz, Walberg, Gosar, DesJarlais, Gowdy, Farenthold, Woodall, Massie, Meadows, Bentivolio, Cummings, Norton, Connolly, Speier, Cartwright, Pocan, Duckworth, Cardenas, Horsford and Lujan Grisham.

Staff Present: Alexia Ardolina, Assistant Clerk; Robert Borden, General Counsel; Molly Boyl, Parliamentarian; Katelyn E. Christ, Professional Staff Member; John Cuaderes, Deputy Staff Director; Gwen D'Luzansky, Research Analyst; Adam P. Fromm, Director of Member Services and Committee Operations; Linda Good, Chief Clerk; Tyler Grimm, Professional Staff Member; Frederick Hill, Director of Communications and Senior Policy Advisor; Christopher Hixon, Deputy Chief Counsel, Oversight; Mitchell S. Kominsky, Counsel; Mark D. Marin, Director of Oversight; Tegan Millspaw, Professional Staff Member; Mary Pritschau, Professional Staff Member; Laura L. Rush, Deputy Chief Clerk; Scott Schmidt, Deputy Director of Digital Strategy; Matthew Tallmer, Investigator; Peter Warren, Legislative Policy Director; Rebecca Watkins, Deputy Director of Communications; Meghan Berroya, Minority Counsel; Jaron Bourke, Minority Director of Administration; Krista Boyd, Minority Deputy Director of Legislation; Counsel; Carla Hultberg, Minority Chief Clerk; Elisa LaNier, Minority Deputy Clerk; Una Lee, Minority Counsel; and Dave Rapallo, Minority Staff Director.

Chairman ISSA. The hearing will come to order on, "Exploring GAO's High-Risk List and Opportunities for Reform."

We on the Oversight and Government Reform Committee exist to secure two fundamental principles. First, Americans have a right to know that the money Washington takes from them is well spent. And second, Americans deserve an efficient, effective government that works for them.

Our duty on the Government Oversight and Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government.

Our obligation is to work tirelessly, in partnership with citizen watchdogs and the GAO, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

Today we are having our broadest oversight hearing that we have in any one Congress. That is because the GAO's report is, in fact, on all spending of government and all risk to government and, in fact, is the most important report published. Each 2 years, General Dodaro and his staff assess all the risks to the government, in size of the risk in dollars but also in the likelihood of success or failure. This risk produces the top, if you will, highest threats.

It also recognizes the success that sometimes occurs because of both GAO and this committee's efforts to work with government to reduce waste and risk to government.

This year, by one account, we lost $261 billion, or 7 percent of our total spending, in fraud and waste. I might note that when you annualize that, or if you will decade-ize it, that represents $2.6 trillion, about twice what we are looking at for the sequestration.

The 30 areas that this year are on the high-risk list represent tremendous opportunities to save those billions of dollars. And I might repeat, if we were able to save just half of what we waste, we would need no sequestration at all.

As we are going to hear today, those areas extend from the Department of Defense to our weather system, from elements related to great storms, such as Superstorm Sandy, to in fact the simple mundane Medicaid-Medicare programs that every day touch our lives in important ways.

The truth is, identifying high-risk areas isn't enough anymore. It is clear that many of the areas on high risk are perennial high risk. Seventeen areas on this year's high-risk list have been on that list for more than a decade; six have been on that list since inception. I don't expect overnight to fix DOD procurement. I don't expect overnight to take Medicare, now becoming our largest total expense and eclipsing, if you include the dual-eligible Medicare and Medicaid recipients, eclipsing both Social Security and our Department of Defense individual spending, I don't expect to fix it overnight.

But with the help of the GAO on a nonpartisan basis, our committee and other committees of Congress have an opportunity to attack each of these areas and make real improvements. Our commitment is to make those real improvements. I am pleased to see a particular emphasis on the program of Medicare and Medicaid, which are permanent fixtures, that in fact this is an area of particular opportunity for reduction in waste and, consistent with the Affordable Health Care Act, an area of growth in number of recipients.

The committee has just voted on a bipartisan basis on a report related specifically to New York State. During the dialogue, we mentioned an equally outlandish problem that existed in the State of Texas. These billions of dollars can no longer be tolerated. We must find them, not after decades of waste and abuse but in fact in real time.

This committee will have before it today, or have before it during this Congress, an updated version of the bipartisan DATA Act. It will have an updated version or a version of our IT reform on a bipartisan basis. These and other systems that this committee is responsible for changing will create the opportunity to save money in IT procurement and deliver better information to decision makers. It also will create greater transparency for the GAO in their work for Congress and its work and for all the watchdogs of waste and abuse.

So, as we begin this hearing today with our esteemed comptroller general, we also realize there is legislative work for us to do if this list is to be successfully attacked and reduced. I look forward to working on both the legislative issues and the oversight issues with my partner, the ranking member, Mr. Cummings, who I now recognize for his opening statement.

Mr. CUMMINGS. I want to thank you, Mr. Chairman, for holding this hearing.

I believe this will be one of the most important hearings this committee will hold this Congress.

Mr. Dodaro, I also thank you for testifying before us today. And I thank you for the work GAO put into creating this high-risk report.

I also ask that you extend the gratitude of this entire committee for the hard work of the folks at GAO. As I said earlier in a press conference, they have earned the reputation for outstanding and accurate work and work that helps our government function better. And so we publicly say thank you to them.

Every one of GAO's high-risk reports has been important. However, this year's report is especially significant because the comptroller general and the nonpartisan experts at GAO have made a landmark decision to add the issue of climate change to their biennial high-risk report, which details the most pressing challenges facing our Nation and the Federal Government. In its report, GAO identifies a serious risk facing our Nation, one that we cannot continue to ignore. GAO finds that climate change poses significant financial risk to our Nation's economy, including agriculture, infrastructure, ecosystems, and human health. GAO warns that our government is not well positioned to address this fiscal exposure. And GAO recommends a government-wide strategic approach, with strong leadership, and the authority to manage climate change risk. GAO finds that the government has already spent tens of billions of dollars on damage from severe weather events related to climate change. According to the National Oceanic and Atmospheric Administration, over the past 2 years the United States has experienced 25 weather disasters that cost over a billion dollars each. GAO's historic decision to add climate change to the list of high-risk challenges facing our Nation is a wake-up call for Congress to finally start addressing this very, very critical issue.

Unfortunately, in the last Congress the House Republicans voted 37 times to block action to address the threat of climate change. For example, they slashed climate change research funding by more than a hundred million dollars. They voted to prevent the State Department from using funds to send a special envoy for climate change to international climate negotiations. They voted to zero out the United States contribution to the Intergovernmental Panel on Climate Change, the world's leading authority on climate change science. They voted to prohibit the Department of Homeland Security from using any funds to participate in the Interagency Climate Change Adaptation Task Force. And they voted to prohibit the Department of Agriculture from using any funds to implement its climate change adaptation program.

What GAO is telling us today is that Congress simply cannot afford to block or delay action any longer. We must act now to implement GAO's recommendations and mitigate the risks from climate change.

For these reasons, I sent a letter to Chairman Issa today requesting that our committee hold a series of hearings to address each of the four specific areas that GAO highlights in its report relating to climate change. And in an earlier press conference, Chairman Issa I thought made a very good point, and that is perhaps we should look at what responsibilities States are playing with regard to climate change and what responsibility they should have.

And I am hoping that we, as I said to him earlier, maybe we will have some Governors to come in and talk about their responsibility and things that they are doing to prepare for weather-type problems that might affect their States.

Mr. Chairman, when we were here 2 years ago considering the GAO's last high-risk report in 2011, you said, it is our committee's obligation to conduct vigorous oversight over the issues raised by GAO, and to insist on plans to change by each of the agencies listed here today. I agreed then, and I agree now. With our committee's extremely wide jurisdiction across multiple Federal agencies and departments, we have a very unique opportunity to conduct hearings that will lead to vigorous oversight, responsible funding decisions, and legislation to address the growing threats to public health and our economy.

As the President noted the other night in his State of the Union, we have seen in the last 10 or 15 years just an onslaught of weather-related problems. And I am hoping that we all will work together closely to prepare for the fiscal impact of those problems.

With that, I stand ready, willing, and able to work with the chairman.

And with that, I yield back.

Chairman ISSA. I thank the gentleman.

And as we did discuss, I believe we need to kick off the first hearing related to that risk, and I look forward to scheduling that hearing, and also suggesting that other committees of jurisdiction do their oversight related specifically to those areas.

With that, we now recognize our first witness and the panel behind him.

I am pleased to welcome the Honorable Gene Dodaro, who is the comptroller general of the United States. He also comes with a small sampling of his team of experts from the United States Government Accountability Office that is here today. And I will try not to mess up your names, but if you would rise just so that the audience can know that he came with a tremendous amount of expertise:

Chris Mihm is the managing director of strategic issues at the GAO. Mark Gaffigan is managing director of natural resources and environment at the GAO. Cathleen Berrick is managing director of homeland security and justice issues at the GAO. Phillip Herr is managing director of fiscal infrastructure issues at the GAO. That is physical actually. Orice Williams Brown is managing director of financial markets, an area of particular concern, and community investment at the GAO. And Mr. David Powner is director of information technology and management systems at the GAO.

And I am now going to ask you all to stand, because if you are going to help the General, you may very well be a witness. Would you please raise your right hand?

Pursuant to the committee rules, please raise your right hands. Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Mr. DODARO. I do.

Chairman ISSA. Let the record reflect that all witnesses answered in the affirmative.

And normally we have that 5-minute clock. For your reference, we will have it. If you run a little over, you are the whole show today, so Gene, you are recognized.

WITNESS STATEMENT

STATEMENT OF THE HONORABLE GENE L. DODARO

Mr. DODARO. Thank you very much, Mr. Chairman, Ranking Member Cummings, members of the committee.

I am very pleased to be invited today to talk about GAO's high-risk list update. We do this update, as noted, every 2 years, with the beginning of each new Congress in order to identify areas that we believe are at highest risk of waste, fraud, abuse, and mismanagement, or are in need of broad-based reform. I am very pleased to report, with this committee's help, and I appreciate your support, Mr. Chairman, Mr. Cummings, and committee members, of oversight since our last report in 2011 that notable progress has been made in the vast majority of areas on the high-risk list.

This has been due in part to legislation passed by the Congress. For example, the FDA Authorization Act addressed many issues that GAO had recommended for improvements to oversight of medical products and devices, for example dealing with drug shortages, and also increased inspections, risk-based, in foreign operations. Congress also passed important legislation concerning the Flood Insurance Program, which is also on our list.

Also, OMB and the agencies have been holding regular meetings with GAO, which I personally participate in, in order to focus on solutions and to identify ways to make the necessary improvements to get off of the list.

This year, enough progress has been made that we are removing two items from the list. First is interagency contracts. Interagency contracting actually can be a very good and important management tool if done properly. We found, back in 2005, they were not done very well. They were out of scope in terms of the contracts, lack of competition. One of the most notable examples was the hiring of interrogators for Iraq using an IT contract.

Since then, important procedures have been put in place, agencies have fixed the problems. The Congress has required the Federal Acquisition Regulations to be reformed for best procurement decisions. And also requiring a business case before new interagency contracts are put in place. And better data now is being collected in those areas. So we believe that there are adequate mechanisms in place in order to help manage this very important tool to help the government leverage its buying power.

Secondly, we are removing the IRS business system modernization from the list. It was originally put on in 1995 due to the IRS being mired with management and technical problems with their modernization effort. They have made steady progress over the years. They have just deployed the first module of the system, which allows now daily updating of taxpayer accounts, which will improve taxpayer service and also their enforcement activities as well. We have reviewed their investment, management practices, and found about 80 percent of them meet best practices. And all of their project management recommendations do that. Their software development component now has been rated at a computer maturity model level three under their Software Engineering Institute standards, which means it is a good level by industry standards.

Two important points I would make with these areas we are taking off the list. One, we continue to monitor those areas after they are off the list. So they may be off the list, but they are not out of sight. And so we make sure that the progress that has been gained is enduring. Secondly, like the other areas that eventually come off the list, they come off because of two major reasons. One is sustained congressional oversight. And oversight in the interagency contracting, Congress insisted on important reforms, required the IGs to do continual reviews in this area. In the IRS area, Congress required an annual expenditure plan from IRS every year, and a GAO review. So continued congressional oversight can play enormous dividends in resolving many of these problems.

The two new areas we are adding this year, one is limiting the Federal Government's fiscal exposure by better managing climate change risk. It is clear the number of disasters have gone from, in 2004, the Federal Government intervening in 65 to 98 in 2012, which is a record number of years. There is indications that the severe weather events, both by the National Academy of Sciences and by the government's Global Change Management Research Program, that there will be more events occurring and more costly events.

The Federal Government has enormous exposure to these risks. First, it is one of the largest property holders in the government—in the Nation. There are hundreds of thousands of buildings that the Federal Government owns and also defense installations along our coast lines. Also, the Federal Government holds 29 percent of the property in the United States and manages that property. It also manages the Flood and Crop Insurance Programs, which we have recommended take into account climate science issues in revamping those programs. We found—and the government is also the provider of disaster aid, over $80 billion over the past year and before the assistance for Hurricane Sandy.

We found that the criteria for the Federal Government intervening in a disaster is an artificially low level. It is based on $1.36

per person per State. So any disaster that exceeds that threshold gets Federal assistance. And it had not been adjusted for inflation for a 13-year period of time. Had it been adjusted for inflation, the Federal Government would have intervened in 25 percent less situations in terms of the Federal Government deciding to get involved.

We recommended that the Federal Government needs a better strategic plan for this area that sets priorities to guide investment decisions. Individual agencies have plans, but there is no overall central direction and priorities that are set for that area and coordinated at the Federal level or with the State and local governments.

I know, Mr. Chairman, you made that point this morning. That is in our report. It is very important that the Federal Government provide technical information on weather-related issues to State and local governments to guide their investment decisions in huge amounts of infrastructure. The Federal Flood Insurance Programs and the Crop Insurance Programs need to be reformed. And we need to set better criteria that takes into account the Federal Government's fiscal condition right now.

The last area we added on the list is gaps in weather satellite information due to management problems and acquisition problems over the years.

Right now, the gaps in the polar-orbiting satellites that provide early, mid-day and afternoon warnings to feed computer weather prediction models and to provide the 3, 4, and 7-day forecasts has the potential for a gap to occur as early as 2014 and could last up to 53 months. This is very important. Without that information, you know, one credible organization has said that the information from the polar-orbiting satellites, the prediction of the path for Superstorm Sandy would have shown it going out to sea and not hitting New Jersey at all. And so, without this critical information, there are property, lives, economic consequences.

And so we are adding this area to our high-risk list. At our recommendation, contingency plans have been developed, but they need to be executed, monitored properly. And I think congressional oversight could be very beneficial and necessary in this area.

So, Mr. Chairman, that concludes my broad overview of the major changes on the list. There are 30 items now remaining on the list. I would be happy to answer questions.

[Prepared statement of Mr. Dodaro follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Oversight and Government Reform, House of Representatives

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GAO'S 2013 HIGH-RISK SERIES

An Update

Statement of Gene L. Dodaro
Comptroller General of the United States

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GAO-13-359T

February 14, 2013

HIGH-RISK SERIES

An Update

GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-13-359T, a statement before the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The federal government is the world's largest and most complex entity, with about $3.5 trillion in outlays in fiscal year 2012 funding a broad array of programs and operations. GAO maintains a program to focus attention on government operations that it identifies as high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges. Since 1990, more than one-third of the areas previously designated as high risk have been removed from the list because sufficient progress was made to address the problems identified.

This biennial update describes the status of high-risk areas listed in 2011 and identifies any new high-risk area needing attention by Congress and the executive branch. Solutions to high-risk problems offer the potential to save billions of dollars, improve service to the public, and strengthen the performance and accountability of the U.S. government.

What GAO Recommends

This report contains GAO's views on progress made and what remains to be done to bring about lasting solutions for each high-risk area. Perseverance by the executive branch in implementing GAO's recommended solutions and continued oversight and action by Congress are essential to achieving progress. GAO is dedicated to continue working with Congress and the executive branch to help ensure additional progress is made.

View GAO-13-359T. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov

What GAO Found

In February 2011, GAO detailed 30 high-risk areas. Sufficient progress has been made to remove the high-risk designation from two areas.

- *Management of Interagency Contracting.* Improvements include (1) continued progress made by agencies in addressing identified deficiencies, (2) establishment of additional management controls, (3) creation of a policy framework for establishing new interagency contracts, and (4) steps taken to address the need for better data on these contracts.
- *Internal Revenue Service Business Systems Modernization.* We are removing this area because progress has been made in addressing significant weaknesses in information technology and financial management capabilities. IRS delivered the initial phase of its cornerstone tax processing project and began the daily processing and posting of individual taxpayer accounts in January 2012. This enhanced tax administration and improved service by enabling faster refunds for more taxpayers, allowing more timely account updates, and faster issuance of taxpayer notices. IRS has put in place close to 80 percent of the practices needed for an effective investment management process, including all of the processes needed for effective project oversight.

While these two areas have been removed from the High Risk List, GAO will continue to monitor them.

This year, GAO has added two areas.

- *Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks.* Climate change creates significant financial risks for the federal government, which owns extensive infrastructure, such as defense installations; insures property through the National Flood Insurance Program; and provides emergency aid in response to natural disasters. The federal government is not well positioned to address the fiscal exposure presented by climate change, and needs a government wide strategic approach with strong leadership to manage related risks.
- *Mitigating Gaps in Weather Satellite Data.* Potential gaps in environmental satellite data beginning as early as 2014 and lasting as long as 53 months have led to concerns that future weather forecasts and warnings—including warnings of extreme events such as hurricanes, storm surges, and floods—will be less accurate and timely. A number of decisions are needed to ensure contingency and continuity plans can be implemented effectively.

In the past 2 years notable progress has been made in the vast majority of areas that remain on GAO's High Risk List. This progress is due to the combined efforts of the Congress through oversight and legislation, the Office of Management and Budget through its leadership and coordination, and the agencies through their efforts to take corrective actions to address longstanding problems and implement related GAO recommendations.

GAO's 2013 High Risk List

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

Source: GAO.

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United States Government Accountability Office
Washington, DC 20548

Mr. Chairman, Ranking Member Cummings, and Members of the Committee:

Thank you for the opportunity to discuss our 2013 high-risk update.[1] Since 1990, GAO has regularly reported on government operations that we have identified as high risk due to their greater vulnerability to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges. Our high-risk program, supported by this committee and the Senate Committee on Homeland Security and Governmental Affairs, has brought much-needed focus to problems impeding effective government and costing billions of dollars each year.

Since our last high-risk update in 2011, many notable positive developments have occurred and progress has been made in the vast majority of areas that remain on the list. Congressional oversight and legislative action have been critical to this progress. Congress passed numerous laws—eight of which are discussed in our report—targeting both specific problems and the high-risk areas overall. In addition, top administration officials have continued to show their commitment to ensuring that high-risk areas receive attention and oversight. The Office of Management and Budget (OMB) regularly convenes meetings for agencies to provide progress updates on high-risk issues. When a high-risk issue area ranges across agencies, OMB coordinates with representatives from multiple agencies to participate. These meetings typically include OMB's Deputy Director for Management, participating agencies' representatives to the President's Management Council, other administration and agency staff members responsible for addressing the high-risk issue, as well as myself and others from GAO.

This year, due to significant progress made, we removed the high-risk designation from two areas—Management of Interagency Contracting and the Internal Revenue Service (IRS) Business Systems Modernization. These areas demonstrate how sustained congressional oversight and action, high-level administration attention, efforts of the responsible agencies, and support from GAO through its many

[1]GAO, *High-Risk Series: An Update*, GAO-13-283 (Washington, D.C.: February 2013).

recommendations and consistent follow-up on the implementation of recommended actions lead to success in addressing risks.

While there has been notable progress, much remains to be done to address the 30 high-risk issues that are currently on GAO's High Risk List. Our high risk update report and website[2] provide details for each of these issues, describing the nature of the risks, what actions have been taken to address them, and what remains to be done to make further progress. The details in our report, along with successful implementation by agencies and continued oversight by Congress, can form a solid foundation for progress to address risks and improve programs and operations.

This year we designated two new high-risk areas—Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks and Mitigating Gaps in Weather Satellite Data. Lasting solutions to these and the other 28 high-risk areas offer the potential to save billions of dollars, dramatically improve service to the American public, and strengthen public confidence and trust in the performance and accountability of our national government.

High-Risk Designation Removed

When legislative, administration, and agency actions, including those in response to our recommendations, result in significant progress toward resolving a high-risk problem, we remove the high-risk designation. The five criteria for determining if the high-risk designation can be removed are (1) a demonstrated strong commitment to, and top leadership support for, addressing problems; (2) the capacity to address problems; (3) a corrective action plan; (4) a program to monitor corrective measures; and (5) demonstrated progress in implementing corrective measures.

For our 2013 high-risk update, we determined that the following two areas warranted removal from the High Risk List.

Management of Interagency Contracting

Interagency contracting—where one agency either places an order using another agency's contract or obtains contracting support services from another agency—can help streamline the procurement process, take

[2] GAO's high risk website, http://www.gao.gov/highrisk/.

advantage of unique expertise in a particular type of procurement, and achieve savings. While this method of contracting can save the government money and effort when properly managed, it also poses a variety of risks.

In 2005, we designated the management of interagency contracting as high risk due in part to unclear lines of accountability between customer and assisting agencies and the potential for improper use, including out-of-scope work and noncompliance with competition requirements. We identified the continuing need for additional management controls and guidance and clearer definitions of roles and responsibilities as keys to addressing these issues. We have also highlighted challenges agencies faced in fully realizing the benefits of interagency contracts, including the lack of data and the risk of potential duplication when new contracting vehicles are created. To address these issues, we identified the need for a policy framework and business case analysis requirements to support the creation of certain new contracts and improved data on existing interagency contracts.

As detailed in our 2013 high risk update report, we are removing the management of interagency contracting from the High Risk List based on the following:

- *Continued progress in addressing previously identified deficiencies.* In our 2009 and 2011 high-risk updates we noted improvements in procedures used in making purchases on behalf of the Department of Defense (DOD)—the largest user of interagency contracts. The DOD Inspector General has also reported a significant decrease in problems with DOD procurements through other federal agencies in congressionally mandated reviews of interagency acquisitions. More recently, we reported earlier this year that DOD substantially complied with new requirements for interagency contract orders.[3]
- *Strengthened management controls.* In response to congressional direction, Federal Acquisition Regulation (FAR) provisions on interagency acquisitions were revised in 2010 to require that agencies make a best procurement approach determination to justify the use of

[3]GAO, *Interagency Contracting: Agency Actions Address Key Management Challenges, but Additional Steps Needed to Ensure Consistent Implementation of Policy Changes,* GAO-13-133R (Washington, D.C.: Jan. 29, 2013).

an interagency contract and prepare written interagency agreements outlining the roles and responsibilities of customer and assisting organizations. OMB's October 2012 analysis of reports from the 24 agencies that account for almost all contract spending governmentwide, found that most had implemented management controls to reinforce the new FAR requirements and strengthen the management of interagency acquisitions.

- *New controls over the creation of new interagency contract vehicles.* In response to congressional direction and our prior recommendation, OMB established a policy framework in September 2011 to govern the creation of new interagency contract vehicles. The framework addresses concerns about potential duplication by requiring agencies to develop a thorough business case prior to establishing certain contract vehicles.
- *Improved data on interagency contracts.* OMB and the General Services Administration have taken a number of steps to address the need for better data on interagency contract vehicles. These efforts should enhance both governmentwide efforts to manage interagency contracts and agency efforts to conduct market research and negotiate better prices.

Importantly, congressional oversight sustained over several years, has been vital in addressing the issues that led this area to be designated high risk.

Removing the management of interagency contracting from the High Risk List does not mean that the federal government's use of these contracts is without challenges. But, we believe there are mechanisms in place that OMB and federal agencies can use to identify and address interagency contracting issues before they put the government at significant risk for waste, fraud, or abuse. We also will continue to monitor developments in this area.

IRS Business Systems Modernization

The Internal Revenue Service's (IRS) Business Systems Modernization is a multi-billion dollar, highly-complex effort that involves the development and delivery of a number of modernized tax administration and internal management systems as well as core infrastructure projects that are intended to replace the agency's aging business and tax processing systems.

In 1995, we identified serious management and technical weaknesses in IRS's modernization program that jeopardized its successful completion. We recommended many actions to fix the problems, and added IRS's modernization to our High Risk List. In 1995, we also added the agency's financial management to our High Risk List due to long-standing and pervasive problems which hampered the effective collection of revenues and precluded the preparation of auditable financial statements.[4] We combined the two issues into one high-risk area in 2005 since resolution of the most serious financial management problems depended largely on the success of the business systems modernization program.

We are removing IRS's Business Systems Modernization program from the High Risk List because of:

- *Progress in addressing weaknesses.* In our 2007, 2009, and 2011 high risk updates, we reported that IRS continued to make progress in addressing our recommendations. In January 2012, the agency delivered the initial phase of its cornerstone tax processing project and began the daily processing and posting of individual taxpayer accounts. This enhanced tax administration and improved service by enabling faster refunds for more taxpayers, allowing more timely account updates, and faster issuance of taxpayer notices. Other improvements made led us to conclude that IRS's remaining deficiencies in internal controls over information security no longer constitute a material weakness for financial reporting as of September 30, 2012.
- *Commitment to sustaining progress in the future.* In July 2011, we reported that IRS had put in place close to 80 percent of the practices needed for an effective investment management process, including all of the processes needed for effective project oversight.[5] We also reported that IRS had embarked on an effort to improve its software development practices using the Carnegie Mellon University Software Engineering Institute's Capability Maturity Model Integration (CMMI), which calls for disciplined software development and acquisition practices which are considered industry best practices. In September

[4]GAO, *High-Risk Series: An Overview*, HR-95-1 (Washington, D.C.: Feb. 1, 1995).

[5]GAO, *Investment Management: IRS Has a Strong Oversight Process But Needs to Improve How It Continues Funding Ongoing Investments*, GAO-11-587 (Washington, D.C.: July 20, 2011).

2012, IRS's application development organization reached CMMI maturity level 3, a high achievement by industry standards.

Throughout the years, Congress conducted oversight of the Business Systems Modernization program by, among other things, requiring that IRS submit annual expenditure plans that needed to meet certain conditions, including a review by GAO. Because of the significant progress made in addressing the high-risk area, starting in fiscal year 2012, Congress did not require the submission of an annual expenditure plan.

As with all areas removed from the High Risk List, we will continue to monitor how future events unfold.

New High-Risk Areas

To determine which federal government programs and functions should be added to the High Risk List, we consider whether the program or function is of national significance or is key to government performance and accountability. Further, we consider qualitative factors, such as whether the risk

- involves public health or safety, service delivery, national security, national defense, economic growth, or privacy or citizens' rights, or
- could result in significant impaired service, program failure, injury or loss of life, or significantly reduced economy, efficiency, or effectiveness.

In addition, we also review the exposure to loss in quantitative terms such as the value of major assets being impaired, revenue sources not being realized, or major agency assets being lost, stolen, damaged, or wasted. We also consider corrective measures planned or under way to resolve a material control weakness and the status and effectiveness of these actions.

This year, we added two new areas, delineated below, to the High Risk List based on those criteria.

Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks

Climate change poses risks to many environmental and economic systems—including agriculture, infrastructure, ecosystems, and human health—and presents a significant financial risk to the federal government. The United States Global Change Research Program (USGCRP) has observed that the impacts and costliness of weather disasters will increase in significance as what are considered "rare" events become more common and intense due to climate change.[6] Among other impacts, climate change could threaten coastal areas with rising sea levels, alter agricultural productivity, and increase the intensity and frequency of severe weather events such as floods, drought, and hurricanes.

Weather-related events have cost the nation tens of billions of dollars in damages over the past decade. For example, in 2012, the administration requested $60.4 billion for Superstorm Sandy recovery efforts. These impacts pose significant financial risks for the federal government, which owns extensive infrastructure, insures property through federal flood and crop insurance programs, provides technical assistance to state and local governments, and provides emergency aid in response to natural disasters. However, the federal government is not well positioned to address this fiscal exposure, partly because of the complex, cross-cutting nature of the issue. Given these challenges and the nation's precarious fiscal condition, we have added limiting the federal government's fiscal exposure to climate change to our 2013 list of high-risk areas.[7]

Climate change adaptation—defined as adjustments to natural or human systems in response to actual or expected climate change—is a risk-management strategy to help protect vulnerable sectors and communities that might be affected by changes in the climate. For example, adaptation

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

[7] The focus of this high-risk area may evolve over time to the extent that federal climate change programs and policies change.

measures may include raising river or coastal dikes to protect infrastructure from sea level rise, building higher bridges, and increasing the capacity of storm water systems. Policymakers increasingly view climate change adaptation as a risk-management strategy to protect vulnerable sectors and communities that might be affected by changes in the climate, but, as we reported in 2009, the federal government's emerging adaptation activities were carried out in an ad hoc manner and were not well coordinated across federal agencies, let alone with state and local governments.[8]

The federal government has a number of efforts underway to decrease domestic greenhouse gas emissions, but decreasing global emissions depends in large part on cooperative international efforts. Further, according to the National Research Council and USGCRP, greenhouse gases already in the atmosphere will continue altering the climate system for many decades. As such, the impacts of climate change can be expected to increase fiscal exposure for the federal government in many areas:

- *Federal government as property owner.* The federal government owns and operates hundreds of thousands of buildings and facilities, such as defense installations, that could be affected by a changing climate. In addition, the federal government manages about 650 million acres–—29 percent of the 2.27 billion acres of U.S. land—for a wide variety of purposes, such as recreation, grazing, timber, and fish and wildlife. In 2007, we recommended that that the Secretaries of Agriculture, Commerce, and the Interior develop guidance for resource managers that explains how they are expected to address the effects of climate changes, and the three departments generally agreed with the recommendation. We have ongoing work related to adapting infrastructure and the management of federal lands to a changing climate.

  Federal insurance programs. Two important federal insurance efforts—the National Flood Insurance Program (NFIP) and the Federal Crop Insurance Corporation—are based on conditions, priorities, and approaches that were established decades ago and do not account for climate change. NFIP has been on our High Risk List

[8]GAO, *Climate Change Adaptation: Strategic Federal Planning Could Help Government Officials Make More Informed Decisions,* GAO-10-113 (Washington, D.C.: Oct. 7, 2009).

since March 2006 because of concerns about its long-term financial solvency and related operational issues.[9] In March 2007, we reported that both of these insurance programs' exposure to weather-related losses had grown substantially, and that the agencies responsible for them had done little to develop the information necessary to understand their long-term exposure to climate change.[10] We recommended that the responsible agencies analyze the potential long-term fiscal implications of climate change and report their findings to the Congress. The agencies agreed with the recommendation and contracted with experts to study their programs' long-term exposure to climate change, but the results of the work have not yet been reported to Congress.

In addition, in June 2011, we reported that external factors continue to complicate the administration of the NFIP and affect its financial stability.[11] In particular, the Federal Emergency Management Agency (FEMA), which administers the NFIP, was not been authorized to account for long-term erosion when updating flood maps used to set premium rates for the NFIP, increasing the likelihood that premiums would not cover future losses. We suggested that Congress consider authorizing the NFIP to account for long-term flood erosion in its flood maps, and the Biggert-Waters Flood Insurance Reform Act of 2012 requires FEMA to use information on topography, coastal erosion areas, changing lake levels, future changes in sea levels, and intensity of hurricanes in updating its flood maps. While these provisions respond to our suggestion to Congress, their ultimate effectiveness will depend on their implementation by FEMA. It is too early to evaluate such efforts, but we plan to examine the NFIP in the near future.

[9]The potential losses generated by NFIP have created substantial financial exposure for the federal government and U.S. taxpayers. While Congress and FEMA intended that NFIP be funded with premiums collected from policyholders and not with tax dollars, the program was, by design, not actuarially sound. As of November 2012, FEMA owes the Treasury approximately $20 billion—up from $17.8 billion pre-Sandy—and had not repaid any principal on the loan since 2010.

[10]GAO, *Climate Change: Financial Risks to Federal and Private Insurers in Coming Decades Are Potentially Significant*, GAO-07-285 (Washington, D.C.: Mar. 16, 2007).

[11]GAO, *FEMA: Action Needed to Improve Administration of the National Flood Insurance Program*, GAO-11-297 (Washington, D.C.: June 9, 2011).

- *Technical assistance to state and local governments.* The federal government invests billions of dollars annually in infrastructure projects that state and local governments prioritize and supervise. These projects have large up front capital investments and long lead times that require decisions about how to address climate change to be made well before its potential effects are discernable. We reported in October 2009 that insufficient site-specific data—such as local temperature and precipitation projections—make it hard for state and local officials to justify the current costs of adaptation efforts for potentially less certain future benefits.[12] We recommended that the appropriate entities within the Executive Office of the President develop a strategic plan for adaptation that, among other things, identifies mechanisms to increase the capacity of federal, state, and local agencies to incorporate information about current and potential climate change impacts into government decision making.

  USGCRP's 2012-2021 strategic plan for climate change science, released in April 2012, recognizes this need by identifying enhanced information management and sharing as a key objective, and USGCRP is undertaking several actions designed to better coordinate use and application of federal climate science. We have ongoing work related to these issues. In addition, gaps in satellite coverage, which could occur as soon as 2014, are expected to affect the continuity of climate and space weather measurements important to developing the information needed by state and local officials.[13] According to National Oceanic and Atmospheric Administration program officials, a satellite data gap would result in less accurate and timely weather forecasts and warnings of extreme events—such as hurricanes, storm surges and floods. We have concluded that the potential gap in weather satellite data is a high-risk area and added it to the High Risk List this year as well.

- *Disaster aid.* In the event of a major disaster, federal funding for response and recovery comes from the Disaster Relief Fund managed by FEMA and disaster aid programs of other participating

[12]GAO-10-113.

[13]See, for example, GAO, *Environmental Satellites: Focused Attention Needed to Mitigate Program Risks*, GAO-12-841T (Washington, D.C.: June 27, 2012), and *Environmental Satellites: Strategy Needed to Sustain Critical Climate and Space Weather Measurements*, GAO-10-456 (Washington, D.C.: Apr. 27, 2010).

federal agencies. The federal government does not budget for these costs and runs the risk of facing a large fiscal exposure at any time. We reported in September 2012 that disaster declarations have increased over recent decades to a record of 98 in fiscal year 2011 compared with 65 in 2004. Over that period, FEMA obligated more than $80 billion in federal assistance for disasters.[14] We found that FEMA has had difficulty implementing longstanding plans to assess national preparedness capabilities and that FEMA's indicator for determining whether to recommend that a jurisdiction receive disaster assistance does not accurately reflect the ability of state and local governments to respond to disasters.[15] In September 2012, we recommended, among other things, that FEMA develop a methodology to more accurately assess a jurisdiction's capability to respond to and recover from a disaster without federal assistance. FEMA concurred with this recommendation.

The federal government would be better positioned to respond to the risks posed by climate change if federal efforts were more coordinated and directed toward common goals. In 2009, we recommended that the appropriate entities within the Executive Office of the President develop a strategic plan to guide the nation's efforts to adapt to climate change, including the establishment of clear roles, responsibilities, and working relationships among federal, state, and local governments.[16],[17] Some actions have subsequently been taken, including the development of an

[14]GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838 (Washington, D.C.: Sept. 12, 2012).

[15]GAO, *Managing Preparedness Grants and Assessing National Capabilities*, GAO-12-526T (Washington, D.C.: Mar. 20, 2012). See also GAO, *Disaster Response: Criteria for Developing and Validating Effective Response Plans*, GAO-10-969T (Washington, D.C.: Sept. 22, 2010).

[16]The Council on Environmental Quality coordinates federal environmental efforts and the development of environmental policies and initiatives. The Office of Science and Technology Policy was established by statute in 1976 to serve as a source of scientific and technological analysis and judgment for the President with respect to major policies, plans, and programs of the federal government, among other things.

[17]GAO-10-113.

interagency climate change adaptation task force.[18] However, a 2012 National Research Council report states that while the task force has convened representatives of relevant agencies and programs, it has no mechanisms for making or enforcing important decisions and priorities.[19]

In May 2011, we found no coherent strategic government-wide approach to climate change funding and that federal officials do not have a shared understanding of strategic government-wide priorities.[20] At that time, we recommended that the appropriate entities within the Executive Office of the President clearly establish federal strategic climate change priorities, including the roles and responsibilities of the key federal entities, taking into consideration the full range of climate-related activities within the federal government. The relevant federal entities have not directly addressed this recommendation.

Federal agencies have made some progress toward better organizing across agencies, within agencies, and among different levels of government; however, the increasing fiscal exposure for the federal government calls for more comprehensive and systematic strategic planning including, but not limited to, the following:

- A government-wide strategic approach with strong leadership and the authority to manage climate change risks that encompasses the entire range of related federal activities and addresses all key elements of strategic planning.

[18]Executive Order 13514 on Federal Leadership in Environmental, Energy, and Economic Performance calls for federal agencies to participate actively in the already existing Interagency Climate Change Adaptation Task Force. The task force, which began meeting in Spring 2009, is co-chaired by the Council on Environmental Quality, the National Oceanic and Atmospheric Administration, and the Office of Science and Technology Policy, and includes representatives from more than 20 federal agencies and executive branch offices. The task force was formed to assess key steps needed to help the federal government understand and adapt to climate change.

[19]National Research Council, Committee on a National Strategy for Advancing Climate Modeling, Board on Atmospheric Studies and Climate, Division on Earth and Life Sciences, *A National Strategy for Advancing Climate Modeling* (Washington, D.C.: 2012).

[20]GAO, *Climate Change: Improvements Needed to Clarify National Priorities and Better Align Them with Federal Funding Decisions*, GAO-11-317 (Washington, D.C.: May 20, 2011).

- More information to understand and manage federal insurance programs' long-term exposure to climate change and analyze the potential impacts of an increase in the frequency or severity of weather-related events on their operations.
- A government-wide approach for providing (1) the best available climate-related data for making decisions at the state and local level and (2) assistance for translating available climate-related data into information that officials need to make decisions.
- Potential gaps in satellite data need to be effectively addressed.
- Improved criteria for assessing a jurisdiction's capability to respond and recover from a disaster without federal assistance, and to better apply lessons from past experience when developing disaster cost estimates.

Additional information on *Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks* is provided in the 2013 high risk update report.

Mitigating Gaps in Weather Satellite Data

For 2013, we are designating a new high-risk area—Mitigating Gaps in Weather Satellite Data. We and others—including an independent review team reporting to the Department of Commerce and the department's Inspector General—have raised concerns that problems and delays on environmental satellite acquisition programs will result in gaps in the continuity of critical satellite data used in weather forecasts and warnings. The importance of such data was recently highlighted by the advance warnings of the path, timing, and intensity of Superstorm Sandy.

Since the 1960s, the United States has used both polar-orbiting and geostationary satellites to observe the earth and its land, oceans, atmosphere, and space environments. Polar-orbiting satellites constantly circle the earth in an almost north-south orbit providing global coverage of environmental conditions that affect the weather and climate. As the earth rotates beneath it, each polar-orbiting satellite views the entire earth's surface twice a day. In contrast, geostationary satellites maintain a fixed position relative to the earth from a high-level orbit of about 22,300 miles in space. Used in combination with ground, sea, and airborne observing systems, both types of satellites have become an indispensable part of monitoring and forecasting weather and climate. For example, polar-orbiting satellites provide the data that go into numerical weather prediction models, which are a primary tool for forecasting weather days in advance—including forecasting the path and intensity of hurricanes and tropical storms. Geostationary satellites provide frequently-updated graphical images that are used to identify current weather patterns and provide short-term warnings.

Polar-orbiting Satellites

For more than 40 years, the United States has operated two separate operational polar-orbiting meteorological satellites systems: the Polar-orbiting Operational Environmental Satellite series, which is managed by National Oceanic and Atmospheric Administration (NOAA)—a component of the Department of Commerce; and the Defense Meteorological Satellite Program (DMSP), which is managed by the Air Force. The government also relies on data from a European satellite program, called the Meteorological Operational (MetOp) satellite series. These satellites are positioned so that they cross the equator in the early morning, midmorning, and early afternoon in order to obtain regular updates throughout the day.

With the expectation that combining the two separate U.S. polar satellite programs would result in sizable cost savings, a May 1994 Presidential Decision Directive required NOAA and DOD to converge the two programs into a single new satellite acquisition, which became the National Polar-orbiting Operational Environmental Satellite System (NPOESS). However, in the years that followed, NPOESS encountered significant technical challenges in sensor development and experienced program cost growth and schedule delays, in part due to problems in the program's management structure. After several restructurings and recurring challenges, in February 2010, the Executive Office of the President's Office of Science and Technology Policy announced that NOAA and DOD would no longer jointly procure NPOESS; instead, each agency would plan and acquire its own satellite system. Specifically, NOAA, with support from the National Aeronautics and Space Administration (NASA), would be responsible for the afternoon orbit, and DOD would be responsible for the early morning orbit. The U.S. partnership with the European satellite agency for data from the midmorning orbit would continue as planned.

Subsequently, NOAA initiated its replacement program, the Joint Polar Satellite System (JPSS). JPSS consists of a demonstration satellite—called the Suomi National Polar-orbiting Partnership (NPP)—launched in October 2011; two satellites, with at least five instruments planned for each, to be launched by March 2017 and December 2022, respectively; two stand-alone satellites to accommodate three additional instruments; and ground systems for the entire program. The program is currently estimated to cost $12.9 billion. In June 2012, we reported that NOAA and NASA made progress in establishing the JPSS program and in launching and operating the demonstration satellite, but noted that program officials expect there to be a gap in satellite observations before the first JPSS satellite is launched.

Specifically, NOAA officials anticipate a gap in the afternoon orbit from 18 to 24 months between the time that NPP reaches the end of its lifespan and when the first JPSS satellite is fully ready for operational use. We identified other scenarios where the gap could last from 17 to 53 months. For example, the gap would be 17 months if NPP lasts 5 years until October 2016 and JPSS is launched as planned in March 2017 and undergoes a 12-month on-orbit checkout before it is fully operational. Alternatively, if NPP lasts only 3 years—which NASA engineers consider possible due to poor workmanship in the fabrication of the instruments—and JPSS launches 1 year later than currently planned, the gap in satellite observations could reach 53 months.

After NPOESS was disbanded, DOD also began planning its own follow-on polar satellite program. However, it halted work in early 2012, since it still has two legacy DMSP satellites in storage that will be launched as needed to maintain observations in the early morning orbit. The agency currently plans to launch its two remaining satellites in 2014 and 2020. Moreover, DOD is working to identify alternatives to meet its future environmental satellite requirements. However, in June 2012, we reported that there is a possibility of satellite data gaps in DOD's early morning orbit. The two remaining DMSP satellites may not work as intended because they were built in the late 1990s and will be quite old by the time they are launched. If the satellites do not perform as expected, a data gap in the early morning orbit could occur as early as 2014.

Satellite data gaps in the morning or afternoon polar orbits would lead to less accurate and timely weather forecasting; as a result, advanced warning of extreme events would be affected. Such extreme events could include hurricanes, storm surges, and floods. For example, the National Weather Service performed case studies to demonstrate how its forecasts would have been affected if there were no polar satellite data in the afternoon orbit, and noted that its forecasts for the "Snowmaggedon" winter storm that hit the Mid-Atlantic coast in February 2010 would have predicted a less intense storm further east, with about half of the precipitation at 3, 4, and 5 days before the event. Specifically, the models would have under-forecasted the amount of snow by at least 10 inches. Similarly, a European weather organization[21] recently reported that NOAA's forecasts of Superstorm Sandy's track could have been hundreds of miles off without polar-orbiting satellites: rather than identifying the New Jersey landfall within 30 miles 4 days before landfall, the models would have shown the storm remaining at sea.

In June 2012, we reported that while NOAA officials communicated publicly and often about the risk of a polar satellite data gap, the agency had not established plans to mitigate the gap. At the time, NOAA officials stated that the agency would continue to use existing satellites as long as they provide data and that there were no viable alternatives to the JPSS program. However, our report noted that a more comprehensive mitigation plan was essential since it is possible that other governmental, commercial, or foreign satellites could supplement the polar satellite data. For example, other nations continue to launch polar-orbiting weather satellites to acquire data such as sea surface temperatures, sea surface winds, and water vapor. Also, over the next few years, NASA plans to launch satellites that will collect information on precipitation and soil moisture. Because it could take time to adapt ground systems to receive, process, and disseminate an alternative satellite's data, we noted that any delays in establishing mitigation plans could leave the agency little time to leverage its alternatives. We recommended that NOAA establish mitigation plans for pending satellite gaps in the afternoon orbit as well as potential gaps in the early morning orbit.

In September 2012, the Under Secretary of Commerce for Oceans and Atmosphere (who is also the NOAA Administrator) reported that NOAA had several actions under way to address polar satellite data gaps, including (1) an investigation on how to maximize the life of the demonstration satellite, (2) an investigation on how to accelerate the development of the second JPSS satellite, and (3) the development of a mitigation plan to address potential data gaps until the first JPSS satellite becomes operational. The Under Secretary also directed NOAA's Assistant Secretary to, by mid-October 2012, establish a contract to conduct an enterprise-wide examination of contingency options and to

[21] The European Centre for Medium Range Weather Forecasts is an independent, intergovernmental organization supported by 34 European nations, providing global medium-to-extended range forecasts.

develop a written, descriptive, end-to-end plan that considers the entire flow of data from possible alternative sensors through data assimilation and on to forecast model performance. In October 2012, NOAA issued a mitigation plan for a potential gap in the afternoon orbit, between the current polar satellite and the first JPSS satellite. The plan identifies and prioritizes options for obtaining critical observations, including alternative satellite data sources and improvements to data assimilation in models. It also lists technical, programmatic, and management steps needed to implement these options.

However, these plans are only the beginning. The agency must make difficult decisions on which steps it will implement to ensure that its mitigation plans are viable when needed. For example, NOAA must make decisions about (1) whether and how to extend support for legacy satellite systems so that their data might be available if needed, (2) how much time and resources to invest in improving satellite models so that they assimilate data from alternative sources, (3) whether to pursue international agreements for access to additional satellite systems and how best to resolve any security issues with the foreign data, (4) when and how to test the value and integration of alternative data sources, and (5) how these preliminary mitigation plans will be integrated with the agency's broader end-to-end plans for sustaining weather forecasting capabilities. NOAA must also identify time frames for when these decisions will be made. We have ongoing work assessing NOAA's efforts to limit and mitigate potential polar satellite data gaps.

Geostationary Satellites

Geostationary environmental satellites transmit frequently updated images of the weather currently affecting the United States to every national weather forecast office in the country. These are the satellite images that the public often sees on television news programs. NOAA plans to have its $10.9 billion Geostationary Operational Environmental Satellite-R (GOES-R) series replace the current fleet of geostationary satellites, which will begin to reach the end of their useful lives in 2015. The GOES-R program has undergone a series of changes since 2006 and now consists of four geostationary satellites and a ground system. However, problems with instrument and ground system development caused a 19-month delay in completing the program's preliminary design review, which occurred in February 2012. In June 2012, we reported that GOES-R schedules were not fully reliable and that they could contribute to delays in satellite launch dates. Program officials acknowledged that the likelihood of meeting the October 2015 launch date was 48 percent.

While NOAA's policy is to have two operational satellites and one backup satellite in orbit at all times, continued delays in the launch of the first GOES-R satellite could lead to a gap in satellite coverage. This policy proved useful in December 2008 and again in September 2012 when the agency experienced problems with one of its operational satellites, but was able to move its backup satellite into place until the problems were resolved. However, beginning in April 2015, NOAA expects to have only two operational satellites and no backup satellite in orbit until GOES-R is launched and completes an estimated 6-month post-launch test period. As a result, there could be a year or more gap during which time a backup satellite would not be available. If NOAA were to experience a problem with either of its operational satellites before GOES-R is in orbit and operational, it would need to rely on older satellites that are beyond their expected operational lives and may not be fully functional. Any further delays in the launch of the first satellite in the GOES-R program would likely increase the risk of a gap in satellite coverage.

In September 2010, we reported that NOAA had not established adequate continuity plans for its geostationary satellites. Specifically, in the event of a satellite failure, with no backup available, NOAA planned to reduce its operations to a single satellite and if available, rely on a satellite from a foreign nation. However, the agency did not have plans that included processes, procedures, and resources needed to transition to a single or a foreign satellite. Without such plans, there would be an increased risk that users would lose access to critical data. We recommended that NOAA develop and document continuity plans for the operation of geostationary satellites that included implementation procedures, resources, staff roles, and timetables needed to transition to a single satellite, a foreign satellite, or other solution. In September 2011, NOAA developed an initial continuity plan that generally includes these elements. Specifically, NOAA's plan identified steps it would take in transitioning to a single or foreign satellite; the amount of time this transition would take; roles of product area leads; and resources such as imaging product schedules, disk imagery frequency, and staff to execute the changes. In December 2012, NOAA issued an updated plan that provides additional contingency scenarios.

- However, it is not evident that critical steps have been implemented, including simulating continuity situations and working with the user community to account for differences in products under different continuity scenarios. These steps are critical for NOAA to move forward in documenting the processes it will take to implement its contingency plans. Once these activities are completed, NOAA should update its contingency plan to provide more details on its contingency scenarios, associated time frames, and any preventative actions it is taking to minimize the possibility of a gap. We have ongoing work assessing NOAA's actions to ensure that its plans are viable and that continuity procedures are in place and have been tested. Additional information on Mitigating Gaps in Weather Satellite Data is provided in our high-risk update report.

High Risk Areas Narrowing Due to Progress

Since our 2011 update, sufficient progress has been made to narrow the scope of the following three areas.

Management of Federal Oil and Gas Resources

In 2011, we added the Department of the Interior's (Interior) management of oil and gas on leased federal lands and waters to GAO's High Risk List for three reasons; (1) Interior did not have reasonable assurance that it was collecting its share of revenue from oil and gas produced on federal lands; (2) Interior was unable to hire, train, and retain sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters; and (3) Interior was reorganizing its oversight of offshore oil and gas activities in the immediate aftermath of the Deepwater Horizon incident. Since 2011, sufficient progress has been made in one of these three areas—Interior's reorganization of its oversight of offshore oil and gas activities—but Interior's revenue collection and human capital challenges remain a concern.

The explosion onboard the Deepwater Horizon and oil spill in the Gulf of Mexico in April 2010 emphasized the importance of Interior's management of permitting and inspections to ensure operational and environmental safety. In 2011, Interior undertook a substantial reorganization of its oversight of offshore oil and gas activities that included establishing three new bureaus and separating revenue collection and oversight functions. At that time, we raised concerns about Interior's ability to continue to perform these functions while undertaking this reorganization. In July 2012, we concluded that Interior had fundamentally completed its reorganization. However, Interior continues to face challenges in collecting the appropriate amount of royalties from oil and gas produced on federal lands and waters. We have recommended that Interior reassess its revenue collection policies and processes and correct problems with its data on oil and gas production, and Interior is working to implement a number of these recommendations.

We are reviewing Interior's revenue collection practices and will evaluate, among other things, Interior's progress in implementing these recommendations. Interior also continues to face problems in hiring, training, and retaining staff at the bureaus responsible for managing federal oil and gas resources, potentially placing both the environment and royalties at risk. We are reviewing Interior's human capital challenges, focusing on the causes of these challenges and the actions Interior is taking to address them.

Department of Energy's Contract Management for the National Nuclear Security Administration and Office of Environmental Management

To recognize progress at the Department of Energy (DOE) on the National Nuclear Security Administration's (NNSA) and Office of Environmental Management's (EM) execution of nonmajor projects—projects with values of less than $750 million—we are shifting the focus of its high-risk designation more to major contracts and projects executed by NNSA and EM, those contracts and projects with values of $750 million or greater. These contracts include those for management and operating contracts for national laboratories and nuclear production plants—such as Los Alamos National Laboratory—that are government owned and contractor operated, as well as for capital asset projects—such as the Hanford Tank Waste Treatment and Immobilization Plant under construction in Hanford, Washington, and the Mixed Oxide Fuel Fabrication Facility under construction near Aiken, South Carolina—projects that are currently estimated to cost $13.4 billion and $4.9 billion respectively with cost increases anticipated.

Two of our reviews completed in 2012 focused on nonmajor projects found that these projects were being completed in large part, although additional and sustained attention by DOE is needed to adequately set and document performance baselines and further demonstrate that these actions result in improved performance. These reports included recommendations to DOE to clearly define, document, and track the scope, cost, and completion date targets for each of its projects, as required by DOE's project management order. DOE agreed with these recommendations. With further monitoring of this area to ensure that progress is sustained, coupled with continued efforts and commitment by top leadership to address contract and project management weaknesses, nonmajor project performance issues will have been sufficiently addressed.

Significant challenges remain for the successful execution of major projects. NNSA is tasked with modernizing the nation's aging nuclear weapons production facilities, a difficult effort that will take years and cost billions of dollars. EM faces ongoing complex and long-term challenges in removing radioactive and hazardous chemical contaminants—left over from decades of weapons production—from soil, groundwater, and facilities. Billions of dollars have already been spent, and will continue to be spent over the coming decades to treat and dispose of this waste. NNSA and EM are currently managing 10 major projects with combined estimated costs totaling as much as $65.7 billion.

As part of this high-risk update, we examined these 10 projects but were only able to analyze changes in schedule estimates for 5 projects and cost estimates for 7 projects because of limitations in the data. For these projects, we determined that DOE has added as much as 38.5 years to their initial schedules and $16.5 billion to original cost estimates with further delays and cost increases anticipated. For example, since we reported in February 2011 that NNSA's project to design and construct a new Uranium Processing Facility at the Y-12 National Security Complex had experienced nearly seven-fold cost growth from its 2004 estimate to the current estimate of between $4.2 billion and $6.5 billion, the facility will be redesigned to correct issues concerning processing equipment with the potential for significant additional cost and schedule delay. NNSA and EM will remain on the High Risk List until DOE can consistently demonstrate that recent changes to policies and processes are resulting in improved performance on major projects.

Strengthening Department of Homeland Security Management Functions

In 2003, we designated implementing and transforming the Department of Homeland Security (DHS) as high risk because DHS had to transform 22 agencies—several with major management challenges—into one department. Further, failure to effectively address DHS's management and mission risks could have serious consequences for U.S. national and economic security. Given the significant effort required to build and integrate a new department as large and complex as DHS, our initial high risk designation focused on the department's initial transformation and subsequent implementation efforts, to include associated management and programmatic challenges.

Over the past 10 years, the focus of this high-risk area has evolved in tandem with DHS's maturation and evolution. The overriding tenet has consistently remained the department's ability to build a single, cohesive and effective department that is greater than the sum of its parts—a goal that requires effective collaboration and integration of its various components and management functions. In 2007, in reporting on DHS's progress since its creation, as well as in our 2009 high risk update, we noted that DHS had made more progress in implementing its range of missions than in its management functions, and that continued work was needed to address an array of programmatic and management challenges.

DHS's initial focus on mission implementation was understandable given the critical homeland security needs facing the nation after the department's establishment, and the challenges posed by its creation, integration and transformation. As DHS continued to mature, and as we reported in our assessment of DHS's progress and challenges 10 years after 9/11, we found that the department implemented key homeland security operations and achieved important goals in many areas to create and strengthen a foundation to reach its potential.[22] However, we also identified that more work remained for DHS to address weaknesses in its operational and implementation efforts, and to strengthen the efficiency and effectiveness of those efforts. We further reported that continuing weaknesses in DHS's management functions had been a key theme impacting the department's implementation efforts. Recognizing DHS's progress in transformation and mission implementation, our 2011 high risk update focused on the continued need to strengthen DHS's management functions (acquisition, information technology, financial management, and human capital) and integrate those functions within and across the department, as well as the impact of these challenges on the department's ability to effectively and efficiently carry out its missions.

While challenges remain for DHS to address across its range of missions, the department has made considerable progress in transforming its original component agencies into a single cabinet-level department and positioning itself to achieve its full potential. Important strides have also been made in strengthening the department's management functions and in integrating those functions across the department, particularly in recent years. For example, DHS has chartered eight Centers of Excellence to

[22]GAO, *Department of Homeland Security: Progress Made and Work Remaining in Implementing Homeland Security Missions 10 Years after 9/11*, GAO-11-881 (Washington, D.C.: Sept. 7, 2011). This report addressed DHS's progress in implementing its homeland security missions since it began operations, work remaining, and issues affecting implementation efforts. Drawing from over 1,000 GAO reports and congressional testimony issued related to DHS programs and operations, and approximately 1,500 recommendations made to strengthen mission and management implementation, this report addressed progress and remaining challenges in such areas as border security and immigration, transportation security, and emergency management, among others.

enhance component acquisition capabilities, defined and begun to implement a vision for a tiered governance structure intended to improve its information technology program and portfolio management, obtained a qualified audit opinion on its fiscal year 2012 financial statements, and issued a workforce strategy and a revised Workforce Planning Guide to help the department address its human capital challenges and plan for its workforce needs.

However, DHS still has considerable work ahead in many areas. For example, in September 2012, we reported that most of DHS's major acquisition programs continue to cost more than expected, take longer to deploy than planned, or deliver less capability than promised. We identified 42 programs that experienced cost growth or schedule slips, or both, with 16 of the programs' costs increasing from a total of $19.7 billion in 2008 to $52.2 billion in 2011—an aggregate increase of 166 percent. Further, while DHS has defined and begun to implement a vision for a tiered governance structure to improve information technology (IT) management, we reported in July 2012 that the governance structure covers less than 20 percent (about 16 of 80) of DHS's major IT investments and 3 of its 13 portfolios. DHS has also been unable to obtain an audit opinion on its internal controls over financial reporting, and needs to obtain and sustain unqualified audit opinions for at least two consecutive years on the department-wide financial statements. Finally, federal surveys have consistently found that DHS employees are less satisfied with their jobs than the government-wide average. Key to addressing the department's management challenges is DHS demonstrating the ability to achieve sustained progress across the 31 actions and outcomes we identified as needed to address the high-risk designation, to which DHS agreed. As shown in table 1, we believe DHS has fully addressed 6, mostly addressed 2, partially addressed 16, and initiated 7 of the 31 key actions and outcomes.

Table 1: Assessment of DHS's Progress in Addressing Key Actions and Outcomes

Key outcomes	Fully addressed[a]	Mostly addressed[b]	Partially addressed[c]	Initiated[d]	Total
Acquisition management			2	3	**5**
IT management	1	1	4		**6**
Financial management	2		3	4	**9**
Human capital management		1	6		**7**
Management integration	3		1		**4**
Total	**6**	**2**	**16**	**7**	**31**

Source: GAO analysis of DHS documents, interviews, and prior GAO reports.

[a]"Fully addressed": outcome is fully addressed.

[b]"Mostly addressed": progress is significant and a small amount of work remains.

[c]"Partially addressed": progress is measurable, but significant work remains.

[d]"Initiated": activities have been initiated to address outcome, but it is too early to report progress.

To more fully address GAO's high-risk designation, continued progress is needed in order to mitigate the risks that management weaknesses pose to mission accomplishment and the efficient and effective use of the department's resources. In particular, the department needs to demonstrate continued progress in implementing and strengthening key management initiatives and addressing corrective actions and outcomes. Therefore, we are narrowing the scope of the high-risk area and changing the name from *Implementing and Transforming the Department of Homeland Security to Strengthening the Department of Homeland Security Management Functions* to reflect this focus.

Modified High-Risk Area

One area—Modernizing the Outdated U.S. Financial Regulatory System—has been modified due to changing circumstances to include the Federal Housing Administration (FHA). To reflect these changing circumstances, the name of the area has been changed as well.

Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance

We first designated this area as high risk in 2009 due to the urgent need to reform the fragmented and outdated U.S. financial regulatory system. As detailed in our 2013 high risk update report, many actions are underway to implement oversight by new regulatory bodies and new requirements for market participants, although many rulemakings remain unfinished. Among the additional actions needed are resolving the role of the two housing-related government-sponsored enterprises (GSE)—Fannie Mae and Freddie Mac—that continue operating under government conservatorships. However, a new challenge for the markets has also evolved as the decline in private sector participation in housing finance that began with the 2007-2009 financial crisis has resulted in much greater activity by FHA, whose single-family loan insurance portfolio has grown from about $300 billion in 2007 to more than $1.1 trillion in 2012. Although required to maintain capital reserves equal to at least 2 percent of its portfolio, FHA's capital reserves have fallen below this level, due partly to increases in projected defaults on the loans it has insured. As a result, we are modifying this high-risk area to include FHA and acknowledge the need for actions beyond those already taken to help restore FHA's financial soundness and define its future role. One such action would be to determine the economic conditions that FHA's primary insurance fund would be expected to withstand without drawing on the Treasury. Recent events suggest that the 2-percent capital requirement may not be adequate to avoid the need for Treasury support under severe stress scenarios. Additionally, actions to reform GSEs and to implement mortgage market reforms in the Dodd-Frank Act will need to consider the potential impacts on FHA's risk exposure.

Progress on Remaining High-Risk Areas

There has been notable progress on the vast majority of the issues that remain on the High Risk List. The nation cannot afford to allow problems to persist. Addressing high-risk problems can save billions of dollars each year. Several areas on the High Risk List illustrate both the challenges of addressing difficult and tenacious high-risk problems and the opportunities for savings that can accrue if progress is made to address high-risk problems.

Protecting Public Health through Enhanced Oversight of Medical Products

Congress, the administration, and the Food and Drug Administration (FDA) have all taken actions to improve the agency's oversight of medical products—drugs, biologics, and medical devices—marketed in the United States. The recently enacted Food and Drug Administration Safety and Innovation Act of 2012 (Public Law 112-144) included several provisions to enhance FDA's oversight that reflects recommendations we have made. For example, the law directed FDA to take a risk-based approach in selecting foreign drug establishments for inspections, as we recommended in September 2008. It also required FDA to improve oversight of medical device recalls by directing FDA to take actions consistent with the recommendations in our June 2011 report. In addition, the law addressed the problem of drug shortages by requiring manufacturers to advise FDA of any changes that could affect the supply of their drugs, as we suggested in November 2011. Further, the President issued an Executive Order in October 2011 that instructs FDA to expedite review of applications to market drugs that would help to prevent or resolve shortages.

FDA has also taken important steps. For example, as we recommended, FDA developed an evidence-based estimate of its resource needs and improved the quality of some of the data it uses to manage its foreign drug inspection program. This is important progress. Nevertheless, we believe that FDA must do more to bolster its oversight of medical products. FDA needs to fully implement the provisions in the Food and Drug Administration Safety and Innovation Act cited above and address other outstanding concerns. Specifically, FDA needs to:

- strengthen its Drug Shortage Program by assessing program resources, systematically tracking data on shortages, considering the availability of medically necessary drugs as a strategic priority, and developing relevant results-oriented performance metrics to gauge the agency's response to shortages;
- improve oversight of medical device recalls by routinely assessing information on device recalls, clarifying procedures for conducting recalls, developing criteria for evaluating the effectiveness of recalls, and documenting the agency's basis for terminating individual recalls;
- implement the Safe Medical Devices Act of 1990;
- conduct more inspections of foreign establishments manufacturing medical products for the U.S. market and utilize new authority to take a risk-based approach in selecting foreign drug establishments to ensure that they are inspected at a frequency comparable to domestic establishments with similar characteristics;
- emphasize the importance of timely medical product reviews, particularly for medical devices; and
- track applications to market medical products for children.

Pension Benefit Guaranty Corporation Insurance Programs

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of 43 million American workers and retirees participating in nearly 26,000 private sector defined benefit plans through its single-employer and multiemployer insurance programs. Because of long-term challenges related to PBGC's governance and funding structure, PBGC's financial future is uncertain. At the end of fiscal year 2012, PBGC's net accumulated financial deficit was $34 billion—an increase of more than $23 billion from the end of fiscal year 2008.

Both Congress and PBGC have taken significant steps to address many of our concerns with the agency's overall management and governance structure, reflecting increased top-level attention to the challenges facing this agency. In July 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) became law, with several provisions pertaining to PBGC.[23] These measures called for stabilizing sponsors' pension contribution requirements, adjusting premium rates, as well as strengthening PBGC's governance in various ways. For example, the law calls for PBGC's Board of Directors to meet more regularly, four times a year; PBGC's Inspector General to report to the Board; creation of new positions for a risk management officer and a participant and plan sponsor advocate; an independent peer review of PBGC's insurance modeling system, to be conducted annually; and a study to be conducted by the National Academy of Public Administration Association on possible changes to PBGC's governance structure. We have long recommended that the composition of PBGC's board—currently made up of the Secretaries of the Treasury, Commerce, and Labor—be expanded to include additional members with diverse knowledge and expertise useful to PBGC's mission.

PBGC also has taken steps to address several areas of weakness noted in our previous reports. For example, to improve its asset management, PBGC issued a new investment policy statement in May 2011 and has subsequently aligned its portfolio with these new objectives. To enhance understanding of potential reforms to its premium structure, PBGC modeled various options for adjusting premiums to better reflect the risk of future claims. To strengthen the accountability of its contract management, PBGC implemented new practices requiring documentation of the decision to use contractors instead of federal employees, annual reviews of contract files, and evaluation of staff's performance of contract monitoring duties. However, despite these efforts, certain challenges related to PBGC's governance and funding structure remain. To improve the stability of PBGC's insurance programs, we believe further congressional action should be considered with respect to: expanding and diversifying PBGC's board, redesigning PBGC's premium structure, strengthening pension plan funding requirements, and developing a strategy for PBGC's long-term financial solvency as the defined benefit sector continues to decline.

[23] Pub. L. No.112-141, 126 Stat. 405, 846-864.

DOD Supply Chain Management

DOD has taken positive steps to address weaknesses in its supply chain, particularly in the management of spare parts inventories. Our prior work reviewing spare parts management at the military services and the Defense Logistics Agency (DLA) identified ineffective and inefficient inventory management practices. Problems with accurately forecasting demand for spare parts have resulted in DOD purchasing and storing billions of dollars worth of excess inventory. For example, DOD's most recent available data shows that in September 2011 it had $9.2 billion worth of on-hand excess inventory, categorized for potential reuse or disposal, and $523 million worth of on-order excess inventory, already purchased but likely to be excess due to changes in requirements. In response to a provision of the National Defense Authorization Act for fiscal year 2010, DOD submitted a corrective action plan to Congress in November 2010 aimed at reducing excess inventory by improving inventory management practices. DOD established overarching goals in the plan to reduce on-hand excess inventory and on-order excess inventory. Additionally, DOD developed actions to improve inventory management in nine key areas, including improving demand forecasting for spare parts.

We reported in 2012 that DOD had made progress in implementing its inventory improvement plan and was tracking reductions to its excess inventory. With respect to on-hand excess inventory, DOD has met its fiscal year 2012 target of having no more than 10 percent of its inventory categorized as on-hand excess. Also, DOD reported that from fiscal years 2009 to 2011 it had reduced on-order excess inventory by approximately $632 million—a reduction that achieved its initial target 4 years early. However, DOD continues to maintain significant quantities of excess inventory and its plan to improve inventory management practices runs through 2015. As implementation continues, DOD needs to monitor its progress in achieving the targets for on-order and on-hand excess inventory and update the targets, as necessary, to ensure the department has challenging, yet achievable targets to guide continued improvement. Moreover, challenges remain in improving demand forecasting; accelerating the use of modeling to determine the optimal number and types of parts needed at the wholesale and retail levels to achieve readiness and cost goals; and implementing revised DOD guidance outlining the processes and procedures for retaining inventory. As it implements the remainder of its plan, DOD will need to address these areas and demonstrate sustained progress in implementing corrective measures and achieving results.

Sustaining Attention on High-Risk Programs

Overall, the government continues to take high-risk problems seriously and is making long-needed progress toward correcting them. Congress has acted to address several individual high-risk areas through hearings and legislation. GAO's high-risk update and high risk website, http://www.gao.gov/highrisk/, can help inform the oversight agenda for the 113th Congress and guide efforts of the administration and agencies to improve government performance and reduce waste and risks. In support of Congress and to further progress to address high risk issues, GAO continues to review efforts and make recommendations to address high risk areas problems. As an example, today we are issuing our review of the nation's overall cybersecurity strategy.[24] Continued perseverance in addressing high-risk areas will ultimately yield significant benefits.

Thank you, Mr. Chairman, Ranking Member Cummings, and Members of the Committee. This concludes my testimony. I would be pleased to answer any questions.

For further information on this testimony, please contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov. Contact points for the individual high-risk areas are listed in the report and on our high-risk web site. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.

[24]GAO, *Cybersecurity: National Strategy, Roles, and Responsibilities Need to Be Better Defined and More Effectively Implemented*, GAO-13-187, (Washington, D.C.: Feb. 14, 2013).

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Chairman ISSA. Thank you. And I will now recognize myself for a few quick questions.

First of all, my understanding from your report is that the FDA has not really solved its problem of meeting its responsibility for drug availability, that that continues to be an area in which the American people cannot count on both generic antibiotics or chemotherapy drugs being in proper supply based on this failure. Is that correct?

Mr. DODARO. They still have to step up and make some changes in order to do that.

Congress now has given them the authority to have drug manufacturers notify them in advance of shortages, which is a very important step consistent with a prior GAO recommendation. But they must follow through. And once they have that information they must then take action. So we're going to carefully continue to monitor that situation, Mr. Chairman.

There are also areas that we've pointed out where they need to make sure they do postmarket studies to make sure their recalls are done properly as well. So both those areas are on our radar screen.

Chairman ISSA. Thank you. And I appreciate that.

Your concern on FHA, if I understand correctly, is that because they issue, effectively, zero-down loans, very similar to the loans that got us in trouble with Freddie and Fannie, they are technically 4 percent, but after you look at sort of closing costs, they are really zero down, that any reduction in home values, even short term, could put FHA in a similar situation to Freddie and Fannie. Is that correct?

Mr. DODARO. Their financial situation is precarious. They are—there is high risk. There are capital reserve ratios below the levels that it needs to be. So we've added it to the list to highlight that. And also the fact that in resolving the Freddie Mac and Fannie Mae situation and taking them out conservatorship, which Congress still has to do—we have modernizing the financial regulatory system on the list—that FHA situation needs to be taken into account. There be an integrated set of activities there so that we don't increase the risk even further for FHA.

Chairman ISSA. And I'll summarize, if you will, from the way I heard it, you don't fix Freddie and Fannie, unless you fix FHA at the same time, that they are all, if you will, subsidized or opportunities that could lead to the Federal Government putting up billions of dollars again if anything goes wrong.

Mr. DODARO. That's exactly right. It's all about solving what the Federal Government's proper role should be in the housing market.

Chairman ISSA. If I understand correctly when you said that by not indexing this $1.36 per capita that 25 percent would not even have made the list, effectively what you're saying is we have shifted 25 percent more things which are in constant dollars State responsibility, we've shifted them onto the Federal back, and that's a substantial amount of billions of dollars. Is that correct?

Mr. DODARO. That's correct, Mr. Chairman.

And we've recommended that if FEMA revised the criteria to take into account State's capability to be able to pay there as well.

And they've agreed with the recommendation, but I think Congressional follow up would be helpful.

Chairman ISSA. Appreciate that.

And I guess, lastly, along the same line, if, in fact, we continue to see water levels rise around our coastlines, which represent about half of our States, effectively you've looked at Federal installations as one of the risk areas; in other words, we need to build and plan both Naval and other military installations and Federal property based on the assumption that, if you will, things change and where you built 100, 200, 300 years ago—because some of our forts are just that, they are Revolutionary-period forts, need to be planned in a way, and essentially, you're calling for internal zoning that the Federal Government begins making decisions that abate likely changes in water levels and storms and so on.

Mr. DODARO. Yes. Yes. Definitely. Defense Department's already recognized this risk and beginning to act on that. In fact, the Congress also recognized this risk when it passed the Bigger Waters Act this past year. And, in fact, that FEMA before was prohibited from taking into account erosion over time. And now Congress has required that climate science be included in FEMA's further efforts on the flood insurance program. Please.

Chairman ISSA. Back to the flood insurance portion. My understanding is that both of our major insurance programs are not run in a way in which the private sector would run their insurance. Meaning, we don't adjust our rates to meet the likely payout; instead, they are fixed in time. And so they can, year after year after year, come up short, ultimately shifting to the taxpayer the responsibility for paying out what should be insurance by the insured.

Mr. DODARO. Yes. That's correct. I mean, we've recommended they use better practices. They've agreed to do that, they've contracted for studies. But the results haven't yet been provided to the Congress. And this is very important. And the flood insurance program, even before Superstorm Sandy, flood insurance program owed the Federal Government back over $20 billion. The likelihood of that getting repaid is not high.

Chairman ISSA. I certainly, in closing, would say that if I could be insured for the less than the risk, I would always buy that insurance.

I recognize the gentleman from Maryland for his opening—for his questions.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Dodaro, let me go to page 202 of your report, where you talk about the drug shortages. Just want to pick up on some of the things that the chairman was asking you about.

You know, we did some preliminary research and looked into this area of drug shortages. And drugs that were lifesaving drugs, chemotherapy drugs. And one of the things that we found in our research was that we had a gray market going on out there where a drug might start out from the manufacturer costing $7 a bottle, and by the end of the week, because of the gray market, may be selling for $700 a bottle. We also had the opportunity to talk to doctors from all over the country, as a matter of fact, one doctor from South Carolina, I'll never forget it. She came in, and she is at a major medical facility, and she said, sadly, we are performing medicine like we're in a third-world country because of the shortages. So it is a major, major area.

And I noticed your comments. But I'm just wondering, did you go—did you all look into at all the gray-market situation where people are improperly ratcheting up and hoarding drugs and then jacking up the costs so that we've got hospitals and the American Hospital Association now saying that 99 percent of their hospitals have drug shortages? I mean, did you all look at that at all, or you just looked at it from an FDA monitoring standpoint?

Mr. DODARO. We primarily looked at it from a FDA monitoring standpoint. I can go back and double-check, Mr. Chairman. If we have looked into the gray-market issue, I'll provide something for the record.

Mr. CUMMINGS. You may want to look at that. Because you've made some—you know, you've made some very good comments here on page 202. But we also, I think, to just look at it from a FDA-monitoring standpoint, it is, you know, perhaps—I mean, it's good. But if we have an underlying cause of greedy people on a daily basis literally taking drugs out of the hands of Hopkins—of a hospital ranked number 1 in the world, in my district, Johns Hopkins, they told me this. And they can't have the best drugs possible to treat our constituents because people are hoarding them and then putting them on the gray market and jacking them up a hundred times, that's a major problem that goes to so many things, to our economy, of course. It jacks up the costs of medicine. It is a detriment to many of our constituents with regard to health care. So I just want—and would you get me something back on that to let me know how deep you went into it?

One of the things I think the chairman was saying, making it a part of our scope of inquiry this session, the next 2 years, is looking, not only at the FDA piece of this, but looking at the—this whole thing of the gray market.

And so I'd really like to sit down with you, if you haven't delved into it and see where—you know, what we might be able to do together to try to get to the bottom of that. Because it is a very, very serious problem. A lot of Americans do not even know about it. But it's very serious.

I want to briefly go to this whole issue of climate change. GAO recognized that the Federal Government has a number of efforts underway to decrease domestic greenhouse gas emissions. The success of greenhouse gas emission reduction efforts depends in large part on cooperative international efforts.

However, limiting the Federal Government's physical exposure to climate change risks present a challenge no matter the outcome of the domestic and international efforts to reduce the emissions, in part because greenhouse gases already in the atmosphere will continue altering the climate system for many decades.

So if I understand this correctly, the carbon emissions that are in our atmosphere are already altering the climate system and will continue to do so for the foreseeable future. Is that correct?

Mr. DODARO. Based on the information from the Government Global Climate Change Research Program and National Academy of Sciences, that's correct.

Mr. CUMMINGS. Is it GAO's opinion that regardless of the outcome of global negotiations to reduce carbon emissions, the United States Government should take immediate action to mitigate the risks posed by the climate change?

Mr. DODARO. Yes.

Mr. CUMMINGS. Now, you heard the President's testimony the other night, his State of the Union, where he talked about these catastrophic weather-related incidents seeming to come at a greater pace and costing us billions upon billions of dollars.

What do you—just as I—as you close with my questioning, tell us what you are recommending again for us to do with regard to these catastrophic types of things, storms like Sandy, that is costing us so much and costing so much inconvenience to our citizens.

Mr. DODARO. There are several things. One, we think Federal Government needs to be better organized. There needs to be a better coordinated effort among Federal departments and agencies with a strategic plan and a focus on priorities. We looked at all the Federal spending. The Federal Government is already spending a lot of money on these areas, but it's not well coordinated and it's not targeted and prioritized. So that's number one. Particularly important in our budget environment right now where we have to make every dollar count and we have to make the best investments possible.

Second, we need to partner with the State and local governments. We need to provide them better weather-related information. They are already making huge investments with their own money and with the Federal Government's money in infrastructure. So, in terms of figuring out how to deal with roads, bridges, tunnels, et cetera, and provide adequate, proper interpretation or—of the science data and make those decisions, that is very important. We need to get our act together on our Flood Insurance Program and our Crop Insurance Program and make sure that that's developed properly. And we need to look at how we provide and what the criteria is for when we intervene in disaster assistance or whether it should be a State and local responsibility.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. DESJARLAIS. [Presiding.] I thank the ranking remember.

The chair now recognizes the gentleman from Florida, Mr. Mica, for 5 minutes.

Mr. MICA. Thank you. And I am pleased that our committee is looking at GAO's 2013 High-Risk List.

This list is probably a good template for looking at ways in which we could have dramatic savings. Right now we're practically bankrupt, approaching $16.5 trillion in debt.

I was wondering, sir, if you could tell me, this list is pretty extensive. It's a lot of bad news. There's a little bit of good news you shared and a couple coming off the list. But wouldn't you estimate there could be tens of billions in savings from the recommendations in these high-risk areas that you've provided?

Mr. DODARO. That's true.

Mr. MICA. And I think that's why it's so important our work continue.

While they're focusing some on this one report that our committee has produced, it's billions of dollars in Medicare misspent on

New York. Everyone should read that, see it's tens of billions of dollars of wasteful spending, programs out of control; a program, Medicare, which is so important to provide those that need health care, in New York alone, tens of billions of dollars outlined here wasted.

Have you seen this report, sir?

Mr. DODARO. No, I have not.

Mr. MICA. I hope you do and would confirm that.

Now, I don't have—I chair a small government operation subcommittee particularly interested in the managing Federal real property. We've heard you testify and others that we own thousands—tens of thousands of buildings, structures, the biggest property owner in the world, probably; 29 percent of all the Federal—of all the property in the United States is either owned or managed by the United States, according to your report. Is that correct?

Mr. DODARO. That's correct.

Mr. MICA. Well, we're going to do some hearings that will probably start with the risk of—high-risk list that you provide us, in managing Federal property and look at it. I've been at it a week or two. I went out—well, what's stunning is—and we did a little bit of this in the Transportation Committee. Nobody has control. I was in real estate. I think the last folks I'd ever give anything to manage would be the Federal Government, including assets. Would you give your real estate or assets to the Federal Government to manage?

Mr. DODARO. Only with great many conditions.

Mr. MICA. Well, we went out last week and looked at a million square feet of space in Springfield. And I just looked at it from a management standpoint, you've got a million square feet and a lot of acreage in Springfield, Virginia. Not well utilized. Does anyone look at the specific properties with a management plan or the best utilization of that asset for realization of taxpayer dollars? Is there——

Mr. DODARO. There—we've been encouraging Federal oversight over that issue.

Mr. MICA. I don't see it. I mean, I could go through that, and as a property manager, to have that valuable asset there, it might have made sense 20 years ago, but not today.

Then the other day, we went out and looked at 7,000 acres, nearly 7,000 acres in Maryland, Mr. Cummings. And we have an Agricultural Research Center there dating back from maybe the turn of the century. They have 500 buildings, of which, there are 200 that either need to be demolished or are unusable. What stunned me is there was no plan for either utilization of either the acreage or the facilities. Do you know of a plan or—or do we have any mechanism to even require an agency to have a plan to deal with those assets?

Mr. DODARO. We've made recommendations along those lines. One of the things that we found is that when we went out and did the type of inspections that you're talking about doing, the data didn't match what was in the database.

Mr. MICA. They said I was the first Member of Congress, I think, since Mr. Hoyer, to go out there. But it's Beltsville. It's right in the Capital circle.

Mr. DODARO. I know where, right.

Mr. MICA. And nobody has a clue. I mean, there is an incredible asset sitting there. In fact, I think some prohibitions have been put on doing anything, which just is mind-boggling, again, from somebody who's dealt with real estate in the private sector.

So I think we're going to work with you all to see if can't get some of these agencies to have plans to maximize those—those assets and utilize them.

The lease—you point out in your report here, lost $200 million in leases since 2005. Again, it's only a quarter of a billion here and a quarter billion there.

But we're bankrupting the nation through policies and practices and lack of attention to maximizing our assets. So we'll be back. I think we're going to try to do this on February 27th. Work with the minority to set a date and launch a little bit more in depth on this report. And we thank you and others for working with us.

Yield back.

Mr. DESJARLAIS. I thank the gentleman.

The chair now recognizes the gentlelady from District of Columbia, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

And Mr. Dodaro, I want to thank you for what is always an illuminating report but particularly for adding climate change for the first time as a risk for the Federal Government.

This has come at a time when it could not be more needed. We needed the imprimatur of an objective government agency. Climate change is not political, and we make it political at our own risk. I recall in the past two Congresses, we've been dealing with a 100-year flood. That's kind of a silly thing to even think about calling it now. And even as we did label it 100-year flood and force States to update how—how they go about preparing for flooding, we recognize that a hundred year was not—was a term of—to simply to make people understand what was regarded as a rare event, at least in terms of floods. Well, we've gone from rare to routine and to unheard of.

Sadly, during the—after Sandy, there was a very contentious debate in here about what to do. And I think part of that comes from the unpredictability of budgeting for such events.

Now, nothing of the kind in memory had been seen by New York State. So there was no way to play for that. And there was certainly no way to budget for that. It was so unusual. Or to take another example, shortly after that, was it last week that we had the snowstorm that went all the way up into New England? And then it had a wind current that resembled a hurricane. You know, try preparing for that.

And yet you name ways in a which we are highly vulnerable, not only what we own, but the assistance we give, the dependence of the States on us, emergency aid and the rest, this is very, very troubling. And what my question goes to, and we—we—it's easier to predict a recession or a downturn in the economy than it is to predict one of these events. We see flowers growing in the wintertime, and we don't know whether tomorrow is going to bring springtime weather or a snowstorm.

And so finally the country, which when climate change was first discussed majority of the American people said, yes, we think there's climate change, and something has to be done about it.

The last 12 or 18 months has produced a come-back in the public on an understanding of climate change. You can understand during a recession that people didn't want—said they no longer, quote, "believed" it. I don't understand the nomenclature of "believing in" when it comes to science.

I need to know from you. You know how our budgets, of course, are developed. It's one—and I accept what you say about the coordination of the Federal agencies and the rest.

But I have to ask you, Mr. Dodaro, how do you budget for the unfathomable and avoid partisan debate when they come up? I mean, I heard some Members from New York, who had never seen a disaster, say, you just wait—somebody from Mississippi got up and opposed it. Well, that's one of the parts of the country that does not need to get up on its hind legs on this issue because we have readily come forward time and time again. I said, I hope that's not the way you look at it. I hope the way you look at it is to use it as an example by voting for what happens in Mississippi, Louisiana, or some tornado someplace where it's unheard of.

But I don't accept that the present budget process is at all responsive to this new world of climate change. And I wonder if you could give us some help.

Mr. DODARO. Right.

Ms. NORTON. On how to go about, in a budgeted world in which we live, making these funds available wherever they occur rather quickly without the kind of contentious debate we had here over Sandy.

Mr. DODARO. Yes. There are two things I would say.

First, we should not pretend that disasters do not occur in our budgeting process, which right now we do not budget for anything that might occur. Now, there's a historical record here that shows over time how much we've always, you know, provided over a period of time. So you have historical data that could be used to provide, you know, in anybody's budget, a household budget or wherever, you'd have a contingency plan; we don't have contingency plans in our budgeting process.

Ms. NORTON. You mean for even the kind of disasters that could be expected.

Mr. DODARO. Right. That's correct.

Ms. NORTON. Let's begin there.

Mr. DODARO. That's a starting point.

Secondly, we can revisit this criteria for what we decided the Federal Government to pay for and what not to pay for and what should be absorbed at the State and local level. It's badly in need of modernization and upgrading. So that could give you a better indication for budgeting purposes as well.

Third, we need better data on weather-related potential changes, good science data that could be objectively collected and provided to State and local governments and the Federal Government to make investment decisions to justify budgetary investments that will then yield proper information in the future.

And then we'll have to, you know, there's going to be, obviously, things always that are going to come up that you don't expect. But right now, we're pretending we don't expect anything. And that's not reality.

Ms. NORTON. Well, we do budget in expectation that there will be hurricanes and the rest. And that fund—and then we're told that that fund has been used up by the most recent hurricane.

Mr. DODARO. Right. And there's revisions that are made after disasters take place about the additional money that's needed during that period of time. The budgeting system is in need of reform for these type of efforts. I agree completely with your view.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. DESJARLAIS. Thank the gentlelady.

The chair now recognizes the gentleman from Utah, Mr. Chaffetz, for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman. And thank you for being here and the great work that so many people do within the agency. It's a critical role to have the oversight and the understanding and the audits that go on.

I want to try to touch on three topics, if I can. I want to start with the Federal real property.

I have introduced a bill with Mr. Quigley, H.R. 328, to try to dispose of these properties. But could you give me some further insight? The number has greatly fluctuated on the number of underutilized buildings, not too recent—fairly recently, GAO had estimated the 45,000 properties that are underutilized, that number is now 71,000 that are underutilized, yet the annual operating costs remain at about a billion five. Why the fluctuation?

Mr. DODARO. I'm going to ask Mr. Herr to answer that question.

Mr. CHAFFETZ. Okay.

Mr. HERR. Congressman Chaffetz, one of the areas we've done work in recently was looking at the Federal real property database that GSA and OMB maintain. We found that, as the Comptroller General mentioned, there's a lot of inaccuracies in that. And we've been pushing and working with them to really update.

Mr. CHAFFETZ. When you say "a lot," are we talking by the tens of thousands or are we——

Mr. HERR. One of the challenges is because of the nature of the sample we took last year and looking at it, there's about 400,000 properties and there's another 400,000 structures, not including the Postal Service. So getting a comprehensive view of that, our suggestion and recommendation is GSA and the agencies do a better job of looking at their inventories to give a better sense——

Mr. CHAFFETZ. I'm looking for more specifics on. I mean, it just seems to me that we ought to be able to pull up a list at any given time and be able to see all the real property that this country has. We can't do it, even within my State of Utah, the real property just in the State. So why? We don't even know what we own.

Mr. HERR. That's—there is a—that's part of the challenge. In fact, Mr. Mica mentioned the facility out at USDA in Beltsville. We had a team visit there last year to highlight some of the problems that he was mentioning. This is part of challenge is getting your hands——

Mr. CHAFFETZ. How inaccurate is it? Are we missing 1 percent? Based on your sample, how inaccurate was it?

Mr. DODARO. Talk about the ones we looked at.

Mr. HERR. Well, the ones we looked at, we found errors, for example, in terms of the valuation of the properties. But in terms of doing a sample that we could generalize statistically across the country, we weren't able to do that, given the sheer numbers involved and what it would take to do a generalizable sample.

Mr. DODARO. But in the sample we did look at, we found a significant number of errors. I'll provide the specifics to you——

Mr. CHAFFETZ. That would be great.

Mr. DODARO. I was concerned enough with the level of errors that we found in the small sample to be concerned enough to make the recommendations. I would have like to had a projectable one, but we just don't have the resources to do that. GSA is taking a broader sample and looking. We have not seen their results yet. So we will follow up and provide those to you as well.

Mr. CHAFFETZ. That would be great. Clearly, it's on the high-risk list. This is why you're highlighting it. You talk about the inaccuracy of the data. What I'm concerned about is, in a 24-month period or so, you went from 45,000 properties for 71,000 properties. That's not a small jump—we're talking about real property here, this is—these are big assets and lots of—but the dollars didn't change. You still projected $1.5 billion and it's—and yet the number jumped by about 50-plus percent. So that's just a concern that I would like to continue to follow up on.

And I just physically don't understand how the GSA lost $200 million on leases since 2005, including $75 million in 2011 alone. I mean, that's why these departments use the GSA, is to make sure we don't make these kinds of mistakes. How does that happen?

Mr. HERR. One of the areas we've identified is the agencies do not do a good job of sharing resources. For example, there may be Federal agencies located in one area that are not really looking and being encouraged to share space or minimize their space use and bring in other agencies to work with them.

Mr. CHAFFETZ. Well, and one of the—I don't have a Federal building in my Congressional district. But I know that as we looked at just our own office space, it was unbelievable how much more expensive going with the Federal building in Salt Lake City would be. I mean, it was ridiculous. So much so that I believe our Senator said, "I'm not paying that rate. I can't afford it." And if they just simply go across the street, they would save significant dollars in doing so.

So I appreciate looking at that.

Mr. Chairman, I was going to look at three different topics; we barely got through one. But I don't want to hog the time. I know Mr. Gowdy is anxious with 20 minutes worth of questions. So I will yield back the balance of my time.

Mr. DESJARLAIS. Thank the gentleman.

The chair now recognizes the gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. Thank you, Mr. Chairman.

And welcome, General Dodaro.

Mr. Dodaro, on page 88 of the report, you talk about the high risk of the Postal Service.

Mr. DODARO. Yes.

Mr. CONNOLLY. Did you at any time consult with the general counsel of your organization with respect to the legality of the announced proposed action of the Postmaster General having the legal authority to go from 6 to 5 days a week.

Mr. DODARO. After the decision was announced, I have asked our attorneys to look at the information. They have talked to the Postal Service and have obtained their legal analysis. They believe the argument to be novel. But we'd have to look at it more carefully in order to provide a full legal opinion on the issue.

Mr. CONNOLLY. I don't want to box you in. So what I hear you saying is that your attorneys, your general counsel and yourself are still weighing the legal arguments coming from the Postmaster General. Is that correct?

Mr. DODARO. That's correct.

Mr. CONNOLLY. Would it be fair to say, however, that informally the general counsel of your organization has expressed, for example, to the committee staff of this committee, some scepticism as to the legal reasoning behind Postmaster General's announcement?

Mr. DODARO. Well, I don't want to speculate informally on anything. I mean, one of the reasons—one of the things——

Mr. CONNOLLY. I'm not asking you—excuse me. General. I'm not asking you to speculate.

Mr. DODARO. Yeah.

Mr. CONNOLLY. Did or did not such an informal conversation, in fact, take place with the staff of this committee?

Mr. DODARO. One of the things we do is ask a lot of questions. So it might have—I'm sure they had asked questions about the issue.

Mr. CONNOLLY. Well, let me—certainly, we would welcome your opinion when you are ready to render it. There are many of us here who think it's an illegal act. And this is a nation of laws, and even the Postmaster General of the United States has to follow the law. But it's in your report. I think it's a relevant question, and we would very much welcome your opinion before Congress acts.

Climate change, General Dodaro. What made you decide to add that this year? What about the science and/or the potential consequences of climate change made you decide to—and I applaud you for doing it—but made you decide this year it merited inclusion in this very thoughtful report?

Mr. DODARO. Well, there were several things. One, we had issued at least three critical reports over the past 2-year period, one on the disaster aid limitation, one looking at defining the funding of the Federal Government by climate change issues, and finding there was no strategic direction in the climate change area. Obviously, we also looked at the number of disasters that have been occurring. The Flood Insurance Program is already on the high-risk list. We were concerned about gaps in weather satellite coverages. So we decided to take a broader look, you know, at these issues. And I felt also, given the Federal Government's precarious financial situation that it couldn't afford not to try to limit its fiscal exposure in the future in those areas. Those are the factors that I considered.

Mr. CONNOLLY. But as a sort of a preface to all of that, there is a certain operating assumption that the science is fairly compelling.

Mr. DODARO. We take the information from the National Science—Academy of Sciences and the Global Climate Change Research Program at faith. And we're—an important point here is that we're not questioning what may or may not be causing the situation. We're saying that science shows there is an issue, and we need to do something about it. We're not getting into the policy areas of where there needs to be changes and how we—how we mitigate whatever might be causing this or the international issues that need to be done. We're saying we have a problem, we need to deal with it and try to limit our exposure.

Mr. CONNOLLY. I'm sure you're aware of the fact that there are some, even here in the Congress, who don't even go as far as you do, however, who still are denying the science and are denying there's a problem.

Let me ask, in your analysis, risk analysis, have you also looked at the military base, especially Naval base implications? I think of, for example, Norfolk. In Virginia, many of us are very worried that sea rise could jeopardize the largest and oldest Naval base in the United States, as well as facilities in Florida, possibly even South Carolina.

Have you looked at that in terms of dollars and cents, relocation costs, you know, reinforcing costs, whatever it may be to try to protect those facilities?

Mr. DODARO. We note the Defense Department vulnerability in the report. We will plan to do more work on those issues going forward in this area.

Mr. CONNOLLY. Mr. Chairman, thank you.

I know the Committee would welcome that as well, especially dollars-and-cents implications, because I think some people may be very surprised at what we're looking at.

Thank you, Mr. Chairman.

Mr. DESJARLAIS. I thank the gentleman.

The chair now recognizes Dr. Gosar from Arizona for 5 minutes.

Mr. GOSAR. Thank you, Mr. Chairman.

General, thank you very much. I'm going to harp again. Being a healthcare provider, I want to ask you more about these drug shortages. Do you think that your recommendations to the FDA are sufficient to mitigate this problem?

Mr. DODARO. I believe so. We've made those recommendations just to reiterate that they need to strengthen their program by assessing their resources, systematically tracking data on shortages concerning availability of medically necessity drugs, strategic priority, and developing relevant results-oriented performance——

Mr. GOSAR. Let me ask you a question. Do you believe that the FDA is part of the problem?

Mr. DODARO. They need to make changes.

Mr. GOSAR. They need to make some big changes.

Mr. DODARO. To be part of the solution to the problem.

Mr. GOSAR. I think part of our problem—I'm looking here at a drug recall, or a drug-in-stock affidavit as of yesterday. I mean, we've got problems with liquid Ibuprofen. We've got problem with anesthetics. This is critical mass. Because we're putting patients in harm's way and physicians in harm's way, making them use protocols and medications that are, many cases, got substantial more side effects and problems for patients.

This is critical mass. It's not just with pharmaceuticals but also our medical devices. We have reached a saturation point where I will disagree with you. I do not think that what you have put out here in your outlines are suitable for reform. I think we need to have thorough FDA reforms in regards to not only drug manufacturing but FDA's role and oversight.

You look at—you know, in your report, you cite globalization. You know, we don't even control a vast amount of some of the products that go into manufacturing of these drugs or medical devices. And we're becoming problematic that we're dependent upon so many other countries to do that.

Do you—would you agree with that?

Mr. DODARO. Well, it's one of the reasons they're on the high-risk list is due to the globalization.

I have Ms.——

Mr. GOSAR. Seems to me like what we're doing here, is we're—we have a disease here, and what we're doing with this report is we're treating the symptoms but we're not treating the disease. Part of the disease process is the FDA itself. And it seems to me that what we need to do here is reform the FDA. Would you agree with that?

Mr. DODARO. I definitely think there needs to be changes?

Mr. GOSAR. Do you think we need legislation to refer that?

Mr. DODARO. I'd be happy to provide our recommendations for the record.

Mr. GOSAR. Okay. One of the other things I did want to touch about—I mean, and these drug shortages, I got to tell you, this affidavit just came from Tucson and from the Northeast. So it's not specific just to rural or urban areas. These are critical shortages that have to be addressed. I don't think like—I don't think that the—the hypothesis or the conclusions you've come to are real. I think we're actually in worse shortages. Because just because we put out a report doesn't mean that we've remedied it. We have actually made some of the problems even worse for the gray market. Now we understand where we hoard, where we take, where we increase the sales. So we've got a huge problem here.

So go back to my colleagues, Mr. Chaffetz, in Federal properties.

I want to give you a real clear example of Federal properties that have a problem. We just got back from a CODEL in regards to the State Department, looking at our embassies. And in particular, I want to highlight Morocco. Here we are spending over $150 million building a new embassy in Morocco. And we have yet to assay and look at what the value and possibility of sale of our current embassy. Right there, to me, it seems to me like in looking at properties—I'm not a real estate expert—but it seems to me that when we're making a transaction like that, we're looking in the neighborhood of somewhere of $60 million to $80 million in assets that need to have some assaying.

Do you know that they had to beg, and as of—there were about, I would say, would you say it's about 50 percent completed, that embassy? Chairman?

Mr. DESJARLAIS. I would say that's correct.

Mr. GOSAR. They have yet to have an assay of the current buildings and inventory of properties that they had in Morocco. I find that disdainful. This is an instant turnaround of quickly $80 million. And we shouldn't be building unless we actually know what we have as an inventory and make sure that we're selling it. That is disrespectful for the American taxpayer. I'm just giving you one example.

Extrapolate it to Great Britain. It's my understanding we're building another embassy for a billion dollars there. What other assets do we have there? I mean, this is critical mass that can turn money very, very quickly. And I think that's what we demand of that.

So I think some of the things we really need to do is start looking at the disease process, make sure that we have clear examples, enforce those examples with legislation or retaliatory oversight. And then you're going to get compliance in a lot more of those aspects.

I would like for the record, Mr. Chairman, an example of the drug shortages as of yesterday to be placed in the record.

Mr. DESJARLAIS. Without objection.

The gentleman's time has expired.

The chair now recognizes the gentleman from South Carolina, Mr. Gowdy, for 5 minutes.

Mr. GOWDY. Thank you, Dr. DesJarlais.

General, I want to ask you about two areas, first weather satellite. I'm asked from time to time, which is tough for a lawyer to understand the science, and so can you help me understand how we got to this crisis and what an acceptable remedy would be for it?

Mr. DODARO. Yes. I'm going to ask Dave Powner, our expert in this area, to come up. He'll give you a great explanation.

Mr. GOWDY. Great. Thanks.

Mr. POWNER. Congressman, this is an area that kind of grew over the years. We had a tri-agency program to put in place polar-orbiting satellites. If you go back several years, there's a long history of cost overruns, technical problems, mismanagement of the program.

What happened was the launch dates kept getting pushed. And what we did is we kept buying time with operational satellites. If you fast forward now currently, we're in a situation where in the 2016 time frame, there's a satellite that basically is going to reach the end of its useful life, and we're not launching until 2017. That's the best-case situation. That provides about a 17-month gap in satellite coverage. And depending on if that satellite lasts less than what's expected or if there's any further delays, that gap in satellite coverage could actually be more. So we're looking anywhere from a 17- to 53-month gap in satellite coverage. Our recommendations to NOAA has been to put in place contingency plans to address those gaps.

Mr. GOWDY. What do you expect those contingency plans to include?

Mr. POWNER. Couple things. One is you could look at one extending the current life of the existing satellites. There's things you can currently do with that.

There's the possibility of moving up the launch of the current dates. Those are unrealistic in some ways, but there are possibilities if you look at those various schedules. And then if you look at the contingency plans that need to be put in place, various things. You can use other government satellites from DOD. Foreign satellites are an option. Other weather observations are an option. But all those have certain things that go with it. So, for instance, if you use Europeans satellites, there are changes to our ground stations. So there are associated costs with all those different contingency plans.

Mr. GOWDY. Do you think there's a reasonable possibility of a gap, a gap that would have significant consequences to us?

Mr. POWNER. Right now, there is a high probability of a gap that could be 17 months.

Mr. GOWDY. Wow. All right. Thank you.

General, last area. My colleague from Maryland very appropriately and commendably remembered a doctor from Charleston, South Carolina, Michelle Hudspeth, who came and testified quite emotionally about having to choose which of her pediatric cancer patients she was going to treat because of a drug shortage. So, again, for folks who may not be following this issue, just watching from back home, how did we get in this circumstance, and with specificity, particularly for those who clammer for bipartisanship, because it exists on this issue, because Mr. Issa and Mr. Cummings would both move heaven and Earth tomorrow if they could eliminate the shortage. So what legislatively or from an oversight perspective can we do to remedy the drug shortage?

Mr. DODARO. Well, the first step was taken in the last FDA Modernization Act last year which gave FDA the authority to require manufacturers to notify them. That was part of the problem, step one. In order for them to do something about it, they need to have adequate information to know about those issues. So that aspect has taken shape now. But the question is, what are they going to do with that authority to turn it into action to try to provide adequate information?

I'll go back and for the record, as I mentioned to Congressman Gosar, provide additional recommendations on things that could be done in this area. We have an expert team; they just don't happen to be here today. But we'll provide you more specific suggestions.

Mr. GOWDY. We would be grateful, because, again, I know that there is a—there is a desire all across this dais for—for action. And for those who desire work across the aisle, which I think includes all of us, this would be a very appropriate way. So we would be very anxious to see your recommendation.

With that, I would yield back to Dr. DesJarlais.

Mr. DESJARLAIS. I thank the gentleman.

And I will be going to the gentleman from Pennsylvania, Mr. Cartwright, for 5 minutes.

And I want to apologize to the gentleman from Nevada, Mr. Horsford. I did not see you there, so we'll go next to you, right after Mr. Cartwright.

The gentleman from Pennsylvania is recognized.

Mr. CARTWRIGHT. Thank you, Mr. Chairman.

Well, Mr. Dodaro, according to the United States Global Change Research Program, the impacts and costliness of weather disasters resulting from floods, droughts, and other events, such as tropical cyclones, will increase in significance as what are considered "rare events," quote-unquote, become more common and intense due to climate change.

Now, the Federal Government's crop insurance costs have increased in recent years, rising from an average of $3.1 billion per year from fiscal years 2000 to 2006 to an average of 7.6 billion a year from fiscal years 2000 through 2012 and are projected to increase further.

Do we—do we have a sense of the scale by which climate change will increase the Federal fiscal exposure for the National Flood Insurance Program and the Federal Crop Insurance Corporation?

Mr. DODARO. I don't have estimates of that regard. But I am concerned about the potential magnitude, given what we've spent so far to respond to these issues. So we're going to be looking at the quantification issues, if you will, as we delve in this issue in the future.

Mr. CARTWRIGHT. That leads to my next question. I suspected you my say that. Is a study needed to look into those issues further, sir?

Mr. DODARO. I believe so. But it will—as with many of these areas, be difficult to come up with some areas. But I think we can—we have some work underway in that area right now. We'll be happy to brief you on that and provide the results when they're ready.

Mr. CARTWRIGHT. Thank you.

And secondly, GAO recommended in May of 2011 that the appropriate entities within the Executive Office of the President clearly establish Federal strategic climate change priorities, including the roles and responsibilities of the key Federal entities, taking into consideration the full range of climate-related activities.

In 2009, GAO also recommended that the appropriate entities within the Executive Office of the President develop a strategic plan to guide the Nation's efforts to adapt to climate change.

Furthermore, Federal agencies released draft climate change adaptation plans on February 9 as part of their strategic sustainability performance plans required by Executive Order 13514 on Federal Leadership in Environmental, Energy and Economic Performance. The USGCRP also has a strategic plan for climate change science research.

My question is, how are agency adaptation plans being coordinated across the Federal Government?

Mr. DODARO. That's our main point. We believe, you know, they have the plans, but they're not being coordinated as well as they need to be.

Mr. CARTWRIGHT. And do these plans amount to a government-wide strategic plan at this point?

Mr. DODARO. Not in our view. And that's one of our main recommendations. And we plan to work with the Executive Office of the President and Office of Science, Technology, and Policy to help underscore what needs to be done.

Mr. CARTWRIGHT. I thank you for that answer. And I want to say that's why I will be working with the GAO to address two specific concerns they've highlighted in this report. First, I'll be working with the GAO to find the best possible way to coordinate the various adaptation reports required by the Executive Order and to come up with a national strategic plan to prepare for this grave threat.

So I thank you for your appearance here today.

Mr. Chairman, I yield back my remaining time.

Mr. DESJARLAIS. I thank the gentleman.

And again, thank you for your patience, Mr. Horsford.

Now recognize the gentleman from Nevada for 5 minutes.

Mr. HORSFORD. Thank you, Mr. Chairman.

Thank you, General. I want to commend you and your team for what is a very good blueprint for the critical challenges that are facing our Federal agencies. And not only that you identify the high-risk areas, but you also outlined what needs to be done. And I would point out what needs to be done by Congress, in large part, to move some of these issues forward.

My focus I'd like to turn to is transportation.

The GAO report lists funding for the Nation's surface transportation system as an area of high risk for the government. And the Moving Ahead for Progress in the 21st Century Act, which was enacted last year, provides some certainty for States. But it also reduces overall funding for highways relative to fiscal year 2011. And it will not provide the funding that we know that we need to bring our infrastructure to a state of good repair overall.

I'm from Nevada. And our unemployment rate is still stubbornly high. Our number two industry has been the construction industry. And in large part, my focus is on how we can create jobs and get our economy moving while at the same time investing in critical infrastructure needs.

So the report indicates that the 18.4 cent per gallon tax on gasoline that was enacted in 1993, it's only worth about 11.5 cents today. The report goes on to note that the CBO has estimated that it will take $110 billion in additional revenues to maintain current levels of spending plus inflation through 2022.

So, in the short term, are there any realistic alternatives to the gas tax to fund transportation that would maintain the user-pays principles that have been at the heart of transportation funding in the past?

Mr. DODARO. I'm going to ask—I'll start, but Phil, come, please. Phil Herr is our transportation expert. I'll let him talk.

In the mean—unfortunately, the approach that's been used in the last several years is to use general fund appropriations in order to supplement the lack of funds from the Highway Trust Fund to be able to do that. That's not a long-term answer to the situation, particularly given the Federal Government's deficit and debt issues. So other things need to be looked at.

But that's the main reason it's on the list, is order to try to get the Congress to come to grips with the financing structures there.

But let me have Phil elaborate, Congressman.

Mr. HERR. We've done some additional work. There's a program that expanded under MAP–21 called TIFIA, which is a loan program that helps incentivize private investment in infrastructure. We've also completed some recent work that talks about other options for collecting revenue that would supplement the gas tax as well. But those all obviously involve some policy tradeoffs. But there are options there. But you correctly point out what some of the limitations of the gas tax are.

Mr. HORSFORD. So if I could, Mr. Chairman, follow up.

So with the provision of requires the States to spend a specified portion of their allocations, their annual allocations, on the improvements of bridges and interstate pavement, should—what happens if the conditions fall below those standards? And are there considerations given to States to use other types of funding sources to make up the gap?

Mr. HERR. It's an interesting question. This was just enacted with MAP–21, so DOT is still working with the States to set some of those targets and what some of the process would be. But our understanding is with the legislative fix that was put in with MAP–21, States would need to dedicate money to some of these national projects that have more national significance?

Mr. HORSFORD. Can they backfill with any additional funding outside?

Mr. HERR. I would have to get back to you for the record to see how they are rolling this out.

Mr. HORSFORD. Just to close on the Passenger Rail Investment Improvement Act of 2008, again, this is a critical opportunity for our need to connect Las Vegas and Los Angeles. What risks has GAO identified with this program? And what happens if continued Federal investment is not available to achieve the goals?

Mr. HERR. In the high-risk or the high-speed rail, we actually have had—we have some work ongoing now, but in a recent testimony one of my colleagues gave we identified some problems with some of the cost estimates that are made available seeking Federal funding. So we're looking at ways of some of those could be improved. So decision makers would have better information.

The other thing, though, is in many cases high-speed rail is quite expensive. So, for example, in the California high-speed rail situation, their proposal now is calling for a fairly large Federal investment, about $38 billion. So—and then also some private funds. So a real challenge in that area is getting the money to build these and then actually implement them and carry them forward.

Mr. HORSFORD. Thank you, Mr. Chairman.

Mr. DESJARLAIS. I thank the gentleman.

The chair now recognizes the gentleman from North Carolina, Mr. Meadows, for 5 minutes.

Mr. MEADOWS. Thank you, Mr. Chairman.

And thank you for coming to share your perspective today.

I want to take a little bit broader brush approach. As we start to look at this, you know, your report highlights some of the needs for a performance matrix, as you would put it. And so in what way can we look at departments and agencies providing information so that we as Congress can make a better decision in terms of tying that to the budget or appropriations? And what role do you see OMB playing in that, if any?

Mr. DODARO. Well, we have been advocating for a number of years a systematic approach, as you mention, to measuring performance against established goals in the Federal Government. There was legislation passed in 1993. The Modernization Act, and that was passed in 2010. And it is really important to your point, because agencies are supposed to consult with the Congress, establish goals and measures for all Federal programs and activities, and then to provide regular progress reports against those goals. So that process now is in its early stages of getting established.

We have a role in evaluating whether or not the agencies are doing that. OMB has the responsibility for the lead in that area. And it is not only goals for individual agencies and departments, but it is cross-cutting goals in a number of areas as well where multiple agencies provide funding to support an overall government-wide goal. So there is an established mechanism to do it, but it has to be done properly and well. I am pleased to see that the law now requires more consultation with the Congress. And we are going to make sure that that actually is taking place.

Mr. MEADOWS. How can you make sure that that takes place? Because, you know, we are in the land of promises here that says we are going to have this plan, and ultimately this is going to lead to a more effective and accountable government, and yet here we are without that.

Mr. DODARO. Right. Well, we are going to follow through on the facts and see what the agencies have to tell us exactly who they have consulted with. And the law requires them to not only say that, but what they have done with the advice that they have received from the Congress. Now, we are going to make sure that works. We are going to talk to Members of Congress and their staffs. And I would ask Chris Mihm, who is our expert in this area, if he wants to elaborate a little bit further. But we are doing work in that area. I am going to make sure it is done.

Mr. MEADOWS. All right.

Mr. MIHM. As the Comptroller General mentioned, sir, is that there are requirements, statutory requirements now that there are for more robust and continuing consultation on the part of agencies with the Congress and other key stakeholders.

One of the things that we have also been making offers to do, working with committee staff here on this committee and over on the Senate side, is to work with Members of Congress to help them extract that information from agencies. That is to have the—not just have it be on the demand or a lot of the agencies to come up, but have Congress start saying, we are ready for the consultation; we want to start talking to you about where you are in your goals and your performance and your strategic goals. So we remain available to work with you and your office and your colleagues on those issues.

Mr. MEADOWS. All right. And while you are still there, let's look at this. So let's talk about this performance matrix and as it comes back to maybe fragmentation, as was highlighted. So you have got

45 programs across nine different agencies, as you had in your testimony. How do you put together a performance matrix without people pointing the finger at this agency or that agency didn't meet our overall goal when we haven't consolidated under one head?

Mr. MIHM. Well, the point that you are raising, sir, was exactly one of the two major reasons that Congress had in mind when they passed the Modernization Act.

Mr. MEADOWS. Sure.

Mr. MIHM. We had requirements for many years to do strategic planning and annual planning. That was all agency based. And what Congress is looking for with the Modernization Act is a more integrated and cross-cutting perspective. So it requires OMB on behalf of the President to have some government-wide crosscutting goals but also agencies in their goals to identify who else are—what other agencies are involved in the delivery of products and services that are related to the result that they are trying to achieve. One of the things that we have been doing, we will have a report coming out on this shortly, is taking a sample of the goals that the agencies have established and begin to start looking at those and seeing have they identified relevant partners that we had otherwise identified as part of our work on overlap and duplication or that the Inspectors General had identified, and then following up and saying, hey, you seem to have missed someone that is key to your success. Why is that? And how are you coordinating with them to make sure that we don't have the overlap and duplication that you are talking about?

Mr. DODARO. You are hitting on a very important point. And there really is no systematic way that this has been done in the past. And really this needs to work if we are going to deal with this in a timely way.

Mr. MEADOWS. And so is that something that you take the lead on? Who takes the lead on that?

Mr. DODARO. OMB has the responsibility to implement the law. We have the responsibility to make sure that they are doing it effectively, providing oversight on behalf of the Congress.

Mr. MEADOWS. Okay. Thank you very much. Yield back.

Mr. DESJARLAIS. Thank the gentleman.

The chair now recognizes the gentlelady from California, Ms. Speier.

Ms. SPEIER. Mr. Chairman, thank you.

And Mr. General, let me say that I, once again, am deeply grateful for the work that you and your staff does on behalf of the American people.

Mr. Chairman, this really should be our Bible in this committee. We should take every section of this report and, in subcommittees and in full committees, go through it and save the taxpayers of this country money.

By your own earlier testimony, you said there is tens of billions of dollars. Are you in a position to tell us how much would be saved by each of the recommendations that you have made?

Mr. DODARO. It would be hard to give you a precise estimate. But I mean, just for example, in the Medicare program alone, there are the latest estimates of $44 billion in improper payments. So driving that down will save money. We have made recommendations that this pilot program that they have in Medicare Advantage be canceled. That if timely action had been take there, that was $8.3 billion.

Ms. SPEIER. So if we were to take action this year to cancel that program and just do the bonus payments, as you recommend, how much would we save?

Mr. DODARO. I believe—don't hold me to the estimate—but it is about between $2 billion and $3 billion.

Ms. SPEIER. All right. There is $2 to $3 billion, Mr. Chairman, that if this committee gets serious about really taking the recommendations of the auditor general, we would be in a position to really say we are saving people money in this country.

I also noted that under the health care area, you looked at self-referral. It continues to be a problem where physicians that own an interest in a high, advanced imaging center tend to refer more. And the figure was hundreds of millions of dollars, if I am not mistaken.

Mr. DODARO. Yeah. I don't have it off the top of my head. I can provide it for the record. But it was a significant amount of money and a high percentage.

Ms. SPEIER. So do you ever get frustrated that you make all these recommendations, and years go by and nothing happens?

Mr. DODARO. Actually, believe it or not, 80 percent of our recommendations are implemented over a 4-year period of time. That has been pretty consistent over time. We keep coming up with new recommendations.

For example, in the past, at FHA, we asked Congress to act to prohibit seller financed downpayment assistance. And that saved over $10 billion.

Ms. SPEIER. All right. So there is some good news. Let me move onto another topic, the Department of Defense. The Air Force just canceled an ECSS contract that was already—that we had already spent a billion dollars on. And this is a contract that I have asked the committee to explore in kind of a postmortem to find out what went wrong. There was an inspector general report that recommended that they should cut it off. We didn't do it. At some point, we in Congress have to take responsibility for not acting.

Now, there is another report, I believe, Computer Science Corporation is the primary contractor for ECSS project, has also been awarded a contract for another enterprise resource planning system called the LMP, just another acronym, but it is for a Logistics Modernization Program, and it is intended to streamline the Army's inventory of weapons systems.

Having said that, the inspector general for auditing within DOD has recommended that they not spend any more additional money on top of the $1.1 billion already spent on the program back in 2009. So what did we do? We continued to spend money. It now is $4 billion over budget and 12 and a half years behind schedule. When do we stop and say, it is enough? When do we stop contracting with the same contractors that are over budget, that don't do the job and, you know, go back to square one? How would you address that issue?

Mr. DODARO. Well, first of all, in the rules, the contractor's past performance is supposed to be considered in making——

Ms. SPEIER. Well, obviously, not here.

Mr. DODARO. —funding decisions. Well, there are timing issues in terms of when the different contracts would have been let, who knew what where and, importantly, within the Department of Defense, who is sharing information across the department to ensure this doesn't happen. You know, in the past, we have looked at whether or not people who were on the debarred list were getting contracts. And we found that, in some cases, agencies didn't check that list before they went ahead and made procurement decisions.

Contracting has been on our high-risk list for a long time. The procurement process doesn't always work effectively. And there are high dollar consequences to it. I would welcome congressional oversight and more attention to these areas, particularly in the Department of Defense, where we spend most of this contracting money.

Ms. SPEIER. If we made a request of you to do a postmortem on the ECSS program, would you be able to do that?

Mr. DODARO. Yes.

Ms. SPEIER. All right. Thank you.

Mr. DESJARLAIS. I thank the gentlelady.

And the chair will now recognize himself for 5 minutes for a line of questioning.

Mr. Dodaro, I would like to focus a little bit on health care. Medicare and Medicaid are both perpetually on the high-risk list, Medicare for two decades, Medicaid for a decade. Together, they are responsible for over 58 percent of all government improper payments in fiscal year 2012. What recommendation does GAO make about improving their program integrity and stopping improper payments?

Mr. DODARO. Well, a number of recommendations we have made in almost every phase of their process. For example, enrolling providers, we need to keep bad actors out of the system initially. We have made recommendations that there be surety bonds put up by the providers before they are enrolled in the programs, and yet that hasn't taken place yet. We think that is important so that the Federal Government, if there is a problem, can get the money back. We have recommended that there be more analytical procedures in place, data analytics, to spot trends in fraud in the provider area up front. They have moved it forward on that area, but they haven't linked it to the payment system yet so that if they do find a potential problem they don't stop the payments until they sort through the problem.

Then, once you get providers in, making the payments, doing a good review before you make the payments in the first place. This prevention and detection area before you make the payments really needs a lot more attention. So we have made a lot of suggestions there on how to improve the prepayment controls, that they are not standardizing the edits across the providers, the contractors who make the payments. Then there is, after the payments are made, making sure that there is post look at this area. We have made recommendations there. And then when we find that there is an improper payment that has been made, having recovery auditing go in and recoup the money back. So, at every level in the process, there is a need for reform.

We have made many recommendations. I can provide the details for the records. But this is an area that we have a high degree of attention on and has a lot of potential payback.

Mr. DESJARLAIS. As we should. That number is pretty alarming. Would you agree there is no future threat to the solvency of our country greater than health care?

Mr. DODARO. Health care is the primary driver of our projected deficits.

Mr. DESJARLAIS. Okay. The Patient Protection Affordable Care Act establishes a requirement for Center of Medicare and Medicaid Services to improve the integrity. The high-risk list notes that CMS should implement some of the requirements under the Patient Protection and Affordable Care Act to improve this integrity. Why hasn't CMS done this?

Mr. DODARO. I could provide some answers for the record. It depends on which area you are talking about. The process over there, my opinion, takes longer than it needs to, to implement these changes. But I can provide more specifics.

Mr. DESJARLAIS. Okay. I would appreciate that, considering the 20 years on the high-risk list. I think that we certainly need to target that. With the health care bill just really 8 months away, the implementation, the IRS has a large role in implementing the health care bill and the insurance exchanges, which should be in place in less than 8 months. What impact will the IRS's system modernization problems have on health care delivery in the United States?

Mr. DODARO. Let me ask Chris to come to the table to talk about that.

Mr. DESJARLAIS. Because we had a hearing on this in the last Congress, and we know that the IRS was really frankly not ready for all that is going to be required of them. There is going to be incredible interaction between future patients and the IRS, lots of reporting that has to go on, whether you move, whether you have a child, whether there is a divorce, a death, et cetera. Constant communication is required. And I think we established the wait time for someone to call the IRS to be like 55 minutes. So can you comment on where we are going to be in 8 months?

As a physician and someone who talks to a lot of physicians, we are not terribly optimistic that this is shovel ready.

Mr. MIHM. There are a couple of issues that you are raising there of course, sir. One is just on the wait time. I mean, we have seen that of course during the filing season, that there was just the IRS just in this last year, it didn't come close to meeting its goals in terms of how many people were able to get through and, you know, did they get busy signals or dropped calls and all the rest. We have made some recommendations to them that just on the filing season aspect, that they—which has implications for what you are talking about. They need do a much better job in thinking in a broad, strategic sense across the various ways that they interact with the public, being walk-in centers, correspondence, telephone calls, information that individuals that they can get through the Web. And the Web is obviously, over the long term, the way to go.

Mr. DESJARLAIS. Is it realistic to believe they can be even close to ready in 8 months?

Mr. MIHM. What we have seen in, more specifically on the Affordable Care Act, we have done a number of engagements or a number of reports that have looked at where they are on that, in particular how their infrastructure, that is their governance infrastructure, and risk management is looking. I would agree with your point that they have some major risks that they are going to have to be able to manage in order to effectively deliver this. Because they have, obviously, the implementation, or their responsibilities for implementation of Affordable Care Act. They have a very difficult filing season that is, you know, ahead of them. They have other challenges that IRS faces. And so it is going to be quite a difficult challenge for them. It is something that we continue to monitor on behalf of the Congress.

Mr. DESJARLAIS. And as you know, there are still challenges out there regarding Federal and State exchanges with the IRS in terms of that ruling. That has also been a subject of a hearing that we will revisit. I see my time has expired.

Seeing no other Democratic witnesses, I will now yield 5 minutes to my good friend and colleague from Tennessee, Mr. Duncan.

Mr. DUNCAN. Thank you very much, Mr. Chairman.

And I don't have any questions, but I did want to say a couple things.

First of all, I agree with the gentlewoman from California that this is a very important subject. And I hope the GAO stays on top of this and continues to issue these reports.

And I appreciate your work, Mr. Dodaro, and that of your staff.

And I agree with the gentleman from Pennsylvania, and I also have concern about the National Flood Insurance Program. Because I read recently that 15 of the largest insurance companies are making a real killing off of that program. I think that is something that we need to look into.

But when I read the committee memo, it mentions as the biggest, of course, programs Medicare and Medicaid and the Department of Defense. And I was here earlier this morning for the discussion on the New York Medicaid program. And they said there were $15 billion in improper payments just in that one program, the New York Medicaid program, and that there was one contract paying a $5,000 daily rate for institutionalized people. I can tell you almost every Federal contract with every Federal department and agency has some sort of sweetheart insider-type deal. And I would bet that that contract certainly was. And we now spend, according to some of the information we were given this morning, $990 billion on the two programs, Medicare and Medicaid put together. That is more money than almost all other countries in the world spend total in their complete budgets put together. And these costs are just unbelievable.

And when people say we can't cut Medicare and so forth, well, I don't want to cut any poor person out of the Medicare and Medicaid, but I will tell you this, there is a lot of people and companies getting ridiculously rich off of Medicare and Medicaid. And some of those payments need to be—and some of those contracts need to be looked into.

And then the Department of Defense, all those defense contractors, they hire all the retired admirals and generals. And then they come back to the offices that they were in and they get contracts. And it seems to me that that is rampant in Medicare, Medicaid, the Department of Defense, and throughout the Federal Government that they hire Federal employees, who retire at fairly young ages on average, and then they go back and they get these contracts from the departments or agencies that they worked for. And it is crooked. It ought to be against the law. And I hope that in future reports, you will point to some things like that out too, Mr. Dodaro.

Thank you very much, Mr. Chairman.

Mr. DESJARLAIS. I thank the gentleman.

And Mr. Dodaro, thank you very much for taking time out of your busy schedule today.

I am sorry, I yield to the ranking member for a statement.

Mr. CUMMINGS. I just want to just as we close, again, I want to thank you and your staff for your excellent report.

I want to say to Mr. Duncan, who just spoke, just what he said is just so important. You know, we talk about waste, fraud, and abuse, and sometimes I think we, you know, we kind of talk about it as if it is just a lightweight thing. But as Mr. Duncan pointed out, this is serious stuff.

And when we talk about trying to figure out how we save money and all that, you know, I just want you—you all do a great job, but I want you to continue to try to show us how we can be more effective and efficient in rooting out some of this waste, fraud, and abuse, because it is real. I think we kind of just say it, and you know, and a lot of times we are not really digging deep to get to it. It may call for us highlighting just very bad actors. It may call for us making sure that things get referred to the proper authorities, like Justice or whatever.

But we have got to get to this because if we have got the kind of money that he was talking about just going out the door and some folks getting rich, but at the same time, the money not going to the very folk that we intend it to go to, it just seems like, you know, maybe we need to zero in on, okay, now, how do we go from research to truly being effective and efficient in making that research bear some fruit? There is nothing I hate more than research that gets placed on a shelf, only to be dusted off and put in a microwave 5 years later or 10 years later and reissued, and the problem just keeps going on and on and on.

So I just hope that—I know your staff is very focused, I know they want to make sure they do the right thing. And again, I just want you all do everything in your power to help us be even more effective and efficient even than we are. All right?

Ms. SPEIER. Would the gentleman yield?

Mr. CUMMINGS. Of course.

Ms. SPEIER. I just want to associate my remarks with those of yours and those of Mr. Duncan's.

You know, there were very few members here today. This should be a mandatory meeting for every member of this committee. Because this particular report of high-risk problems in the U.S. Government should be something that every member of this committee is familiar with, and it should be the road map for much of the work that we do in our subcommittees.

And I know you are serious about making some in-roads in terms of getting rid of the fraud and abuse. I know that the general is, and all the staff that works with him. We have got to work together to resolve this because otherwise, it is just all cheap talk.

I yield back.

Mr. CUMMINGS. Well, I must say, and I give the credit—Mr. Chairman, as I just take 30 more seconds—to Chairman Issa this morning in our press conference. He recommitted to making sure that we do those things that we are talking about so that we could be more effective and efficient.

And that is why I was just saying to you, Mr. Dodaro, if there are things that you can help us with so that we can—I know you have got your recommendations and whatever. But again, you know, you know what, you know, one of the things I worry about is that when I look back on my tenure as a Congressman, I don't want to look back with regret that I failed to do the things that I could have done to help my constituents. And so sometimes maybe we need help, maybe we need tools, maybe we need advice. And if you or your staff—maybe we need a new era of how to really take these reports and bring life to them.

Because, you know, those wonderful people, great government servants sitting behind you, many of whom, probably all of whom could be making more money doing other things, but they come to government service to feed their souls, to feed their souls. And they come to make a difference. And I want them, in feeding their souls, to be effective, too. I don't want them to say, well, you know, we gave a report, and it got placed on the shelf and, you know, it never went anywhere. And so, at some time, at some point, then their morale goes down. And it is just logical. So again I want to thank you. You were about to say something, and then I am finished, Mr. Chairman.

Thank you very much.

Mr. DODARO. I would just like to make a couple points in regard to your comments, Mr. Cummings, Congresswoman Speier. Number one is the high-risk program will remain a top priority for GAO as long as I am Comptroller General. My term goes to 2025. I made a commitment at my confirmation hearing that this would be a high priority. It will remain so.

The second point, I would say one of the things that could be done that this committee could talk about is assigning some of the high-risk areas to either the subcommittees or individual members on the committee so that they can become well versed and deep in these issues, and we could work with them. That has been done in the past. And there was a high-risk caucus at one point in the Congress when we first started the programs, and it had some good effect. And they could put more pressure on the agencies or understand the issues deeper. So I would say do that.

Third point and my last point is that you can do some things to help us. We are at our lowest staffing level since 1935. Now, obviously, the Federal Government is in a much different position now than it was in 1935. We need some help, not a lot. We returned $105 for every dollar spent on GAO this past year. We added more than $55 billion in documented financial benefits as a result of implementing our recommendations. Over the last decade, that comes to about a half a trillion dollars. So we think we are a good investment, but we need some help.

And so we appreciate whatever this committee could do. So thank you very much. It has been a privilege to be here today. And you have our commitment that myself and all the dedicated and talented people at the GAO are at your disposal to make headway in making government more efficient and effective for the benefit of the American people.

Mr. DESJARLAIS. I thank you for that.

I thank the ranking member, and certainly thank Ms. Speier for her comment.

And in the spirit of summarization, I will add for all those folks that are watching this hearing today, I agree this is an incredibly important issue. As we look at our out of control debt, deficit, and spending problems, we hear calls for revenue increases. And for American people watching this hearing and listening to the high-risk list and how long things have been on the high-risk list, I think they would be very discouraged, if not disgusted, that we are not doing better. And I think it would be a shame to ask the American people for another dime of revenue until we start to solve these problems.

So, in that spirit, I am looking forward to working with my colleagues in addressing these important issues. So again, I will thank you for taking time out of your busy schedule, as well as your staff, to appear before us today.

And the committee stands adjourned.

[Whereupon, at 12:44 p.m., the committee was adjourned.]

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States

House of Representatives

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Opening Statement
Rep. Elijah E. Cummings, Ranking Member

Hearing on "Exploring GAO's High Risk List and Opportunities for Reform"

February 14, 2013

Thank you, Mr. Chairman, for holding this hearing. I believe this will be one of the most important hearings this Committee will hold this Congress. Mr. Dodaro, thank you for testifying today and for the work GAO put into creating the new High Risk report.

Every one of GAO's High Risk reports has been important. However, this year's report is especially significant because the Comptroller General and the nonpartisan experts at GAO have made a landmark decision to add the issue of climate change to their biannual High Risk report, which details the most pressing challenges facing our nation and the federal government.

In its report, GAO identifies a serious risk facing our nation, one that we cannot continue to ignore. GAO finds that climate change poses particularly significant financial risks to our nation's economy, including agriculture, infrastructure, ecosystems, and human health. GAO warns that our government "is not well positioned to address this fiscal exposure," and GAO recommends a "government-wide strategic approach with strong leadership and the authority to manage climate change risks."

GAO finds that the government has already spent tens of billions of dollars on damage from severe weather events related to climate change. According to the National Oceanic and Atmospheric Administration, over the past two years, the United States experienced 25 weather disasters that cost over a billion dollars each.

GAO's historic decision to add climate change to the list of high risk challenges facing our nation is a wake-up call for Congress to finally start addressing this critical issue. Unfortunately, in the last Congress, House Republicans voted 37 times to block action to address the threat of climate change. For example:

- They slashed climate change research funding by more than $100 million.
- They voted to prevent the State Department from using funds to send a Special Envoy for Climate Change to international climate negotiations.

- They voted to zero out the US contribution to the Intergovernmental Panel on Climate Change, the world's leading authority on climate change science.

- They voted to prohibit the Department of Homeland Security from using any funds to participate in the Interagency Climate Change Adaptation Task Force.

- And they voted to prohibit the Department of Agriculture from using any funds to implement its climate change adaptation program.

What GAO is telling us today is that Congress cannot afford to block or delay action any longer. We must act now to implement GAO's recommendations and mitigate the risks from climate change.

For these reasons, I sent a letter to the Chairman today requesting that our Committee hold a series of hearings to address each of the four specific areas that GAO highlights in its report relating to climate change.

Mr. Chairman, when we were here two years ago considering GAO's last High Risk report in 2011, you said it was our Committee's obligation to conduct "vigorous oversight" over the issues raised by GAO and to insist on "plans for change by each of the agencies listed here today."

I agreed then, and I agree now. With our Committee's extremely wide jurisdiction across multiple federal agencies and departments, we have a unique opportunity to conduct hearings that will lead to vigorous oversight, responsible funding decisions, and legislation to address the growing threats to public health and our economy.

I stand ready to work with you and all Members of the Committee in a bipartisan manner to make that happen.

Statement of Congressman Gerald E. Connolly (VA-11)
Committee on Oversight and Government Reform
Exploring GAO's High Risk List and Opportunities for Reform
February 14, 2013

Chairman Issa and Ranking Member Cummings, thank you for holding today's hearing to examine the U.S. Government Accountability Office's (GAO) 2013 High-Risk Series update. I also want to express my appreciation to Comptroller General Dodaro and the dedicated analysts at GAO, whose hard work is absolutely vital in enabling Congress to fulfill our critical oversight responsibilities. GAO's High-Risk List provides this Committee with a comprehensive roadmap to strengthen program performance and integrity across the Federal Government. As we discussed two years ago during the previous hearing on this topic, the high-risk areas identified in this report and the GAO's recommendations should be the bread and butter of this Committee, and hopefully they offer opportunities for bipartisan collaboration.

Cybersecurity, for example, continues to be a major challenge for the public and private sectors. This year's report again highlights the shocking increase in cyber attacks on the Federal Government's Information Systems over the past six years. In 2006, we experienced 5,503 cyber incidents, and last year, there were 48,562 – an increase of 782 percent! Unfortunately, it doesn't look like we're making real progress in addressing this wide-ranging threat. According to GAO, 19 of 24 major Federal agencies identified deficiencies within their information security controls, and inspectors general in 22 of those agencies cited information security as a major management challenge.

I commend President Obama for signing the Executive Order (EO) "Improving Critical Infrastructure Cybersecurity," which at least establishes a voluntary framework to begin addressing the looming threat of a potentially devastating "Cyber-Pearl Harbor" attack. However, this EO only represents a first step, and we in Congress must step up and do our part to bolster America's cyber defenses. As GAO's report notes, current law is either vague or non-existent when it comes to cybersecurity requirements for critical infrastructure sectors, and only Congress can fix this. I look forward to working with my colleagues on this Committee to advance bipartisan legislation that defines roles and responsibilities for implementing and overseeing Federal information security programs and provides agencies with enhanced hiring authorities to effectively recruit and train the next generation of cyber security experts.

Managing Federal Real Property is another High-Risk Area where there is a tremendous opportunity to conduct diligent, bipartisan oversight that achieves billions of dollars in cost-savings. I know this issue is a high priority for Congressman Mica, Chairman of this Committee's Government Operations Subcommittee, and as the Ranking Member, I look forward to working with Chairman Mica to oversee implementation of GAO's recommendations to more effectively manage Federal excess and underutilized real property. A decade has passed since GAO designated Federal real property management as high-risk. My hope is that over the next two years, the Subcommittee on Government Operations will work closely with GAO to ensure the Office of Management and Budget and the Federal Real Property Council implement and sustain important reforms that will finally allow the Comptroller General to come before us in 2015 and announce that Federal real property management has been removed from the High-Risk List.

(OVER)

I also want to commend GAO for once again calling attention to the consequences of not adequately investing in our Nation's transportation infrastructure. The 18.4 cent per gallon Federal motor fuel tax has been left unchanged since 1993, and, as a result, its purchasing power has shrunk by 37.5 percent over the past two decades. No wonder our America's infrastructure is crumbling! I wholeheartedly agree with GAO's recommendation that Congress must develop a long-term plan for funding surface transportation. Congress made some progress in that respect with the adoption of the two-year surface transportation reauthorization known as MAP-21, and we will revisit this subject again next year.

With respect to new high-risk areas, I was particularly pleased to see this year's report designate the threat of climate change as "a significant financial risk to the Federal Government." The frequency and cost of disaster declarations has increased over the past decade. 2012 was the hottest year on record in the United States, exceeding the previous record set in 1998 by a full degree. Last year also ranks as the second worst in terms of the "Climate Extremes Index." More than 11 severe disasters caused damages of more than $1 billion each, including a series of tornadoes in the Midwest, wildfires in the West, and the bizarre derecho storm that blew through the National Capital Region in June. Of course, the biggest weather events of last year were the two major hurricanes, Isaac, which blasted the Gulf Coast in August, and Sandy, which devastated the Mid-Atlantic and Northeast regions last fall. Congress recently approved $60 billion in assistance for those communities affected by Sandy and to help improve disaster preparedness in other communities.

What's truly shocking is that in the face of mounting evidence about the threat of global warming and the increasing incidence of severe weather, my Republican colleagues continue to put their heads in the sand. In fact, just as GAO is adding the threat of climate change to the High-Risk List, the Energy and Commerce Committee, which has jurisdiction over this issue, appears to be heading in the opposite direction – developing an oversight plan for the 113th Congress that doesn't even mention, let alone address, the threat of climate change! GAO's report clearly demonstrates that this is an untenable position given the breadth of the Federal property involved, and the financial exposure of the Federal Government through crop and flood insurance and disaster assistance. Contrary to what some of my colleagues would have you believe, climate change most certainly is a great concern to the Federal Government and all taxpayers, and I applaud the GAO for recognizing this reality.

Finally, I want to take a moment to highlight the success stories contained in GAO's report. As the Comptroller General noted in his testimony, "Since our last high-risk update in 2011, many notable positive developments have occurred and progress has been made in the vast majority of areas that remain on the list." Too often, Members of Congress focus only on horror stories, ignoring promising and innovative practices that could actually improve government operations, while failing to recognize and reward excellent performance by dedicated Federal workers. And it is on that note that I want to publicly commend the strong leadership of Dan Gordon, former Administrator of the Office of Federal Procurement Policy, and of Doug Shulman, former Commissioner of the Internal Revenue Service (IRS), in respectively leading the efforts to remove Management of Interagency Contracting and IRS Business Systems Modernization from GAO's High-Risk List. I look forward to discussing how we can continue these successful efforts with the Comptroller General.

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Statement for the Record
Congressman Matt Cartwright

Full Committee Hearing on: "Exploring GAO's High Risk List and Opportunities for Reform"

February 14, 2013

Thank you, Chairman Issa and Ranking Member Cummings. This report by the GAO embodies the efforts of the Oversight and Government Reform Committee as we work to improve government efficiency and transparency. The fact that only two of the 30 High Risk designations from 2011 were removed on this year's list, some of which have been on this list for over a decade, represents the long strides we still have to make in key areas of our government.

The addition of the impact of Climate Change to this year's list is both disheartening and welcomed; it is certainly preferred that we would not put ourselves in a situation in the first place, but the recognition is a first step in urging Congress towards action.

That is why I will be working with the GAO to address two specific concerns they have highlighted in this report. First, I'll be working with GAO to find the best possible way to coordinate the various adaptation reports required by Executive Order 13514: Federal Leadership in environmental, Energy and Economic Performance, 74 Fed. Reg. 52117 (Oct. 5, 2009) and to come up with a national strategic plan to prepare for this grave threat. Second, I look forward to working with GAO to address one of their core concerns regarding this report, that we don't precisely know to what extent the nation is vulnerable to climate change in its role as an insurer.

American citizens across the country, from farmers to homeowners and beyond, stand to lose a lot from the continued unchecked progression of climate change. If we are to work to correct this trend in order to preserve the Earth for our children, we cannot let climate change sit on the GAO's high risk list for decades on end.

Thank you, Mr. Chairman.

SAS RX ALERT

PRESENTED BY sas

Wednesday February 13, 2013 // ISSUE #15

RX ALERT MESSAGE

Propofol -

Hospira and APP continue to release and ship product intermittently. However, neither manufacturer has comitted to a full recovery date.
Allocation: 100 vials every 30 days per DEA license

Brevital -

JHP states that all presentations of Brevital are currently on backorder.
500mg vials are scheduled to be released early March, however we are receiving intermittent shipments.
2.5g vials are scheduled to be released early April.
Allocation: 50 vials every 7 days per DEA license

- Backorders that exceed 90 days are subject to be canceled.

Based on national drug shortages, allocation amounts may vary. Release dates are based on most *recent manufacturer* status updates and are subject to change.

SAS TOP DRUG STATUS TABLE

All items in table below *could* be subject to allocation based on SAS supply.

Ampicillin	In Stock
Brevital	Estimated Release from MFG- March
Cefazolin	In Stock
Clindamycin/Cleocin	In Stock
Demerol	Call for Available Presentations
Dexamethasone Vial	In Stock
Diazepam Vial	In Stock
Diphenhydramine	In Stock
Epinephrine	Estimated Release from MFG -- Feb

[illegible]	[illegible]
Fentanyl	Call for Available Presentations
Flumazenil	In Stock
Glycopyrrolate/Robinul	Call for Available Presentations
Ketamine	In Stock
Ketorolac	In Stock
Lidocaine Carpule	In Stock
Midazolam	In Stock
Nalbuphine	Estimated Release from MFG - Feb
Naloxone	Call for Available Presentations
Ondansetron	In Stock
Promethazine Vial	In Stock
Propofol/Diprivan	Receiving Intermittent Shipments
Quelicin/Anectine	MFG BO No Release Date
Sodium Bicarb	Estimated Release from MFG - Feb
Solu-Medrol	In Stock
Sterile Water	In Stock

SAS Top Drug Status Table Definitions

In Stock -- Available for purchase.

Call for Available Presentations -- Specific sizes and/or strengths are available for purchase.

Limited Supply Available -- Due to manufacturer shortage, SAS has limited supply of this drug. Limited Supply may result in an "On Allocation" status, and a potential interruption of product availability.

***Estimated* MFG Release Date - Month** -- Release dates are based on most recent manufacturer status updates and are subject to change.

No MFG Release Date -- Manufacturer cannot estimate a date for product release.

Discontinued -- A manufacturer has discontinued production of this item.

For a more detailed status on all pharmaceuticals, visit the American Society of Health System Pharmacists Current Drug Shortage List.

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

March 7, 2013

The Honorable Paul A. Gosar, DDS
Committee on Oversight and Government Reform
House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515

Dear Dr. Gosar:

Following the February 14, 2013 hearing held by the Committee on Oversight and Government Reform, *Exploring GAO's High Risk List and Opportunities for Reform*, we received questions for the record from you. This correspondence provides our responses to your questions. If you or your staff have any questions or need additional information, contact Marcia Crosse at 202-512-7114 or crossem@gao.gov.

Sincerely yours,

Katherine Siggerud

Katherine A. Siggerud
Managing Director, Congressional Relations

Enclosure

cc: The Honorable Darrell Issa, Chairman
The Honorable Elijah Cummings, Ranking Member
Committee on Oversight and Government Reform

Enclosure

GAO Responses to Questions for the Record

from Dr. Paul A. Gosar

House of Representatives Committee on Oversight and Government Reform

Following the Committee's February 14, 2013 hearing entitled

"Exploring GAO's High Risk List and Opportunities for Reform"

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1. **In November of 2011, the GAO released a report on drug shortages and issued a series of recommendations to the FDA. In 2010, the FDA reported a shortage of 178 drugs while in 2011, there were 251 drug shortages reported. These shortages have involved cancer drugs, anesthetics used for patients undergoing surgery, as well as drugs needed for emergency medicine, and electrolytes needed for patients on IV feeding.**

   Since the recommendations you set forth in 2011, how has the GAO seen the FDA complying with the recommendations and when do you expect their reports?

   FDA has taken steps to begin addressing our 2011 recommendations.[1] We recommended that FDA assess the resources allocated to its Drug Shortage Program (DSP) as it had consistently devoted a small number of staff to this important activity. FDA officials have told us that they have since expanded staffing for the DSP from three full-time staff at the beginning of 2011 to 11 full-time staff as of September 2012. We also recommended that FDA ensure its strategic plan makes clear that maintaining drug availability is a priority. FDA has since established a drug shortages task force, as required by the recently enacted Food and Drug Administration Safety and Innovation Act (FDASIA), which is preparing the agency's strategic plan for preventing and mitigating drug shortages. The FDA task force must publish the strategic plan and submit it to Congress by July 9, 2013, which is one year after the date of enactment of FDASIA. Finally, we recommended that FDA develop an information system to manage its shortage-related data and develop performance metrics to assess its response to shortages. FDA officials have told us that they are now working to improve their shortage-related data and their ability to assess their own performance but have not supplied us with a specific target completion date for these activities. We will continue to monitor FDA's progress in implementing our recommendations.

   In your research for compiling the High Risk List, did you observe any progress made at the FDA from your previous examinations in prior reports?

   Yes, we believe progress is being made. The steps taken by both the Congress and the FDA since our 2011 report was issued have the potential to make a meaningful difference in how the federal government responds to drug shortages. For example, in that report, we suggested that Congress consider establishing a requirement for manufacturers to report to FDA any interruptions that could affect the supply of their drugs. FDASIA, enacted in July 2012, requires manufacturers of drugs that are life-supporting, life-sustaining, or used to prevent or treat debilitating diseases or conditions to notify FDA at least 6 months in advance of any such interruptions. As we reported, when FDA learns of shortages in advance, it can prevent the majority of such shortages from occurring, so this change in requirements for reporting should assist the agency in reducing the number of shortages.

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[1] GAO, *Drug Shortages: FDA's Ability to Respond Should Be Strengthened.* GAO-12-116 (Washington, D.C.: Nov. 21, 2011).

In addition, we are currently undertaking two studies to explore some of the issues raised in our previous report in greater detail. One study is being conducted in response to a FDASIA mandate that requires us to issue a report by early January 2014. Among other things, this broad review will describe trends in recent drug shortages and their causes, how market participants respond to shortages, and progress FDA has made since our 2011 report was issued. In addition, we plan to examine other factors, such as economic factors that may contribute to shortages and any steps that various federal agencies may be taking to monitor or combat gray market activities, that is, the stockpiling and selling of shortage drugs at exorbitant prices. Our second study, being conducted at the request of the Senate Judiciary Committee, is focused exclusively on shortages of controlled substances. Although such drugs have the potential for abuse, they are also critically needed for legitimate medical use. Shortages of these drugs, including anesthetics and pain medications, have been of particular concern to emergency physicians and other first responders. We expect to issue this report later this year.

2. **When examining the FDA, what roadblocks have you found that have led to the current drug shortage crisis we have today? Are these problems mainly internal FDA problems or caused by manufacturers due to a line going down or discontinuing a product?**

Drug shortages can be driven by a variety of factors, including manufacturing problems, disruptions in supply of raw materials, unexpected increases in demand, industry consolidations, and instability in the supply chain, as we reported in 2011. In our 2011 report, we reviewed 15 drug shortages in detail that had a significant impact on public health. All were sterile injectable anesthetic, oncology, or anti-infective drugs. We found that 12 of the 15 shortages were primarily caused by manufacturing problems and the remaining three shortages were caused by disruptions in the supply of active pharmaceutical ingredients, according to information provided by FDA and manufacturers. In addition to the initial problems that led to the shortages, over half of the shortages we examined were further exacerbated by additional difficulties. For example, although these drugs had an average of three manufacturers, in many cases other manufacturers were unable to keep up with increased demand when the production of one of their competitors declined or stopped. We plan to examine the causes of shortages in greater detail as we conduct further work.

It is also important to note that FDA can play an important role in preventing, mitigating, and resolving drug shortages. We found that FDA responded to shortages by taking actions to address their underlying causes and to enhance product availability, when it was notified of a potential shortage in advance. However, we also reported that, overall, FDA had not effectively dealt with the rapid escalation in shortages and had a predominantly reactive approach. This was partially due to the fact that, at the time our report was issued, FDA did not have authority to require manufacturers to notify the agency of an impending shortage, except with respect to the discontinuation of certain approved drugs. In addition to its lack of authority—which has since been remedied by FDASIA—we found that FDA's ability to respond effectively to drug shortages was constrained by a variety of management challenges. Recent actions by both the FDA and the Congress may alleviate some of these concerns, such as additional staffing and data systems and the establishment of a drug shortages task force. We will monitor the agency's response to shortages as we conduct further work.

GAO Responses to Questions for the Record

from Representative Trey Gowdy

House of Representatives Committee on Oversight and Government Reform

Following the Committee's February 14, 2013 hearing entitled

"Exploring GAO's High Risk List and Opportunities for Reform"

Question 1: What factors have contributed to the surge in drug shortages?

Shortages of prescription drugs, including shortages of drugs that are life-saving and life-sustaining, are a long-standing issue. Amidst a growing concern about the public health consequences of drug shortages, the Food and Drug Administration (FDA) established its Drug Shortage Program (DSP) in 1999 in order to prevent, alleviate, and resolve shortages. However, since 2006, the number of drug shortages has grown substantially, with a record 251 drug shortages reported to FDA in 2011. In that year, we reported that a variety of factors can trigger drug shortages, including manufacturing problems, disruptions in the supply of raw materials, unexpected increases in demand, industry consolidations, manufacturers' business decisions, and instability in the supply chain.[1] Our 2011 report also included a review of 15 drug shortages in detail. All of these shortages were sterile injectable anesthetic, oncology, or anti-infective drugs that had a significant impact on public health. We found that 12 of the 15 shortages were caused by manufacturing problems while the remaining three were caused by the disruption in the supply of active pharmaceutical ingredients. In addition, over half of the shortages were exacerbated by additional difficulties after the drug initially went into short supply. For example, in some cases, shortages were prolonged when other manufacturers were unable to keep up with increased demand when the production of one of their competitors declined or stopped.

Question 2: What can be done by FDA or through legislative change to remedy drug shortages?

FDA plays an important role in responding to drug shortages and Congress recently strengthened the agency's ability to do so. FDA has taken a variety of actions and been able to prevent the majority of shortages from occurring when it has learned of potential shortages in advance. For example, when notified of a shortage FDA has provided assistance directly to manufacturers by identifying alternative suppliers in cases where manufacturers are facing difficulties obtaining raw materials. In other cases, it has provided advice on how to address quality issues and ensure compliance with current good manufacturing practice regulations to manufacturers experiencing technical problems with their manufacturing processes. However, at the time our 2011 report was issued, FDA lacked authority to require manufacturers to report actual or potential shortages to the agency except with respect to the discontinuation of certain approved drugs. We therefore suggested that Congress consider establishing a requirement for manufacturers to report potential or actual supply disruptions to FDA. The Food and Drug Administration Safety and Innovation Act (FDASIA), enacted in July 2012, established this requirement with a provision that requires manufacturers of drugs that are life-supporting, life-sustaining, or used to prevent or treat debilitating diseases or conditions to notify FDA at least 6 months in

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[1]GAO, *Drug Shortages: FDA's Ability to Respond Should Be Strengthened.* GAO-12-116 (Washington, D.C.: Nov. 21, 2011).

advance of any such interruptions. We believe that implementation of this provision should help FDA to reduce the number of drug shortages because FDA has demonstrated its ability to prevent shortages when it is notified in advance.

Our 2011 report also included several recommendations for FDA to improve its oversight of and response to drug shortages. FDA has begun to take steps to address these recommendations. For example, we recommended that FDA assess the resources allocated to its DSP as it had consistently devoted a small number of staff to this important activity. FDA officials have told us that they have since expanded staffing for the DSP from three full-time staff at the beginning of 2011 to 11 full-time staff as of September 2012. We will continue to monitor FDA's progress in implementing this recommendation as well as the other recommendations from our 2011 report as part of our ongoing work on drug shortages. Although neither legislation nor regulatory action can avert all drug shortages—such as those caused by disruptions in the supply of raw materials—we believe that FDA's new authority and its implementation of our recommendations can make a significant difference in responding to what has become a public health crisis.

We are continuing to examine this important problem. Specifically, we are currently undertaking two studies to further explore some of the issues raised in our previous report, as well as to identify what additional actions, if any, FDA or Congress can take to address drug shortages. One study is being conducted in response to a FDASIA mandate that requires us to issue a report by early January 2014. Among other things, this study will describe trends in recent drug shortages and their causes, how market participants respond to shortages, and progress FDA has made since our 2011 report was issued. We will include a review of other factors, such as economic factors that may contribute to shortages and any steps that various federal agencies may be taking to monitor or combat gray market activities, that is, the stockpiling and selling of shortage drugs at exorbitant prices. Our second study, being conducted at the request of the Senate Judiciary Committee, is focused exclusively on shortages of controlled substances such as pain medications. Although such drugs have the potential for abuse, they are also critically needed for legitimate medical use and have been of particular concern to emergency physicians and other first responders. We expect to issue this report later this year.