106TH CONGRESS
2d Session

COMMITTEE PRINT

S. PRT.
106–62

R E P O R T

OF

SENATOR FRED THOMPSON

Chairman of the

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ON

MANAGEMENT CHALLENGES FACING THE NEW ADMINISTRATION

Part 1: Financial Management Issues
Part 2: Federal Workforce Challenges
Part 3: Results-Oriented Governance

OCTOBER 2000

U.S. GOVERNMENT PRINTING OFFICE
67–613 WASHINGTON : 2000

CONTENTS

MANAGEMENT CHALLENGES FACING THE NEW ADMINISTRATION

PART 1: FINANCIAL MANAGEMENT ISSUES

INTRODUCTION

On the eve of the upcoming elections and transition to a new Administration and a new Congress, attention centers on policy agendas. However, for our new leaders to succeed with their agendas, they also will need to focus on how the Federal Government executes policy. The work of the Governmental Affairs Committee in recent years points to a series of core capacity problems that pervade the Federal Government and severely limit its ability to implement policies and accomplish its missions. The problems, which are interrelated, include Federal financial management issues, Federal workforce (or "human capital") challenges, and the need for results-oriented governance in the Federal sector.

Capacity problems of the magnitude that face the Federal Government would trigger the immediate and urgent attention of any rational private sector executive. Unfortunately, these problems have festered for years under the radar screens of Federal policymakers. Continued inattention to these problems will threaten the ability of our new leaders to implement their policy agendas and to provide our citizens the essential services they need and deserve. As one writer pointedly observed:

> [L]ike any good chief executive officer, the President can ill afford to ignore some of the less sexy—but no less important—issues that plague the Federal Government. Tackling problems with the employee merit system, improving agency performance and implementing information technology management reforms won't get George W. Bush or Al Gore on the front pages of *The New York Times* or *The Washington Post.* But ignoring them could.[1]

The extent of the capacity problems facing the Federal Government is not open to serious question. These problems have been documented repeatedly by the General Accounting Office (GAO), agency Inspectors General (IGs), and other objective sources. The problems are not ideological or partisan. They pose the same obstacles to achieving policy objectives of the left or the right, of Republicans or Democrats. Therefore, resolving them should be a priority

[1] Matthew Weinstock, *An Agenda for Government's Next CEO,* Government Executive Magazine (September 2000), p. 94.

for the next Administration and Congress regardless of their political makeup.

Daunting as many of the problems may be, they are solvable. In most cases, it is clear what needs to be done. The main challenge is mustering the will to resolve them and the commitment to follow through until the job is done. The solutions usually center on sustained attention and cooperation by both the Executive Branch and Congress. While some additional legislation may be necessary, our statute books already contain the basic tools to do the job. Targeted funding often will be needed. However, the necessary investments, even when substantial, pale in comparison to the waste that can be eliminated and the performance improvements that can be obtained.

Senator Fred Thompson, Chairman of the Governmental Affairs Committee, issues this series of transition reports to focus on the three core capacity problems that will face the incoming Administration and Congress: Financial Management Issues (Part 1), Federal Workforce Challenges (Part 2), and Results-Oriented Governance (Part 3). These transition reports describe the three problems, discuss their nature and root causes, and propose ways of solving them. The reports are intended to stimulate action on the part of our incoming leaders and provide them a useful framework for this important task.

OVERVIEW AND SUMMARY

This is one in a series of transition reports that describe core capacity problems facing the Federal Government, discuss their nature and root causes, and propose ways of solving them. The reports are intended to stimulate action on the part of the incoming Administration and Congress, and to provide them a framework for this important task. This report deals with the need for results-oriented governance at the Federal level. Other reports address Federal workforce challenges and the need for results-oriented governance at the Federal level.

The vast majority of Federal agencies lack financial systems that can provide reliable information on a real-time basis to support policy-making and day-to-day management of Federal operations. Federal financial management problems are deep-seated and challenging. IGs have listed financial management as one of the “top 10” most serious problems facing 21 of the 24 major Federal agencies. Financial management is the direct subject of five of the 26 current GAO “high-risk” problem areas. It is a major contributing factor to many more GAO high-risk and IG top 10 problems. Financial management problems have persisted for years and won’t be solved overnight. The most disturbing aspect of these problems, however, is that we seem to be making little demonstrable progress to resolve them.

More agencies are getting “unqualified” (“clean”) opinions on their annual financial statements. However, some agencies with huge budgets, are not. Consequently, the Federal Government as a whole is not close to being able to balance its books. Furthermore, according to GAO, the vast majority of Federal agencies lack financial systems that comply with basic statutory requirements or provide reliable information that can be used for day-to-day management. Indeed, many agencies get clean opinions *despite,* rather than because of, their financial systems. Getting a clean opinion can mask deficiencies in an agency's underlying financial systems and divert resources from fixing them.

The consequences of these shortcomings go far beyond technical compliance concerns. They result in incalculable taxpayer losses to fraud, waste, and error. They divert Federal benefits and services away from those who legitimately depend upon them. They deprive decisionmakers of the ability to make informed policy decisions, oversee programs, hold agencies and programs accountable for their performance, and get results for the American people. For example:

- No one knows how many tax dollars are lost to outright fraud, waste, and other improper payments since the government does not systematically track such losses. However, from the few available sources that do exist, the Committee has documented almost $230 *billion* in waste. This includes overpayments exceeding $20 billion in just a handful of programs.
- Financial management weaknesses impede the delivery of benefits and services to our citizens. Agencies have trouble getting the right benefits to the right people on a timely basis, or even responding to their inquiries promptly and accurately. The Internal Revenue Service (IRS) provides billions in tax credits to the wrong taxpayers, while qualifying taxpayers fail to get billions in tax credits to which they are entitled. After taxpayers have settled their cases, IRS often fails to release liens against their property within the deadline prescribed by law.
- Enormous amounts of financial, medical, and other sensitive personal information provided by our citizens are at risk of inappropriate disclosure and use due to massive information security weaknesses and ineffective controls in most financial management systems.

In order to solve these problems, it is essential that the incoming Administration bring a sense of commitment and urgency to the task and that the incoming Congress provide vigorous oversight and support. Our success in resolving the Year 2000 (Y2K) Computer Problem provides a model for addressing other problems. It featured aggressive Congressional oversight, strong and centralized Executive Branch leadership, persistent follow-up with specific performance goals and benchmarks, and support through necessary funding and other resources. We need to bring the same sense of urgency and commitment to resolving financial management and other problems.

An essential first step is that agencies candidly acknowledge the extent and seriousness of the problems. This does not always happen today. Second, neither the Administration nor Congress can be content with the minimal pace of current progress, which tends to feature expressions of good intentions rather than demonstrable results. We need to develop firm commitments for concrete improvements and follow through on them. Third, the new Administration needs to ensure that the Office of Management and Budget (OMB) carries out its central leadership role and statutory responsibilities for improving financial management across the government. OMB has failed to do so in recent years.

Within this overall framework, there are a number of specific actions that can make real improvements in financial management. As detailed in this report, they include:

- Using the Government Performance and Results Act ("Results Act") to establish specific and measurable goals for financial management improvement and to report progress on meeting these goals.
- Systematically disclosing and quantifying major overpayment problems in annual agency financial statements and coupling this disclosure with specific error-reduction targets.
- Enhancing data sharing and verification in order to improve the accuracy of eligibility determinations under Federal programs.
- Systematically addressing and tracking progress to implement GAO and IG recommendations for financial management improvements.
- Adopting financial management "best practices" from leading private sector and government organizations.
- Providing necessary resources and incentives to improve financial management, and imposing real sanctions where remedial action is not forthcoming.
- Using recovery auditing to recoup overpayments and to invest a portion of the proceeds to make improvements that will avoid future overpayments.

STATUS OF FEDERAL FINANCIAL STATEMENTS AND SYSTEMS

Expectations for sound financial management. Most major Federal agencies have difficulty meeting the minimum expectations of laws designed to ensure sound financial management in the Federal Government. These laws include the Chief Financial Officers (CFO) Act of 1990, which requires annual financial statement audits, and the Federal Financial Management Improvement Act of 1996 (FFMIA), which calls for agencies to comply with basic accounting and financial management standards. In testifying about the government's many challenges in meeting these requirements, a GAO official observed:

> [F]rom the outset today, I want to dispel the notion that this is merely a compliance issue. The expectations in the CFO Act and the FFMIA are integral to producing the data needed to efficiently and effectively manage the day-to-day operations of the Federal Government and provide accountability to the taxpayers. When Federal agencies can meet these expectations, they will have achieved what the Comptroller General has referred to as the "end game"—systems and processes that routinely generate reli-

> able, useful, and timely information the government needs to assure accountability to taxpayers, manage for results, and help decisionmakers make timely, well-informed judgments. [1]

Financial statement results. Unfortunately, we are nowhere close to achieving this "end game." The Federal Government as a whole cannot pass the annual financial audit required by the CFO Act. Such an audit is the staple of any private sector business. For the last 3 fiscal years, GAO has issued a "disclaimer" opinion on the consolidated financial statements of the U.S. Government. That means that the government's financial statements do not provide reliable information for decisionmakers or the public. GAO identified "over $350 billion of adjustments and reclassifications" that had to be made in order to reconcile information used to prepare the government's fiscal year (FY) 1999 financial statements. Even with these adjustments, the books were still out of balance by $24 billion. [2]

Some individual agencies likewise cannot pass their own annual financial audits. Fifteen of the 24 major agencies received "unqualified" audit opinions for FY 1999. Four agencies—Education, Justice, Treasury, and the Environmental Protection Agency (EPA)—received "qualified" opinions. Five agencies—Agriculture, Defense, Housing and Urban Development (HUD), the Office of Personnel Management, and the U.S. Agency for International Development—received "disclaimer" opinions. While these results are a net improvement over FY 1998, they fell well short of OMB's goal. Furthermore, two agencies (EPA and HUD) regressed from their FY 1998 opinions.

Clean audit opinions are only the start. While getting a "clean" audit opinion is important, this alone does not evidence sound financial management. A clean opinion simply means that an agency's financial information is accurate as of one day of the year—the last day of the fiscal year. It provides no assurance that the agency can actually produce and use reliable financial data on a real-time basis. In fact, it normally takes Federal agencies 6 months after the close of the fiscal year to establish the accuracy of their balance sheets as of the last day of the prior year. Some agencies cannot even meet this 6-month statutory deadline.

Furthermore, the Comptroller General testified that some agencies were able to get clean opinions only through what he described as "heroic efforts." These efforts entail painstakingly reconstructing basic information about agency spending on programs and activities. Their financial systems could not routinely provide this information. Indeed, he went on to say, "Agency financial systems overall are in poor condition and cannot provide reliable financial information for managing day-to-day government operations and holding managers accountable." [3]

A clean opinion actually can be misleading by masking deficiencies in an agency's underlying financial systems. For example, GAO notes that the Transportation Department's core accounting system was not the primary source for the financial data that lead to its clean opinion. Because its core system was so unreliable, the Department had to make about 800 adjusting entries totaling $36 billion to get its "clean" opinion. [4] Furthermore, time-consuming and *ad hoc* efforts to get clean opinions can be counter-productive since they divert agency financial managers from fixing the underlying problems. GAO states:

> The extraordinary efforts that many agencies go through to produce auditable financial statements are not sustainable in the long term. These efforts use significant resources that could and should be used for other important financial-related work. [5]

The Department of Health and Human Services (HHS) and the IRS were other agencies that got clean opinions only through time-consuming, manually-intensive, and error-prone processes that involved billions of dollars of adjustments. The Education Department is still another example of an agency whose ostensible progress for FY 1999 was generally the result of time-consuming and *ad hoc* efforts rather than genuine improvements in its financial systems. Education received a "qualified" opinion on its financial statements for FY 1999, which is better than the "disclaimer" opinion it got for FY 1998. However, the Department's internal control problems actually worsened in FY 1999. For example, Education misreported $7.5 billion in its FY 1999 accounts; failed to remit to the Treasury $2.7 billion in collections from its Federal Family Education Loan Program (FFELP) as required by law; and had a discrepancy of $700 million in its FFELP account balance. Also, continued weaknesses in security controls exposed Education's sensitive grant and loan data to deliberate or inadvertent, misuse, destruction, or improper disclosure. [6]

The true test of financial management fitness. Annual compliance audits under FFMIA provide the best indication of whether agencies can produce the data needed to manage their day-to-day operations efficiently and effectively. However, 21 of the 24 major agencies failed to substantially comply with FFMIA standards for FY 1999. [7] The FY 1999 FFMIA results represent no improvement whatsoever over FY 1998, when the same 21 agencies failed their FFMIA audits. They represent a step *backward* from FY 1997, when 20 agencies failed. In summary, the GAO report on FFMIA results for FY 1999 observes that, for 3 straight years now, "the vast majority of agencies' financial management systems fall short of the CFO Act and FFMIA goal to provide reliable, useful, and timely information on an ongoing basis for day-to-day management and decisionmaking." [8]

An important feature of FFMIA is the requirement that non-compliant agencies develop "remediation plans" to describe what actions they will take to fix their problems and come into compliance. However, GAO found that the majority of agency remediation plans were inadequate and had improved only slightly over FY 1998. According to GAO, "many plans still lacked detailed steps, target dates, and descriptions of the resources needed for executing the corrective actions." Two of the 21 agencies found to be non-compliant (the Federal Emergency Management Agency and the Social Security Administration) did not submit remediation plans at all because they disagreed with the finding of non-compliance. [9]

GAO also reported that OMB failed to meet its statutory obligations under FFMIA. When an agency determines, contrary to an audit finding, that it does comply with FFMIA, the law requires OMB to review the agency's determination and report on the findings to appropriate Congressional committees. GAO states that "OMB is not reviewing and has not reviewed such determinations in order to report to the Congress." [10]

The following table shows the results of recent CFO Act financial statement audits and FFMIA reviews for the 24 major agencies:

FINANCIAL STATEMENT AUDIT AND FFMIA RESULTS

Agency	FY 1998 Opinion	FY 1999 Opinion	FFMIA Compliant?
Agriculture	Disclaimer	Disclaimer	No
Commerce	Unqualified	Unqualified	No
Defense	Disclaimer	Disclaimer	No
Education	Disclaimer	Qualified	No
Energy	Qualified	Unqualified	Yes
HHS	Qualified	Unqualified	No
HUD	Unqualified	Disclaimer	No
Interior	Unqualified	Unqualified	No
Justice	Disclaimer	Qualified	No
Labor	Unqualified	Unqualified	No
State	Unqualified	Unqualified	No
Transportation	Disclaimer	Unqualified	No
Treasury	Qualified	Qualified	No
Veterans Affairs	Qualified	Unqualified	No
AID	Disclaimer	Disclaimer	No
EPA	Unqualified	Qualified	No
FEMA	Unqualified	Unqualified	No
GSA	Unqualified	Unqualified	No
NASA	Unqualified	Unqualified	Yes
NSF	Unqualified	Unqualified	Yes
NRC	Unqualified	Unqualified	No
OPM	Disclaimer	Disclaimer	No
SBA	Unqualified	Unqualified	No
SSA	Unqualified	Unqualified	No

Source: GAO

EXTENT AND CONSEQUENCES OF FINANCIAL MANAGEMENT PROBLEMS

Scope of the problems. GAO has designated financial management as a high-risk problem at the Defense Department, the Forest Service, the Federal Aviation Administration, and the IRS. IGs have designated financial management a top 10 management problem at all 24 major agencies except the Energy Department, the General Services Administration, and the Social Security Administration. The following examples illustrate the impact of these problems at two agencies.

IRS. Financial management problems at IRS contribute to four separate GAO high-risk areas. Clearly, IRS auditors would come down hard on any business or individual taxpayer who kept their books and records as poorly as IRS does. A recent GAO audit identified IRS accounting errors that, if uncorrected, would have caused a misstatement of over $100 million in the agency's financial statements for FY 1999. GAO's audit also revealed serious internal control problems, such as the following:

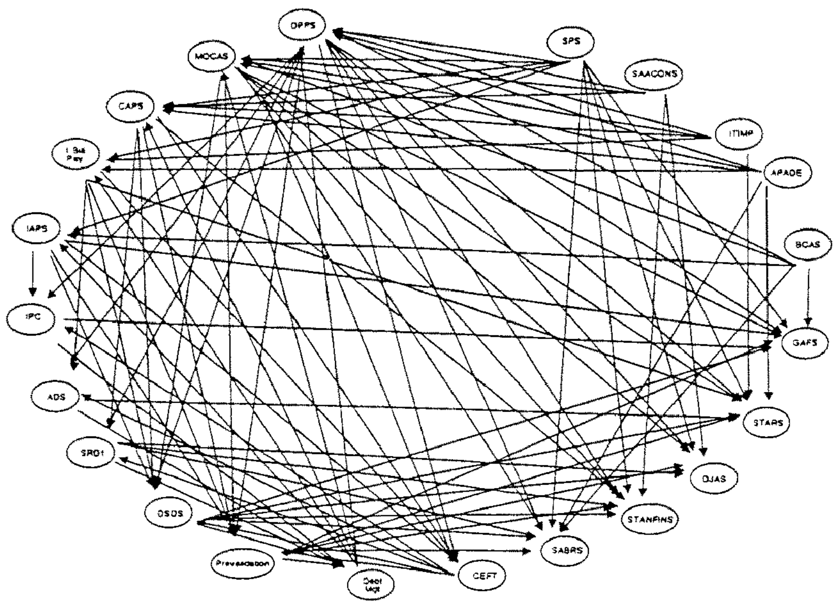
- Delays of over 10 years in posting payments made by taxpayers to their accounts.
- Failure to offset refunds to taxpayers against their outstanding tax liabilities. In one case, IRS paid a refund of $15,000 to a taxpayer who owed almost $350,000 in back taxes.
- Delays in correcting erroneous tax assessments resulting from data input mistakes. In one case, it took IRS 18 months to correct an input error that resulted in an assessment of over $160,000 against a taxpayer who was actually due a refund. IRS apparently knew the assessment was erroneous 10 months before it was corrected.
- Delays in releasing property liens against taxpayers. In 25 percent of cases examined by GAO, IRS failed to release its liens against taxpayers who had settled their tax liability within the statutory deadline. In one case, IRS had not released its lien 14 months after settlement with the taxpayer. [11]

The Defense Department (DOD). DOD is the most deficient of all agencies in failing to provide basic financial accountability. Financial management at DOD as a whole has been a GAO high-risk problem area since 1995. GAO recently testified:

> Material financial management deficiencies identified at DOD, taken together, continue to represent the single largest obstacle that must be effectively addressed to achieve an unqualified opinion on the U.S. Government's consolidated financial statements. DOD's vast operations—with an estimated $1 trillion in assets, nearly $1 trillion in reported liabilities and a reported net cost of operations of $378 billion in fiscal year 1999—have a tremendous impact on the government's consolidated financial reporting. *To date, no major part of DOD has yet to pass the test of an independent audit;* auditors consistently have issued disclaimers of opinion because of pervasive weaknesses in DOD's financial management systems, operations, and controls. [12]

One major source of these problems is the cacophony of non-integrated systems that DOD tries to operate—168 separate systems in all. The following graphic illustrates the number and "relationships" of the systems DOD uses for just one of its business areas—contract and vendor payments:

Figure 1: DOD's Current Systems Environment for the Contract and Vendor Payment Process



Source: Department of Defense.

It is virtually impossible to operate rationally in such a morass. Indeed, during FY 1999, DOD spent almost one-third of all its contract payments to make adjustments to previous contract payments. Overall, the IG found that DOD had to make $7.6 *trillion* in accounting adjustments in order to prepare its financial statements. Countless items fall through the many cracks in these systems. In 1999, GAO reported that the Navy wrote off more than $3 billion in inventory as "lost in transit." When the Army took an inventory of its assets in 1999, it found 56 airplanes, 32 tanks, and 36 Javelin command launch units for which it had no records. A visit to one Army ammunition depot found 835 "quantity and location discrepancies" for over 3,000 ready-to-fire, hand-held rockets and rocket launchers—obviously, very sensitive items requiring strict controls. DOD data shows that over half the in-hand inventory items it can find, valued at about $37 billion, exceed its current requirements.

Improper payments. One direct consequence of poor financial management is the exposure of taxpayer dollars to massive fraud, waste, and abuse. The work of the Governmental Affairs Committee, based on GAO and IG reports, documents huge losses to our citizens from fraudulent and other erroneous payments of taxpayer funds. Based on a review of improper payments that agencies disclosed in their own financial statements for FY 1998, GAO identified $19.1 billion in improper payments for that year alone.[13] This report covered only the nine agencies that voluntarily disclosed improper payments for 17 major programs. GAO noted that, while the full extent of improper payments was unknown, "[i]mproper payments are much greater than have been disclosed thus far in agency financial statement reports, as shown by our prior audits and those of agency Inspectors General."[14]

The Committee confirmed that the $19.1 billion figure was only the tip of the iceberg. Adding up wasted taxpayer dollars that had been documented and quantified in various GAO and IG reports, the Committee came up with a cumulative figure of $220 *billion* in waste, fraud, and abuse. This figure included $35 billion in overpayments.[15]

The problem of erroneous payments appears to be getting worse. When GAO updated for FY 1999 improper payments disclosed in agency financial statements, the total had grown to $20.7 billion.[16] When the Committee recently updated its analysis of waste documented in GAO and IG reports, the total had grown to almost $230 billion. This included improper payments of over $47 billion. (See the Appendix to this report.)

Several programs consistently make billions of dollars in improper payments that represent significant portions of their entire budgets. Examples are Medicare, Supplemental Security Income, and food stamps. Another example is the Earned Income Tax Credit (EITC). Erroneous EITC payments have been estimated at as much as $9.3 billion annually. This is over 30 percent of *all* EITC claims, which total about $30 billion annually. At the same time, it has been estimated that as few as 65 percent of eligible taxpayers receive the EITC credit.[17] Given these problems, Congress authorized IRS to spend a total of $716 million over 5 years to improve EITC administration. However, IRS has not established Results Act performance goals to address the EITC problems. It also has failed to provide meaningful outcome data on the impact of the funds provided by Congress to improve EITC administration.[18]

Ineffective information security. Weak security controls over sensitive information are a major factor underlying financial management problems. Information security weaknesses affect almost all agencies and constitute a GAO-designated governmentwide high-risk problem. They place enormous amounts of Federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Of the 21 agencies that failed to comply with FFMIA, *all* had serious weaknesses in the area of information security.

Agencies in denial. We will never generate demonstrable improvements in financial management until agencies forthrightly acknowledge the seriousness of their problems. As the following examples indicate, some agencies are still in denial.

In a recent "Progress Review and Accomplishment Report" by HUD on its "2020 Management Reforms" stated: "HUD's once vulnerable financial management system is now reliable, accurate and timely." However, the HUD IG reported that the serious weaknesses in HUD's financial systems persist today and led to a disclaimer of opinion on the agency's financial statements for FY 1999.[19]

An Education Department spokesperson recently stated: "Our position is that we have adequate financial controls in place to provide for the smooth operation of our financial systems here at the Education Department."[20] That position is not shared by the agency's IG or GAO. The IG listed "long-standing problems with financial management" as the number one management challenge facing the Department.[21] Likewise, GAO recently testified that Education "has experienced persistent financial management weaknesses" for years and that these "serious internal control and financial management systems weaknesses continued to plague the agency" during FY 1999.[22]

Student financial aid programs have been included on GAO's high-risk list since its inception in 1990. However, Education's commitment to resolving these problems appears questionable. GAO expressed concern that the Education Department's Office of Student Financial Assistance, which was recently reconstituted as a so-called "performance-based organization," has not established *any* performance goals to resolve the problems that make its programs high-risk.[23] In 1998, Congress enacted a law designed to enable Education to verify income information with IRS as a means of enhancing student assistance eligibility determinations.[24] This law remains unimplemented nearly 2 years after its enactment, while Education, Treasury, and OMB engage in seemingly intractable discussions over what to do.

OMB is in the forefront of agencies in denial. OMB's own performance report for FY 1999 seriously overstated the number of agencies that got clean audit opinions. It criticized GAO's report on massive FFMIA non-compliance, discussed previously, as being too negative and failing to "acknowledge that the agencies are moving steadily in the right direction."

GETTING TO SOLUTIONS: AN OVERALL FRAMEWORK

Solving financial management problems starts with an overall framework that applies equally to most of the Federal Government's other core capacity problems. The model for this framework can be found in the successful resolution of the Y2K computer conversion—probably the single most far-reaching and important management challenge of recent years.

A host of GAO and IG reports laid out the extent of the Y2K problem and its root causes. The Executive Branch, particularly OMB, initially downplayed the problem. However, intense Congressional oversight ignited public concern and forced the Executive Branch to take the problem more seriously. Once that happened, the Executive Branch and Congress worked hand-in-hand to solve it. Action plans were developed, performance goals were set, and accountability was maintained through regular progress reports. Management and oversight responsibility over the agencies was centralized in a special unit of the Executive Office of the President under the outstanding leadership of John Koskinen. Congress conducted systematic oversight and provided the funding and other legislative support needed to carry through on solutions.

While it would be hard to replicate the degree of public awareness and the sense of urgency that accompanied Y2K, the steps used to resolve it can readily be transferred to other problems like financial management. In essence, these steps require the Federal Government to:

- Acknowledge fully and candidly the nature of the problem as well as its dimensions and consequences. This can be politically difficult, but it is absolutely essential.
- Identify the root causes of the problem and existing recommendations to address it. Most major problems, including financial management, are the subject of a host of GAO and IG reports and "open" (unresolved) recommendations. Often the same recommendations are reiterated year after year. Thus, a road map to solutions usually exists.
- Muster the will and ongoing commitment to solve the problem. To be effective, this must come from the highest leadership levels of the Administration and the agencies. As GAO observed: "We learned from the Year 2000 experience that proactive leadership at the highest levels of government is one of the most important factors in prompting attention and action on a widespread problem." [25]
- Establish specific and measurable performance goals to embody the commitments and systematically track them in order to assess progress and ensure follow through and accountability. As discussed below, the Results Act provides an excellent tool for setting goals and measuring success.
- Provide necessary support and incentives—both positive and negative—to implement solutions. This includes funding and other resources. It should also include rewards for progress and remedial actions (along with real consequences, as appropriate) for lack of progress.

RESTORING THE "M" IN OMB

One of the prerequisites to converting the above framework into concrete actions is strong central leadership, support, and oversight within the Executive Branch. This was a key element in resolving Y2K and is equally important for other systemic, crosscutting management challenges such as financial management. Unfortunately, the agency charged by law with this responsibility—OMB—has not been up to the task in recent years.

The former Bureau of the Budget was reconstituted as OMB by a Reorganization Plan during the Nixon Administration. [26] President Nixon's message to Congress transmitting the Reorganization Plan stated that OMB would be "the President's principal arm for the exercise of his managerial functions." He added that "creation of the Office of Management and Budget represents far more than a mere change of name for the Bureau of the Budget. It represents a basic change in concept and emphasis, reflecting the broader management needs of the Office of the President."

Congress subsequently reaffirmed and expanded OMB's management responsibilities on several occasions. Most notably, the CFO Act of 1990 established the Deputy Director for Management position at OMB as "the chief official responsible for financial management in the U.S. Government." [27] During Senate consideration of this legislation, former Governmental Affairs Committee Chairman

Glenn said of the new Deputy OMB Director for Management: “This high level official, appointed by the President, with the advice and consent of the Senate, will be responsible for the ‘M’ in OMB and for integrating and coordinating important financial management functions with other management and budget functions at OMB.” Senator Glenn stressed the importance of improving Federal financial management:

> Currently, there are hundreds of different accounting systems in the government, and few comply with generally accepted government accounting standards. These current practices do not show the actual costs of running the Federal Government. . . . There is no way that we in the Senate can fully determine the programmatic impacts of the legislative decisions we make on the basis of information reported. To make matters worse, often the information is reported in such an untimely manner that the decisions must be and are regularly made with dated, inaccurate information.
>
> It is time that the Federal Government had a position, a Deputy Director for Management at OMB, that could be held accountable for these shortcomings. Someone who would be responsible for supplying the Executive Branch and the Congress with reliable, consistent, timely, and complete financial information, while focusing attention to the management of government, which is often lost in our battles over the budget. [28]

The foregoing objectives have yet to be realized. Sadly, Senator Glenn’s summary of the government’s financial management problems in 1990 still holds true today. In numerous contexts, including addressing financial management problems, OMB has failed to fulfill its leadership role. According to many observers, the “M” has virtually disappeared from OMB. A 1994 reorganization of OMB, known as “OMB 2000,” shifted most of the agency’s resources to the budget side and greatly diminished its capacity to carry out its management functions. It is clear from OMB’s own Results Act plans and reports that the agency has little regard for its management responsibilities, including those specifically grounded in statute. Indeed, OMB’s most recent draft strategic plan contains nothing of substance addressing any of its management responsibilities.

OMB’s failure to meet its management responsibilities has prompted calls for an entirely separate “office of management” in the Executive Office of the President. This is one way to achieve the central leadership on management that is so sorely needed. However, there is obvious power to linking management and budget decisions, as the expansion of OMB was intended to accomplish. OMB views its fundamental role as being “staff to the President.” [29] Therefore, in the final analysis, OMB’s enthusiasm for its management responsibilities is directly proportional to the President’s level of interest in management issues. If the incoming President gives sufficient priority to management improvements, OMB will surely follow suit.

SPECIFIC ACTIONS TO IMPROVE FINANCIAL MANAGEMENT

Within the above overall framework, there are many specific actions that can and should be taken to address financial management problems.

Establishment of specific performance goals and measures to resolve financial management problems. The Results Act provides an excellent mechanism for (1) establishing firm commitments to resolve financial management problems, through performance goals and (2) tracking progress against those goals through annual performance reports. Also, the annual government-wide performance plan required by the Results Act is well suited to establishing government-wide financial management improvement goals and re-enforcing the most important agency-specific goals.

To their credit, a number of agencies have established some performance goals dealing with financial management. The most common goal is to get a clean opinion on the agency's annual financial statements. It is also noteworthy that financial management is addressed in the "Priority Management Objectives" (so-called "PMOs") that appear in the President's Annual Budget. The FY 2001 PMO on "improving financial management information" includes a performance goal that 22 of the 24 CFO Act agencies obtain clean opinions. [30]

These specific performance goals are commendable. However, agencies and OMB should also establish Results Act performance goals to get at the underlying weaknesses that prevent them from using their financial systems for day-to-day management. As discussed previously, such goals would encourage agencies to invest their resources in making lasting improvements to their financial systems. One way to do this is to establish performance goals for compliance with FFMIA requirements. Such efforts will inevitably assist the agencies' overall performance measurement efforts.

There are other areas in which agencies and OMB could adopt financial management performance-improvement goals. For example, the FY 2001 PMOs target additional government-wide problem areas that implicate financial management such as improving information technology and security and verifying the accuracy of Federal benefit determinations. For the most part, however, these PMOs lack specific performance goals and measures that could be used to track progress toward solving the problems they address.

Disclosure of erroneous payments, coupled with error-reduction targets. A powerful line of attack against the massive overpayment problems that plague the Federal Government is to disclose overpayment levels in annual financial statements and combine that disclosure with performance goals to reduce them. GAO found that only a few agencies now disclose their overpayments. Thus, it recommended that OMB:

> Develop and issue guidance to executive agencies to assist them in (1) developing and implementing a methodology for annually estimating and reporting improper payments for major Federal programs and (2) developing goals and strategies to address improper payments in their annual performance plans. [31]

By a letter dated November 5, 1999, Chairman Thompson urged OMB Director Lew to implement these GAO recommendations. In his January 2000 response, Director Lew agreed to issue guidelines for estimating overpayments. OMB has yet to follow through on that commitment.

Experience with the Medicare program demonstrates the value of measuring overpayments and then setting specific targets to reduce them. Using these combined techniques, Medicare has shown a dramatic overall reduction in its overpayments in recent years, even though overpayments rose again in FY 1999. The incoming Administration should ensure that OMB meets its commitment to require disclosure of major overpayment problems in annual financial statements. If OMB fails to do so, the new Congress should legislate such a requirement.

Improved data sharing among agencies. Of course, the best solution to erroneous payments is not to make them in the first place. According to a recent GAO report,[32] inadequate or incorrect information often leads agencies to make erroneous eligibility determinations under various Federal programs, thus resulting in erroneous payments. Improved data sharing between Federal agencies, or between Federal agencies and other parties such as State agencies, could enhance eligibility decisions and thus reduce improper payments. For example, GAO found that hundreds of millions of dollars in Supplemental Security Income payments and payments under the Temporary Assistance for Needy Children (TANF) program could have been avoided or detected more quickly through enhanced data sharing.

The GAO report makes a number of recommendations to the Congress and the Executive Branch on ways to enhance data sharing.[33] Some of these recommendations involve policy judgments that balance improved data sharing against privacy and other considerations. Other recommendations are aimed at improving data sharing that agencies already are authorized to conduct. One recommendation is that OMB lead an inter-agency effort to develop an overall strategy to improve data sharing operations across all Federal benefit and loan programs.

The new Administration and Congress should carefully review the GAO recommendations for improved data sharing. Agencies also should take steps to improve their internal coordination and use of eligibility information already available to them. In this regard, the IG at HHS found that HHS paid millions of dollars for equipment and services allegedly provided to Medicare beneficiaries after the agency's own records indicated that the beneficiaries had died.[34]

One very specific but long overdue action is resolving the impasse over implementation of the Education-IRS data verification provision in the Higher Education Act Amendments of 1998. As discussed previously, this provision has remained in limbo since its enactment 2 years ago. Education, Treasury, and OMB have yet to take action either to make use of the existing authority or to seek any legislative changes that they deem necessary.

Implementing GAO and IG recommendations. Myriad GAO and IG reports exist on virtually all aspects of agency financial management problems. Many of these reports analyze the causes of the problems and make recommendations for corrective action. These reports and recommendations provide a wealth of information and advice that agencies should use to the greatest extent possible. OMB's guidance to Federal agencies states that each agency should establish systems to assure the prompt and proper resolution and implementation of audit recommendations.[35] In addition, agencies are required by law to report to Congress on their actions in response to GAO recommendations.[36]

In August 1999 letters to the heads of the major agencies, Chairman Thompson stressed the need for agencies to resolve and implement audit recommendations related to their major management problems, including financial management. He noted that many agencies continued to have a number of unresolved audit recommendations. On the basis of the written responses to the Chairman's letters and subsequent Committee staff meetings with agency officials, it appears that most agencies have made some progress in dealing with the IG and GAO recommendations. Some agencies, such as Interior, have established specific performance goals related to implementing audit recommendations.[37] Other agencies need to do a better job.

Financial management best practices. GAO recently studied the financial management practices and improvement strategies of private sector firms and State governments that are leaders in financial management.[38] Based on this study, GAO issued an "executive guide" that contains many case examples and strategies that can benefit the Federal Government.[39] Just a few of the strategies are:

- Establish and monitor specific performance goals and measures that reflect the finance operation's role in meeting mission objectives.
- Benchmark financial management practices and processes with recognized leaders in order to measure performance and identify best practices.
- Place more emphasis on providing reliable and timely data that directly support strategic decisionmaking and improvements in overall agency performance.
- Identify high-volume accounting processes or transactions that do not directly support the agency's mission (low-value, low risk) and consolidate, streamline, outsource, or eliminate them.

Resources and incentives. Agencies that have fully acknowledged their financial management problems and have developed credible remedial actions deserve the support necessary to implement those actions. Obviously, this includes providing necessary funding. Overhauling or replacing ineffective financial management systems can be expensive. However, making the necessary investments is well worth the cost. Conversely, failing to make needed investments is penny-wise and pound-foolish. For example, the Agriculture Department's financial systems are chronically incapable of producing useful information. Yet, Department officials told the Committee staff that fixing the problems would cost less than the amount left over each year from the Department's unobligated funds.

In addition to funding remedial actions that are well thought out, Congress needs to impose real consequences for agencies that aren't improving. For example, funds that are available for performance bonuses, travel, and other administrative costs of the agency (particularly perks for political appointees) might be "fenced off" for use only to improve financial management.

Recovery auditing. "Recovery auditing" is a valuable tool to both recoup overpayments resulting from financial management weaknesses and provide resources to remedy those weaknesses. Recovery auditing is a technique employed by many private sector firms that utilizes computer software programs to analyze contract and payment records in order to identify discrepancies between what was owed and what was paid. It focuses on obvious but inadvertent errors, such as duplicate payments or failure to get credit for applicable discounts and allowances.

The preceding recommendations need serious consideration and deliberation by key decisionmakers in Washington. If implemented, these recommendations could demonstrate significant movement in addressing the financial management challenges that face the Federal Government.

ENDNOTES

1. *Financial Management: Agencies Face Many Challenges in Meeting the Goals of the Federal Financial Management Improvement Act*, GAO/T–AIMD–00–178 (June 6, 2000), pp. 1–2.

2. *Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution*, GAO/T–AIMD–00–137 (March 31, 2000), pp. 10–11.

3. *Id*., p. 3.

4. *Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1999*, GAO/AIMD–00–307 (September 2000), pp. 18–19.

5. *Id*., p. 42.

6. *Financial Management: Financial Management Challenges Remain at the Department of Education*, GAO/T–AIMD–00–323 (September 19, 2000), pp. 6–11.

7. The only three agencies that passed muster were the Energy Department, NASA, and the National Science Foundation.

8. *Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1999*, op. cit. note 5, p. 2.

9. *Id*., pp. 29–30.

10. *Id*., p. 30.

11. *Financial Audit: IRS' Fiscal Year 1999 Financial Statements*, GAO/AIMD–00–76 (February 2000), pp. 13–14, 28–29.

12. *Department of Defense: Progress in Financial Management Reform*, GAO/T–AIMD/NSIAD–00–163 (May 9, 2000), p. 1 (Emphasis supplied).

13. *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments*, GAO/AIMD–00–10 (October 1999).

14. *Id*., p. 6.

15. Governmental Affairs Committee Press Release: *Thompson Details $220 Billion in Government Waste* (January 24, 2000).

16. *Financial Management: Improper Payments Reported in Fiscal Year 1999 Financial Statements*, GAO/AIMD–00–261R (July 27, 2000).

17. Treasury Department IG for Tax Administration, *Management Advisory Report: Administration of the Earned Income Credit*, Ref. No. 2000–40–160 (September 2000), p. iii.

18. *Ibid.*

19. See *Statement of Susan Gaffney before the Subcommittee on Housing and Transportation of the Senate Banking Committee on Management and Performance Issues Facing HUD* (September 26, 2000), pp. 10–11.

20. Government Executive Daily Briefing, *Agency Overpayments Rise Above $20 Billion*, September 13, 2000.

21. Department of Education Office of Inspector General, *Semiannual Report to Congress No. 40,* October 1, 1999-March 31, 2000, p. 15.

22. *Financial Management: Education's Financial Management Problems Persist,* GAO/T–AIMD–00–180 (May 24, 2000), pp. 1, 3.
23. *Observations on the Department of Education's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan*, GAO/HEHS–00–128R (June 30, 2000), p. 2.
24. Section 484(q) of the Higher Education Act, as amended, 20 U.S.C. § 1091(q).
25. *Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1999*, op cit. note 5, p. 42.
26. Reorganization Plan No. 2 of 1970, 31 U.S.C. § 501 note.
27. 31 U.S.C. § 502(c).
28. 136 Cong. Rec. 35767–68.
29. See generally, *OMB's Draft Strategic Plan for FY 2001–2005* and a letter from Sally Katzen dated August 8, 2000, transmitting the Draft Plan to Chairman Thompson.
30. See *Budget of the U.S. Government, FY 2001,* pp. 294–295.
31. *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments*, op cit. note 14, p. 42.
32. *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity*, GAO/HEHS–00–119 (September 2000).
33. *Id*., pp. 43–44.
34. Governmental Affairs Committee Press Release: *Medicare Paying for Health Care for the Dead*, March 13, 2000.
35. OMB Circular A–50.
36. 31 U.S.C. § 720.
37. See *Department of the Interior Fiscal Year 2001 Annual Performance Plan,* p. 101.
38. The private sector organizations were Boeing, the Chase Manhattan Bank, General Electric, Hewlett-Packard, Owens Corning, and Pfizer. The State governments were Massachusetts, Texas, and Virginia.
39. *Executive Guide: Creating Value Through World-class Financial Management*, GAO/AIMD–00–134 (April 2000).

APPENDIX

Governmental Affairs Committee's Estimate of Government Waste, Fraud and Abuse as Documented in GAO and IG Reports

Amount	Agency	Explanation and Reference
$1.3 billion	Agriculture	Reported Food Stamp Program overpayments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$6.5 million	Agriculture	Improper research expenditures. (Agriculture IG letter, 11/29/99, encl., pp. 5–6)
$4.8 million	Commerce	National Technical Information Service (NTIS) cumulative losses, FY 1995–98. (Commerce IG letter, 12/13/99, encl., p. 16)
$1.9 million	Commerce	Amount the National Oceanic and Atmospheric Administration (NOAA) spends annually on its in-house aircraft above comparable private sector costs. (Commerce IG letter, 12/13/99, encl., p. 19)
$14 billion	Defense	DOD's inventories contain $11 billion for which Defense has no need; the Navy wrote off $3 billion of inventory as lost in transit. (GAO/T–NSIAD–99–83, pp. 4, 7–8)
$1.5 billion	Defense	New inventory ordered by DOD 1 year in excess of its current needs. (GAO/T–NSIAD–99–83, pp. 5)
$500 million	Defense	Potential annual fraud and abuse in the military health care program, TRICARE. (GAO/HEHS–99–142, p. 2)
$984 million	Defense	Between fiscal years 1994 and 1998, DOD contractors voluntarily returned $984 million that DOD had erroneously paid them. (GAO/AIMD–00–10, p. 18)
$25.3 million	Defense	Military Retirement Fund payments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$3.3 billion	Education	In FY 1997, the Federal Government paid out more than $3.3 billion to make good its guarantee on defaulted student loans. (GAO/OCG–99–5, p. 7)

Governmental Affairs Committee's Estimate of Government Waste, Fraud and Abuse as Documented in GAO and IG Reports—Continued

Amount	Agency	Explanation and Reference
$177 million	Education	Estimated Pell Grant overpayments during 1995–96 caused by under-reporting of income. (Education IG letter, 12/8/99, encl., p. 6; IG Report ACN: 11–50001 (January 1997))
$10 billion	Energy	From 1980 through 1996, the Department of Energy terminated before completion 31 major systems acquisition projects after expenditures of over $10 billion. (GAO/OCG–99–6, p. 12)
$1.7 billion	Energy	Estimated cost overruns in building the National Ignition Facility caused by poor lab management and inadequate DOE oversight. (GAO/RCED–00–141, pp. 4–5)
$13.5 billion	HHS	Estimate of Medicare fee-for-service overpayments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$2.2 billion	HHS	State Medicaid financing schemes. (HCFA estimate for FY 2000). GAO/T–HEHS–00–193, p. 2)
$1 billion	HHS	Improper Medicare payments in 1998 for rehabilitation services. (HHS IG letter, 12/7/99, encl., pp. 7–8)
$600 million	HHS	Medicare fee-for-service cost reports for FY 1999. (GAO/AIMD–00–261R, p. 4)
$935 million	HUD	HUD estimates erroneous rent subsidy payments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$1.2 billion	Interior	Revenues lost as a result of changes in Interior irrigation assistance repayment policies. (Interior IG letter, 12/1/99, encl., p. 17)
$43 million	Interior	Amount by which fluid mineral royalties may have been underpaid. (Interior IG letter, 12/1/99, encl. 1, p. 21)
$25.8 million	Interior	Losses identified in various IG reviews based on fees that Interior failed to collect or misused. (Interior IG letter, 12/1/99, encl., pp. 16–17)
$18.2 million	Interior	Losses on land exchanges that did not comply with applicable requirements. (Interior IG letter, 12/1/99, encl., p. 23)
$142.3 million	Labor	Unemployment Insurance payments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$19.2 million	Labor	Federal Employees' Compensation Act payments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$708 million	NASA	Cumulative cost overruns on the International Space Shuttle. (NASA IG letter, 12/1/99, encl., p. 13)
$30.5 million	OPM	Cost of 1% premium surcharge OPM has paid carriers (so far) to cover their costs resulting from enrollment discrepancies in the Federal Employees Health Benefit Program. This figure represents the government's share; plan subscribers have paid another $11.9 million. (OPM IG letters of 12/1/99, encl., p. 4, and of 1/7/00, p. 1)
$1.8 billion	OPM	Estimated annual losses to fraud, waste, and abuse in the Federal Employees Health Benefit Program. (OPM IG letter, 12/1/99, encl., p. 6)
$16.2 million	SBA	Cost of defaulted SBA-guaranteed loans for which the guarantee should not have been honored. (SBA IG letter, 12/2/99, encl., p. 1)
$3.7 million	SBA	Cost of additional questionable SBA-guaranteed loans. (SBA IG letter, 12/2/99, encl., p. 4)
$84 million	SBA	Value of Section 7(a) loans that are under criminal investigation and may have been procured by fraud. (SBA IG letter, 12/2/99, encl., p. 20)
$27 million	SBA	Estimated loss to the government from loans procured by false certifications. (SBA IG letter, 12/2/99, encl., p. 1)
$1.578 billion	SSA	Supplemental Security Income (SSI) overpayments for FY 1999. (GAO/AIMD–00–261R, p. 4)

Governmental Affairs Committee's Estimate of Government Waste, Fraud and Abuse as Documented in GAO and IG Reports—Continued

Amount	Agency	Explanation and Reference
$1.325 billion	SSA	Old Age and Survivors Insurance overpayments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$1.12 billion	SSA	Reported Disability Insurance overpayments for FY 1999. (GAO/AIMD–00–261R, p. 4)
$651.6 million	Treasury	Revenues that Customs and ATF failed to collect. (Treasury IG letter, 12/13/99, encl., 1, pp. 7–8)
$77 billion	Treasury/IRS	Unpaid taxes that are supported by taxpayer agreements or court rulings. IRS expects to collect about $21 billion of this amount. (GAO/AIMD–00–76, p. 85)
$9.3 billion	Treasury/IRS	Estimated annual Earned Income Tax Credit (EITC) overpayments for tax year 1997. (Treasury Tax IG draft report dated August 11, 2000, p. 30)
$8 million	VA	Estimated annual benefit overpayments from failure to deduct disability compensation from military reserve pay. (VA IG letter, 12/10/99, encl., p. 6)
$103.9 million	VA	Estimated erroneous benefit payments to prisoners and deceased persons.(VA IG letter, 12/10/99, encl., pp. 6–7)
$260 million	VA	Estimated savings that could be realized from improved debt management. (VA IG letter, 12/10/99, encl., p. 10)
$247 million	VA	Estimated future savings that could be realized by better oversight of Federal Employees Compensation Act claims. (VA IG letter, 12/10/99, encl., p. 12)
$74 billion	Multiple agencies	At the close of fiscal year 1999, delinquent non-tax debt totaled $74 billion. This is a $22.1 billion increase from FY 1996. (GAO/AIMD–00–76, 2/29/00, p. 85)
$6.5 billion	Multiple agencies	According to Congressional Budget Office cost estimates, a series of GAO recommendations to improve the economy and efficiency of various government operations would save $6.5 billion in annual budget authority. (GAO/OCG–99–26)
$514 million	Multiple agencies	Reported overpayments for Veterans Benefits, Unemployment Insurance, and others for FY 1998. (GAO/AIMD–00–10, p. 6)
$92 million	Multiple agencies	Estimated annual savings that could be realized by consolidating most Federal in-house aircraft operations. (Commerce IG letter, 12/13/99, encl., p. 19)
$228.6 billion Total.		

MANAGEMENT CHALLENGES FACING THE NEW ADMINISTRATION

PART 2: FEDERAL WORKFORCE CHALLENGES

OVERVIEW AND SUMMARY

This is one in a series of transition reports that describes core capacity problems facing the Federal Government, discusses their nature and root causes, and proposes ways of solving them. The reports are intended to stimulate action on the part of the incoming Administration and Congress, and to provide them a framework for this important task. This report deals with Federal workforce challenges. Other reports address financial management and the need for results-oriented governance at the Federal level.

The Federal Government's workforce problems have received little attention, although many experts recognize that they are reaching an increasingly critical stage. Most agencies face serious challenges in hiring, retaining, developing, and motivating a workforce with the right skills to achieve their mission results. These problems have been exacerbated in recent years by random "downsizing" that reduced agency staffs without regard to the skills, experience, and performance of departing employees in relation to agency missions. Typically, downsizing was accomplished by "buyouts" and early retirement offers to experienced employees—thereby causing significant "brain drain." There is mounting evidence that workforce deficiencies at agencies limit their capacity to serve the public and make them more vulnerable to fraud, waste, and mismanagement.

The Senate Committee on Governmental Affairs is responsible for overseeing the government-wide application of the Federal merit system and human resources policies. The current civil service system, a product of the 1978 Civil Service Reform Act of 1978, was created in large part to further standardize some human resource requirements and incorporate into law the merit system principles of fairness, equity, and earned achievement in public employment. There is broad consensus that this system lacks the flexibility necessary to meet today's workforce needs. Such flexibility would enable individual workers and their agencies to focus less on conforming to centralized human resource requirements and more on developing human resource policies and practices that support their own mission-related needs.

One expert observed that the current system "underwhelms at almost every task it undertakes . . . It is slow in the hiring, almost useless in the firing, overly permissive in the promoting, [and] out of touch with actual performance in the rewarding . . ."[1] Agencies also suffer from inefficient and wasteful organizational structures with bloated hierarchies and excessive layers of management. Even more fundamentally, the basic civil service model—built around a 30-year career from entry level to retirement with virtually guaranteed job security—does not fit a contemporary workforce that favors greater mobility and has different motivations than in the past.

Strategic workforce planning is essential to the success of private sector organizations. They realize the importance of having employees with the right skills and abilities to accomplish their missions. However, Federal workforce issues have been neglected for years. The Comptroller General describes workforce management as the "missing link" in efforts to improve the Federal Government's performance and accountability. The Administration, especially the Office of Management and Budget (OMB), is only now acknowledging the seriousness of the government's workforce problems. Furthermore, the agency charged with administering the Federal Government's personnel laws, the Office of Personnel Management (OPM), has lacked the requisite leadership from the Administration to address successfully these problems. Most agencies are far behind the curve in addressing these problems. Therefore, the problems require immediate attention and concerted action. The following are a few recommendations to begin to address these problems:

- The Administration must provide much greater leadership in addressing critical workforce problems. In particular, it needs to develop specific remedial plans for which they and the agencies can be held accountable. With this greater leadership, the Administration would encourage OMB and OPM to move away from the status quo and consider personnel reforms in an open and objective way. It is obvious to all that the current system is broken. OPM should become a partner in developing solutions.

- Agencies need to undertake comprehensive workforce planning to: (1) determine their workforce needs in relation to their current functions; (2) assess how their existing workforce compares to their needs; and (3) develop strategies to bridge the gaps between the workforce they need and the one they have.

- In accordance with OMB guidance, agencies should establish Results Act performance goals and measures to address their most serious workforce problems and thereby assume accountability for solving them. Agencies should start with problems that lend themselves to immediate action such as improving recruitment practices and linking employee performance appraisals to performance results. (See below.)

- OPM should ensure that agencies' program managers fully understand and use the many personnel flexibilities that are now available to them under current laws and regulations. As noted above, OPM also should help develop changes to current laws and regulations to ensure that agencies can effectively obtain and manage the workforces they need to achieve their mission results.

- Agencies should directly link performance assessments and rewards for agency managers to the agency's performance results. Steps should be taken as well to ensure that all agency employees are accountable for their performance and are rewarded based on their performance.
- Agencies should take immediate action to reduce recruiting and hiring delays and provide better feedback to job applicants.

The foregoing recommendations are just a start toward resolving the Federal Government's critical workforce problems. Additional recommendations are sure to emerge if these long neglected problems get the attention they clearly require.

THE FEDERAL WORKFORCE CRISIS

No longer a "quiet crisis." For some time now, experts have referred to a "quiet crisis" in the Federal public service. Clearly, the workforce problems confronting the Federal Government have reached an even more critical stage in recent years. A workforce capable of conducting the Federal Government's business is crucial to the effective implementation of government policies. One leading expert, Paul C. Light of The Brookings Institution, observed:

> Ultimately, effective governance is impossible if government cannot attract talented citizens to serve at all levels of the hierarchy. As Alexander Hamilton warned 200 years ago in *The Federalist Papers,* "a government ill executed, whatever it may be in theory, must be in practice a bad government." Citizens cannot have confidence in the integrity of the democratic process if their leaders cannot honor the promises they make, but those leaders cannot honor the promises they make if government cannot attract the talent necessary to both draft and execute the laws. [2]

Paul Light paints a bleak picture of a current Federal personnel system "that underwhelms at almost every task it undertakes." Specifically:

> It is slow in the hiring, almost useless in the firing, overly permissive in the promoting, out of touch with actual performance in the rewarding, penurious in the training, and utterly absent in the management of a vast and hidden workforce of contractors and consultants who work side by side, desk by desk with the civil service. [3]

The impact of non-strategic "downsizing." The staffs of many Federal agencies suffer from imbalances in skills and experience as well as structural problems. The spate of "downsizing" during the 1990's substantially reduced the number of regular, full-time Federal employees. Whether this downsizing really made the Federal Government much smaller is doubtful. According to Paul Light, the "era of big government" is still very much with us. [4] It clearly did not make the government smarter. The downsizing was accomplished indiscriminately through attrition, early retirements, and "buyouts" that resulted in random, across-the-board staff reductions. Little or no consideration was given to the relative impact of the jobs eliminated—or the skills, experience, or performance of departing employees—on accomplishing agency missions. There is no evidence that this downsizing improved the efficiency or effectiveness of the Federal Government. On the contrary, the evidence suggests that the non-strategic way in which downsizing was accomplished actually *detracted* from the capacity of agencies to carry out essential functions and made them more vulnerable to fraud, waste, and mismanagement.

The General Accounting Office (GAO) found that lack of strategic planning during the initial phases of downsizing threatened the ability of some agencies to achieve their missions. The Comptroller General recently testified that "it is by no means clear that the current workforce is adequately balanced to properly execute agencies' missions today, nor that adequate plans are in place to ensure the appropriate balance in the future." [5] His testimony illustrates the perverse consequences of non-strategic downsizing. Agencies hoped to offset the loss of skilled employees by greater reliance on information technology (IT). However, due to staff reductions, they lack the skilled employees needed to take advantage of technology, and they are at a competitive disadvantage in hiring IT professionals. They also appear to lack the necessary in-house expertise to oversee IT work that they have outsourced to contractors. [6]

A top-heavy Federal workforce. Downsizing also has distorted the shape of the Federal workforce, making it more top heavy and less efficient. Not surprisingly, the greatest impact of downsizing occurred at the lowest levels of government. As Paul Light puts it, "The Federal Government eliminated primarily the jobs that were the easiest to cut, meaning the ones with the highest attrition and the lowest political profile." [7] While middle management levels ostensibly were reduced, this often amounted to nothing more than changing titles. Thus, in reality, the number of political appointees, senior executives, and middle managers remained steady while layers of hierarchy actually expanded.

This effect is apparent in the title glut of recent years. From 1993 to 1998, a number of new senior level positions were established with such titles as "deputy to the deputy secretary," "principal assistant deputy under secretary," and "associate principal deputy assistant secretary." [8] While contributing to greater layering and diffused accountability, high numbers of political appointees also are expensive. According to the Congressional Budget Office, capping the number of political appointees at 2,000 would save the taxpayers about $900 million in salary costs over 10 years. [9]

HOW WORKFORCE PROBLEMS IMPEDE AGENCY MISSIONS

The Comptroller General regards workforce (or what he refers to as "human capital") problems as an impending crisis for the Federal Government. He has labeled human capital management as the "missing link" in efforts to improve the Federal Government's performance and accountability. [10] He adds that human capital management is likely to emerge as a new government-wide problem area when GAO updates its "high-risk list" of Federal program activities most vulnerable to fraud, waste, abuse, and mismanagement:

> [T]he widespread lack of attention to strategic human capital management may be creating a fundamental weakness in Federal management, possibly even putting at risk the Federal Government's ability to efficiently, economically, and effectively deliver products and services to the taxpayers in the future. These shortcomings in the Federal Government's human capital management systems could well earn them GAO's high-risk designation when the next *High Risk Series* is issued in 2001.[11]

Likewise, Inspectors General (IGs) at nine major Federal agencies have listed workforce problems as one of the top 10 most serious management challenges that their agencies face.[12] Staffing problems underlie many other IG-identified top 10 management challenges at a number of major agencies, such as the lack of expertise to effectively oversee Federal contracts and grants and to provide effective service to the public.

GAO and IG reports are replete with specific examples of how staffing problems adversely affect the ability of Federal agencies to accomplish their missions.

Department of Housing and Urban Development (HUD). "An insufficient mix of staff with the proper skills" was a key factor causing GAO to designate HUD programs across the board as high-risk.[13] Along the same lines, the HUD IG recently testified:

> The adequacy of staff resources in the Department has long been a concern of the OIG and a root cause of many of HUD's material weaknesses. Our audits have consistently found a mismatch between the number and complexity of HUD's programs and the capability of HUD staff to administer those programs.[14]

These longstanding workforce problems were exacerbated by random downsizing at HUD, as well as more recent staffing upheavals brought on by the Department's "community builders" initiative. Despite the apparent lack of staff capacity to effectively carry out its existing programs, HUD consistently seeks to add more programs to the workload of its already beleaguered staff.

Social Security Administration (SSA). The IG at SSA has noted that the combined effect of staff downsizing and hiring restrictions, on the one hand, and the increasing volume and complexity of caseloads on the other, threatens SSA's ability to provide quality service to the public:

> The quality of service SSA provides to its customers continues to be a challenge facing the Agency. . . . The [Social Security Advisory] Board expressed concern about the effect of personnel downsizing and hiring restrictions on SSA's service delivery mechanism. Such constraints limit the Agency's ability to strengthen and revitalize employee ranks by bringing in new employees with new skills. This condition exists at the same time that caseloads continue to grow in volume and complexity. . . . The effects of low staffing levels for the customer include: delays in scheduling appointments; crowded reception areas; long waiting times; and inadequate telephone service. At the same time,

> the Agency is affected by attrition, high turnover, and increased backlogs of pending actions. [15]

SSA's Performance Report for Fiscal Year 1999 confirms that it is falling short of many of its customer service performance goals.

Patent and Trademark Office (PTO). Experts maintain that the combined effect of increasing applications and inexperienced staff at the Commerce Department's PTO has resulted in undeserving patents slipping through. This, in turn, poses a critical threat to an economy that runs on intellectual property. One expert was quoted as saying, "Patent quality in this country is a joke. It's getting worse." [16]

National Aeronautics and Space Administration (NASA). Last year, NASA lost all four of its spacecraft bound for Mars. This cost taxpayers hundreds of millions of dollars and brought the entire Mars program to a halt. These problems did not stem from the risks inherent in space exploration. Instead, they resulted from simple negligence resulting in part from inexperienced staff and inadequate oversight of contractors. Likewise, GAO reports that an insufficient staff with the proper qualifications poses threats to the performance and safety of NASA's space shuttle program. [17]

THE NEED FOR FUNDAMENTAL CHANGES IN WORKFORCE MANAGEMENT

Rethinking current systems. Solutions to our workforce problems will not come easily. For one thing, the Federal Government faces daunting recruiting challenges both at professional and leadership levels. In this regard, Paul Light observes:

> Sad to say, when young Americans are asked to picture themselves in public service careers, particularly at the Federal level, they picture themselves in deadend jobs where seniority, not performance, rules. And when more seasoned Americans are asked to picture themselves in appointive office, they picture themselves in a nomination and confirmation process characterized by endless inspection, over-disclosure, and delays at both ends of Pennsylvania Avenue. [18]

Clearly, the basic assumptions underlying the current civil service system no longer hold true today. In particular, we need to rethink our current civil service paradigm of a large and permanent Federal bureaucracy composed of cradle-to-grave careerists. We need to develop a new paradigm to fit a contemporary National workforce that features much greater mobility and very different motivations than in the past. In this regard, Paul Light states:

> Designed to sustain 30-year careers with one way in at the entry level and one way out at retirement, the government-centered public service is increasingly unattractive to a workforce that will change jobs and sectors frequently, and to workers who are much more focused on challenging work than security. Gone are the days when talented employees would endure hiring delays and a mind-numbing application process to get an entry-level government job. Gone, too, are the days when talented employees would ac-

> cept slow but steady advancement through towering government bureaucracies in exchange for a 30-year commitment. In the midst of a growing labor shortage, government is becoming an employer of last resort, one that caters more to the security-craver than the risk-taker. [19]

Comptroller General Walker also emphasizes the need to rethink our current approach to the Federal workforce in light of changing conditions:

> Changes in the demographics of the Federal workforce, in the education and skills required of its workers, and in basic Federal employment structures and arrangements are all continuing to unfold. The Federal workforce is aging; the baby boomers, with their valuable skills and experience, are drawing nearer to retirement; new employees joining the Federal workforce today have different expectations from the generation that preceded them. In response to an increasingly competitive job market, Federal agencies will need the tools and flexibilities to attract, hire, and retain top-flight talent. . . . Agencies' employment structures and working arrangements will also be changing, and the workplace will need to accommodate a greater mix of full-time, part-time, and temporary workers; more contracting-out; less job security; and the possibility of additional government downsizing and realignments. [20]

Improving the basics. It will be difficult to overcome some of the challenges the Federal Government faces in attracting the kind of workforce it needs. The government does not do a good job even in areas that are readily within its control. A recent survey of new hires by the Federal Government's own Merit Systems Protection Board (MSPB) identified basic problems in the recruiting process. For example, respondents reported that the time between submission of an application and being scheduled for an interview was unreasonably long, as was the time between being told they had a job and being able to report for work. The respondents also complained of not receiving timely feedback, or receiving no feedback at all, on the status of their applications. Finally, they did not receive the quality of service they expected from Federal hiring personnel. Among other things, the MSPB recommended that agencies expedite their hiring processes and improve service to applicants. [21]

THE PRIVATE SECTOR CONTRAST

Approaches to workforce management represent a stark contrast between the private sector and the Federal Government. The Federal Government has devoted little attention to workforce planning. As discussed previously, this lack of attention was most pronounced in the recent downsizing. Downsizing was nothing but a numbers game. Agencies simply reduced in-house staffing without reducing or streamlining any of their functions. By contrast, private sector firms take a strategic approach to workforce issues. They analyze which of their functions are important and effective, and which are not. They concentrate on improving the important things that they do. With regard to staffing, successful private sector organizations give very high priority to analyzing their workforce needs and ensuring that they are met. These firms systematically identify the skills and characteristics that their leaders and employees need to get the job done and make the investments needed to hire, develop, and retain a workforce that embodies and can sustain these competencies.

In 1999, GAO surveyed private sector firms that are regarded as leaders in workforce or "human capital" management in order to identify common principles that underlay their success. GAO identified 10 such common principles in all, which included the following:

- *Treat human capital management as being fundamental to strategic business management.* Integrate human capital considerations when identifying the mission, strategic goals, and core values of the organization as well as when designing and implementing operational policies and practices.
- *Hire, develop, and sustain leaders according to leadership characteristics identified as essential to achieving specific missions and goals.* Identify the leadership traits needed to achieve high performance of mission and goals. Build and sustain the organization's pool of leaders through recruiting, hiring, development, retention, and succession policies and practices targeted at producing leaders with the identified characteristics.
- *Hire, develop, and retain employees according to competencies.* Identify the competencies—knowledge, skills, abilities, and behaviors—needed to achieve high performance of mission and goals, and build and sustain the organization's talent pool through recruiting, hiring, development, and retention policies and practices targeted at building and sustaining those competencies.
- *Use performance management systems, including pay and other meaningful incentives, to link performance to results.* Provide incentives and hold employees accountable for contributing to the achievement of mission and goals. Reward those employees who meet or exceed clearly defined and transparent standards of high performance.
- *Measure the effectiveness of human capital policies and practices.* Evaluate and make fact-based decisions on whether human capital policies and practices support high performance of mission and goals. Identify the performance return on human capital investments. [22]

LACK OF LEADERSHIP ON WORKFORCE PLANNING

Unfortunately, the Executive Branch has paid scant attention to Federal workforce issues. There are some indications that its central management agencies—OMB and OPM—are beginning to take the Federal Government's workforce crisis seriously. However, they are coming to these problems quite late and, as a result, most agencies remain far behind the curve.

For the past 3 fiscal years, OMB has included a set of so-called "Priority Management Objectives" (PMOs) as part of the Government-wide Performance Plan under the Government Performance and Results Act ("Results Act"). The PMOs are designed to capture the Federal Government's "biggest management challenges." Although the PMOs for FY 1999 and 2000 made no mention of Federal workforce problems, the FY 2001 version includes a PMO entitled, "Align Federal human resources to support agency goals." [23] It states that OPM will:

- design a "prototype workforce planning model" to help agencies strategically assess their human resources needs;
- "work with" agencies on labor-management initiatives to "empower" managers and employees to improve customer service and get mission results;
- encourage agencies to make better use of existing personnel flexibilities and submit any necessary legislative proposals.

In addition, OMB's guidance for agency Annual Performance Plans under the Results Act for FY 2001 specifically addresses workforce issues for the first time. It states:

> The annual plan should include a performance goal(s) covering major human resources strategies, such as recruitment, retention, skill development and training, and appraisals linked to program performance, that help support the agency's programs. [24]

This new emphasis on workforce problems is encouraging. However, given the lack of emphasis in the past, most agencies have yet to address these problems. GAO has found that strategic workforce management was "notably absent" from agency Annual Performance Plans submitted under the Results Act. [25] Thus, there is much ground to make up.

The lack of foresight and leadership on the part of the Administration is particularly striking. Indeed, one publication recently editorialized on OPM's late entry into Federal workforce problems:

> The Office of Personnel Management has watched for years as the effects of downsizing and aging on the Federal workforce have reached crisis proportions. Now it comes out with a strategic plan to help agencies improve retention, hiring, training and other human-resource issues. In short, the OPM plan is too late . . . OPM should be leading the effort to address nagging human-resource issues well before the crisis stage. Unfortunately, it took until this year for the Administration to acknowledge that human resources is a government-wide management priority . . . What would have been far more useful for the next Administration and Congress when they take office in January is not a list of ideas to solve problems, but a list of problems that have been solved. [26]

Based on reviews of OPM's past Results Act plans and reports, GAO found that OPM has made little progress toward the following key outcomes:

- The Federal Government has an appropriately constituted workforce with the proper skills to carry out its missions.
- Federal employees are evaluated, rewarded, and otherwise held accountable for their performance. [27]

According to the GAO report, "OPM officials said that fundamental changes to the performance management framework were not deemed necessary." [28] OPM has displayed resistance to change in the status quo. Its reaction to legislative reforms the Comptroller General proposed for GAO's own workforce is a case in point. GAO faces essentially the same workforce challenges as most other agencies. To its credit, GAO is actively attempting to resolve them. However, in a letter to Congress, OPM Director Lachance stated that the personnel reforms GAO sought, which the Comptroller General deemed essential to restructuring his workforce, "would be inconsistent with the Administration's policies for the Executive Branch." She added, "If Congress chooses to allow these changes for GAO, it must be clear in the legislative history that it has done so without precedence for the Executive Branch." [29]

WHAT NEEDS TO BE DONE?

The incoming Administration will have to give much higher priority to addressing the Federal Government's workforce crisis if it is to effectively execute its agenda and provide our citizens the essential services they need. The new Administration should start by charging OPM and OMB with developing new approaches that fit contemporary workforce trends as well as the needs of the Federal Government of the 21st Century.

This will require both long-term and short-term strategies. Over the long term, there is a clear need to reconsider what the Federal Government should do and how best to do it. As past problems with downsizing demonstrate, it makes no sense to restructure the Federal workforce without restructuring what the workforce needs to do. Only after current Federal operations and structures themselves have been redesigned and rationalized can the government's workforce be redesigned in a meaningful way. This is the difference between random "downsizing" and strategic "rightsizing." At the same time, the Federal Government needs to develop near-term approaches that can at least ameliorate the current crisis in Federal workforce management. The following recommendations cover some actions that need to be started immediately.

Greater leadership on critical workforce problems. OMB and OPM have acknowledged the seriousness of the Federal Government's workforce problems. Now, the White House, OMB, and OPM, need to demonstrate strong executive leadership by putting forward specific proposals to address these problems. For example, OMB should develop more results-oriented goals to address workforce problems in the Government-wide Performance Plan. It also needs to include specific performance targets and measures to accompany those goals. For its part, OPM needs to be more open-minded and objective when it comes to changes in current personnel requirements. There is overwhelming sentiment that Federal personnel systems are fundamentally broken. They clearly don't enable agencies to align their workforces with their missions and to hold employees accountable for their performance. Yet, as illustrated by its reaction to GAO's proposals, OPM seems to be reflexively hostile to even modest reforms.

Workforce planning. As discussed previously, many agencies face serious staff deficits and imbalances in terms of having the workforce they need to perform their current missions efficiently and effectively. An initial means of addressing this problem is for agencies to undertake comprehensive workforce planning. Specifically, agencies should: (1) determine their workforce needs (number of employees, skill, experience levels, etc.) in relation to their current functions; (2) assess how their existing workforce compares to their needs; and (3) develop strategies to bridge the gaps between the workforce they have and the workforce they need. These strategies should encompass hiring, training, reorganizing, and "rightsizing" as appropriate. OPM is in the early stages of developing an automated program that will assist agencies in some aspects of evaluating their workforces. However, OPM will have to do much more to produce a useful and comprehensive workforce planning model that agencies need.

Performance goals to address workforce problems. In accordance with OMB guidance, agencies should establish Results Act performance goals and measures to address their most serious workforce challenges and to ensure accountability. Comprehensive performance goals and strategies probably need to await completion of the workforce planning referred to above. However, agencies can start with those areas that lend themselves to immediate action such as improving their recruitment practices and linking employee performance appraisals to performance results. (See below.)

Personnel flexibilities. OPM must ensure that agencies are aware of, and fully understand how to use, those personnel flexibilities that are now available to them by law and current regulations. Given the complex and arcane nature of personnel requirements, it is clear that many agencies lack this understanding now. As stated above, OPM also needs to objectively consider and assist in developing changes to current personnel laws, rules, and practices to enable agencies to effectively develop, align, and manage their workforces so as to accomplish their mission results. The question is not whether fundamental changes are needed, but what they should be. Any increase in flexibility must be linked to accountability, as well as adherence to the merit system principles.

Linking performance to results. Accountability for performance results will become a reality for Federal employees when it is directly linked to their individual performance assessments and rewards. Some agencies have already started doing this for senior managers. OPM recently issued regulations requiring such a linkage for Senior Executive Service staff. Obviously, it is more difficult to link agency performance results to the individual performance of non-managerial employees. However, much can be done to enhance performance accountability on the part of all employees.

Improving recruiting practices. The Federal Government faces many serious recruitment and retention challenges, some of which it has limited ability to influence. However, as recent reports and a host of anecdotes indicate, the government brings some recruitment problems on itself that are entirely within its control and easily remedied. For example, the MSPB report suggests that the government could improve its recruiting chances significantly by reducing inordinate delays in hiring decisions and simply treating applicants with common courtesy.

The foregoing recommendations are by no means exhaustive. Now that the Federal Government's workforce problems are finally getting attention, more solutions are sure to emerge. However, the above recommendations are intended to initiate discussion by all interested parties in improving the way the government works.

ENDNOTES

1. Paul C. Light, *The New Public Service* (The Brookings Institution, 1999).
2. *Id*. p. 2.
3. *Id*.
4. Another recent book by Paul C. Light, *The True Size of Government* (The Brookings Institution, 1999), puts the results of downsizing into perspective. He points out that most of the Federal employee reductions were defense-related and were attributable primarily to the end of the Cold War. He also notes that a substantial but unknown number of former Federal jobs migrated to a "shadow" Federal workforce made up of contractors, other private sector employees, and State and local government employees who are engaged, directly or indirectly, in carrying out Federal mandates.
5. *Human Capital: Managing Human Capital in the 21st* Century, GAO/T–GGD–00–77 (March 9, 2000), p. 5.
6. *Id*. pp. 4–5.
7. Paul C. Light, *The New Public Service*, note 1, p. 8.
8. *Id*. p. 10.
9. Congressional Budget Office, *Budget Options* (March 2000), p. 279.
10. *Id*. p. 1.
11. *Id*. p. 5.
12. These agencies are: EPA, GSA, HUD, Justice, NASA, NSF, OPM, SSA, and USAID.
13. See *Major Management Challenges and Program Risks: Department of Housing and Urban Development*, GAO/OCG–99–8 (January 1999), pp. 7–8.
14. See *Statement of Susan Gaffney before the Subcommittee on Housing and Transportation of the Senate Banking Committee on Management and Performance Issues Facing HUD* (September 26, 2000), p. 3.
15. Letter dated December 7, 1999, to Chairman Thompson from SSA IG James G. Huse, p. 8.
16. *Surge in Ideas, Turnover Swamps Patent Office*, USA Today (September 11, 2000). The head of the Patent Office dismissed these concerns, stating: "We're not overwhelmed . . . We're doing a great job." However, the agency's Performance Report confirms that there is a problem. The agency fell short of its goal for cycle time of inventions processed, and stated that achieving the goal in the future "remains a challenge." The agency pointed to the need for hiring to meet increased workloads. Annual Program Performance Report of the Department of Commerce, FY 1999, pp. 99–100.
17. *Space Shuttle: Human Capital and Safety Upgrade Challenges Require Continued Attention*, GAO/NSIAD/GGD–00–186 (August 2000).
18. Paul C. Light, *The New Public Service,* note 1, p. 2.
19. *Id*. p. 1.
20. *Human Capital: Managing Human Capital in the 21st Century,* note 4, p. 2.
21. U.S. Merit Systems Protection Board, *Competing for Federal Jobs: Job Search Experiences of New Hires* (February 2000), pp. vii–viii. The full report can be found at www.mspb.gov/studies/studies.html.
22. *Human Capital: A Self-Assessment Checklist for Agency Leaders*, GAO/OCG–00–14G (September 2000), pp. 29–31.
23. See *Budget of the U.S. Government for Fiscal Year 2001,* p. 298.
24. OMB Circular No. A–11, Part 2, § 220.9(d) (2000).
25. *Id*. p. 11.
26. *OPM Plan: Too Little, Too Late,* Federal Times (October 30, 2000), p. 16.
27. *Observations on the Office of Personnel Management's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan*, GAO/GGD–00–156 (June 2000), pp. 3–4.
28. *Id*., p. 4.
29. Letters dated June 21, 2000, from OPM Director Janice R. Lachance to Representatives Steny Hoyer and Henry Waxman.

MANAGEMENT CHALLENGES FACING THE NEW ADMINISTRATION

PART 3: RESULTS-ORIENTED GOVERNANCE

OVERVIEW AND SUMMARY

This is one in a series of transition reports that describe core capacity problems facing the Federal Government, discuss their nature and root causes, and propose ways of solving them. The reports are intended to stimulate action on the part of the incoming Administration and Congress, and to provide them a framework for this important task. This report deals with the need for results-oriented governance at the Federal level. Other reports address financial management issues and Federal workforce challenges.

Opinion polls consistently show low public trust and confidence in the Federal Government. Large segments of the public view Washington as inefficient, wasteful, and unresponsive to the people. Unfortunately, the Federal Government is plagued by management and performance problems that fuel the public's negative perceptions. For example:

- The General Accounting Office (GAO) "high-risk" list of Federal programs and activities most vulnerable to fraud, waste, and abuse has grown steadily from 14 problem areas in 1990 to 26 problem areas today. Only one problem area has been dropped from the high-risk list since 1995.
- Each year agency Inspectors General (IGs) list much the same problems as the "top 10" most serious challenges facing their agencies.
- Based on reviews of GAO and IG reports, the Governmental Affairs Committee documented hundreds of billions of dollars in Federal overpayments and other forms of waste and error.
- Duplication and fragmentation abound within the Federal Government. Multiple programs administered by multiple agencies pursue the same objectives. These so-called "crosscutting programs" include 50 homeless assistance programs administered by eight agencies, 90 early childhood programs administered by 11 agencies, 160 job training programs administered by 15 agencies, and 342 economic development programs administered by at least 12 agencies.
- Policy-makers lack results-oriented performance measures and reliable performance data needed to determine what agencies and programs are accomplishing. Therefore, they can't make informed judgments about what's working and what's not; nor

can they make meaningful comparisons among crosscutting programs.

Results-oriented, performance-based management—a way of life for private sector businesses and many State and local governments—is virtually absent from Washington. Federal agencies and programs accumulate over time, are regularly funded, and are in effect perpetuated with little scrutiny of their performance. The attention they get tends to focus on their activities—amounts of money dispensed, numbers of regulations issued—rather than what results these activities achieve.

The Government Performance and Results Act of 1993 ("Results Act") was designed to change the way Washington does business and restore public trust by instilling results-oriented governance at the Federal level. Unfortunately, 7 years after its enactment the Results Act has yet to get results. Many dedicated Federal employees have worked hard to make the Act work. However, neither the Administration nor most agency heads have demonstrated interest or leadership in moving toward results-oriented governance. The Office of Management and Budget (OMB) has done little to support this effort. Likewise, Congress has shown little inclination to factor performance results into its decisionmaking.

A majority of agencies have yet to establish results-oriented performance goals, and almost all agencies struggle to produce reliable performance data. To some extent, this is understandable since measuring Federal performance results is often quite challenging. However, many agencies have failed to use the Results Act effectively to track and improve their performance even for results that are largely within their control and more readily measured.

We have reached a critical juncture in terms of implementing the Results Act and, more fundamentally, moving Washington toward results-oriented governance. Unless performance information is improved and actually used in Federal policy-making, Results Act plans and reports will degenerate into paperwork exercises and the Act will atrophy. If this happens, it is likely that Washington will continue to do business as usual with partisan ideology, special interests, and arguments over motivation framing the terms of policy debate. The fate of these initiatives rests squarely with the next Administration and Congress. The key is what the new President does. Congress can play a significant role in encouraging or discouraging results-oriented, performance-based government. However, only the President and his Administration can supply the unified leadership, overall perspective, and consistent focus to turn these concepts into reality. In particular, the new President needs to lead by example, embracing results-oriented governance by word and deed. If the President does this, OMB and the agencies are sure to follow suit. In all likelihood, Congress also will show much greater interest.

There are several key actions that the incoming President and his team can take to move results-oriented governance to the next level.

Use the Results Act to implement Presidential priorities. The Results Act offers the new President a powerful tool to help him articulate and achieve his policy agenda. Specifically, the President, through OMB, should start by developing concrete, results-oriented, and measurable performance goals that would define success in achieving a few of his priority policy objectives. These commitments should, in turn, be incorporated directly into performance goals for the annual Government-wide Performance Plan and for the Results Act plans of the responsible agencies. Annual Performance Reports would track progress toward achieving these goals. This approach would greatly enhance accountability and transparency in the implementation of key Presidential initiatives. It would also send a clear signal throughout Washington that the new President is intent on moving toward results-oriented governance.

Use the Results Act to establish key expectations for agencies. A similar approach should be used to set performance goals defining the most important results that agencies are expected to achieve. Agency heads should be held personally accountable for achieving these goals, and the goals should be incorporated into the performance agreements of their program managers.

Establish performance goals to resolve mission-critical management problems. Working in consultation with the IG, GAO, and OMB, each agency should: (1) systematically identify its mission-critical management problems; (2) establish specific performance goals to resolve them; and (3) if a particular problem does not lend itself to a specific performance goal, establish an alternative means of ensuring accountability for its resolution.

Establish consistent performance goals for crosscutting programs. In the near term, this will encourage better coordination and management of crosscutting programs. In the longer term, it will provide the information needed to rationalize these programs by making informed choices among them based on their performance results. OMB must play a leadership role in these efforts.

Enhance the credibility and usefulness of performance data. Agencies face daunting challenges in obtaining the data needed to measure their performance results. However, these challenges must be resolved if results-oriented governance is to become a reality. Some agencies, such as the Department of Education, are attempting to deal with their performance data challenges in ways that could serve as models for other agencies. OMB can and should help agencies develop strategies for resolving common data and performance management challenges. Agency IGs and GAO should also be a valuable source of assistance to agencies.

Make sure that the doable gets done. While agencies must continue to work on the more challenging aspects of defining and measuring their performance results, this should not divert them from resolving less daunting challenges. Agencies can and must do a better job of tracking results in those areas that most readily lend themselves to performance measurement and accountability.

Use performance information in decisionmaking. Even if Results Act products are improved to be more useful tools, these reports must actually be used to shift the terms of debate in Washington from intentions to results. The Administration and Congress must work together to systematically integrate performance information into funding and other programmatic decisions. Reliable performance data should be brought to bear on all aspects of Federal policy development and execution, including authorization, budgeting and appropriations, and oversight. Both the President and Congress can take specific steps to encourage the integration of performance data into decisionmaking.

For his part, the President, acting through OMB, should:

- Insist that performance data be incorporated into annual budget requests and that the annual budget demonstrate, in a clear and transparent way, how performance results were factored into budget decisions.
- Require that all legislative proposals for new programs and program reauthorizations that the Executive Branch submits to Congress: (1) include specific results-oriented performance goals and measures; (2) include, for reauthorizations, information on past performance results; (3) be subject to sunset; and (4) be accompanied by an explanation of how these proposals relate to, and add value to, any existing programs having similar objectives.
- Require that major rules incorporate specific results-oriented performance goals and measures, as well as sunset provisions, as a means of holding them accountable for performance results.

For its part, the Congress and its committees should:

- Conduct regular and systematic oversight of program performance. Enactment of biennial budgeting would greatly facilitate enhanced oversight efforts.
- Scrutinize performance results in authorization, appropriations, and oversight hearings.
- Clearly and explicitly indicate how performance results are reflected in authorization and funding decisions.
- Adopt Senate and House rules precluding consideration of program authorization and reauthorization legislation involving substantial resources unless that legislation: (1) includes specific results-oriented performance goals and measures; (2) includes, for reauthorizations, information on past performance results; (3) is subject to sunset; and (4) is accompanied by an explanation of how the programs proposals relate to, and add value to, any existing programs having similar objectives.
- Consistently enforce existing Senate and House rules against funding unauthorized programs.
- Disapprove under the Congressional Review Act major rules submitted to Congress that do not include results-oriented performance goals and measures and sunset provisions.

Use performance information to improve service to the public. Agencies should be required to systematically conduct *objective* and *meaningful* customer surveys and to use the results to adopt tangible performance goals to improve customer service. OMB and Congress should oversee this process.

Revive and strengthen the Reorganization Act. There may well be a need for a long-term comprehensive review of current Federal agencies in order to identify ways to reduce duplication and overlap, eliminate unneeded programs and functions, and perform needed functions more efficiently and effectively. A more immediate way to at least partially address duplication and overlap is to reinstate the Reorganization Act. This Act authorized the President to submit reorganization plans to Congress that proposed to transfer, consolidate, and within certain limits abolish, agency functions.

THE NEED TO IMPROVE FEDERAL PERFORMANCE

Low public trust in government. Public opinion polls consistently show that Americans lack confidence in the Federal Government. They tend to regard Washington as ineffective, wasteful, and unresponsive. According to one survey, 84 percent of Americans believe the Federal Government wastes at least 5 cents of every dollar it spends; 26 percent believe at least 25 cents of every dollar is wasted; and 19 percent believe half of the government's expenditures are wasted.[1] Another survey asked what terms best described their perceptions of the Federal Government. Only 6 percent of the respondents chose "efficient" and only 5 percent chose "responsive to the will of the people."[2]

A recent survey performed for the Federal Government itself, which was spearheaded by Vice President Gore's National Performance Review (NPR), found similar results. According to this survey, "customer satisfaction" levels for Federal agencies were, in the aggregate, only slightly below those of private sector service organizations. However, quality and performance expectations for Federal agencies were much lower than for the private sector organizations.[3]

The public's attitude toward the Federal Government seems to be more one of frustration than anger. Americans want the Federal Government to work, but do not believe that it does. Low public confidence in the Federal Government contrasts with the generally positive view most people have of their own well being and the strong state of the economy. Evidently, the public does not credit the Federal Government for the good things that are happening to them.

Persistent major management problems undermine Federal performance. Unfortunately, there is ample evidence to support the public's lack of confidence in the performance of the Federal Government. The GAO and agency IGs continually report on hundreds of major management and performance problems that plague most Federal agencies and persist year after year. One leading barometer of the Federal Government's performance problems is GAO's "high-risk list," which tracks those Federal programs and activities that are most vulnerable to fraud, waste, and mismanagement. GAO began its high-risk list in 1990 with 14 problem areas. The list has expanded with every subsequent update. The current high-risk list, issued in 1999, consists of 26 problem areas.[4] The list keeps expanding because while new areas are regularly added, few qualify for removal. Only one high-risk area has been removed since 1995. Ten of the 14 original high-risk areas from 1990 are still on the list today. The following table shows the current high-risk areas and the year each was placed on the list:

HIGH-RISK PROGRAM OR ACTIVITY	Year designated
Providing Basic Financial Accountability	
1. DOD Financial Management	1995
2. Forest Service Financial Management	1999
3. FAA Financial Management	1999
4. IRS Financial Management	1995
5. IRS Receivables	1990
Ensuring Major Technology Investments Improve Services	
1. Air Traffic Control Modernization	1995
2. Tax Systems Modernization	1995
3. National Weather Service Modernization	1995
4. DOD Systems Development and Modernization Efforts	1995
Resolving Serious Information Security Weaknesses	1997
Addressing Urgent Year 2000 Computing Challenge	1997
Managing Large Procurement Operations More Efficiently	
1. DOD Inventory Management	1990
2. DOD Weapon Systems Acquisition	1990
3. DOD Contract Management	1992
4. Department of Energy Contract Management	1990
5. Superfund Contract Management	1990
6. NASA Contract Management	1990
Reducing Inordinate Program Management Risks	
1. Medicare	1990
2. Supplemental Security Income	1997
3. IRS Tax Filing Fraud	1995
4. DOD Infrastructure Management	1997
5. HUD Programs	1994
6. Student Financial Aid Programs	1990
7. Farm Loan Programs	1990
8. Asset Forfeiture Programs	1990
9. The 2000 Census	1997

Source: GAO.

In its most recent report on the GAO the current 26 high-risk problem areas, GAO noted the following:

> Collectively, these areas affect almost all of the government's annual $1.7 trillion in revenue and span critical government programs and operations from certain benefit programs to large lending operations, major military and civilian agency contracting, and defense infrastructure. Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve services to the American public, and strengthen confidence in the accountability and performance of our national government. [5]

When asked why so little progress has been made in resolving high-risk problems, the Comptroller General responded:

> In part, it is a matter of changing organizational cultures and priorities and ensuring accountability for results. Such accountability must reside with top agency leadership and should be reinforced by the Office of Management and Budget (OMB) and Congressional oversight. . . . The sustained attention and commitment of top leadership is key to ensuring that good plans are put in place to get at these high-risk problems and that tenacious follow-through on the difficult task of implementing actions in a detailed,

> comprehensive manner is completed. . . . *These problems can be turned around but it will require a different level of commitment than has been exhibited in the past.* [6]

A similar pattern of serious and persistent management problems emerges from the work of agency IGs. For each of the past 3 years, the IGs of the 24 major Federal agencies have reported to Congress on the "top 10" most serious performance problems facing their agencies. Like the GAO high-risk areas, the top 10 problems identified by the IGs remain much the same from year to year. [7]

Duplication and fragmentation in Federal program activities. Federal agencies and programs have mushroomed over time, evolving in a largely random manner in response to the real or perceived needs of the moment. Consequently, duplication and fragmentation abound. Literally hundreds of different so-called "crosscutting" programs and activities are directed at the same problems. There is an obvious need to bring some order out of this chaos. As former Comptroller General Charles Bowsher stated in testimony before the Senate Governmental Affairs Committee:

> The case for reorganizing the Federal Government is an easy one to make. Many departments and agencies were created in a different time and in response to problems very different from today's. Many have accumulated responsibilities beyond their original purposes. As new challenges arose or new needs were identified, new programs and responsibilities were added to departments and agencies with insufficient regard to their effects on the overall delivery of services to the public. [8]

The current Comptroller General, David Walker, also stressed problems of duplication and fragmentation in testimony before the Senate Budget Committee:

> [O]ur work has repeatedly shown that mission fragmentation and program overlap are widespread and that crosscutting Federal program efforts are not well coordinated. In program area after program area, we have found that unfocused and uncoordinated crosscutting programs waste scarce resources, confuse and frustrate taxpayers and program beneficiaries, and limit overall program effectiveness. [9]

Frequently cited examples of duplication and fragmentation include: 50 programs to aid the homeless administered by eight agencies; over 35 different food safety laws administered by 13 agencies; 160 employment and training programs administered by 15 agencies; 342 economic development programs administered by at least 12 agencies; 90 early childhood development programs administered by 11 agencies; 59 programs for preventing substance abuse; and over 40 agencies engaged in anti-terrorism activities.

Presumably, no one would contend that all of these crosscutting programs and activities are necessary or that they are equally effective. However, crosscutting programs rarely have consistent, results-oriented performance goals that permit meaningful comparisons. Indeed, they rarely have results-oriented goals and sufficiently reliable performance data to assess their individual contributions. Thus, Washington decisionmakers lack the ability to make informed judgments about which programs are working and which are not, or to compare their relative effectiveness.

Furthermore, crosscutting programs operate quite differently, under diverse and even inconsistent eligibility criteria. Ironically, the multiplicity of crosscutting programs aimed at the same beneficiaries, each with its own unique processes and requirements, often work against those beneficiaries and cause them to fall through the cracks. For example, GAO noted:

> There are over 90 early childhood programs in 11 Federal agencies and 20 offices. The "system" of multiple early childhood programs with firm cutoffs could lead to disruptions in services from even slight changes in a child's family status. *While multiple programs target disadvantaged preschool-aged children, most such children do not participate in any preschool program.*[10]

Inadequate attention to performance in authorization and funding decisions. In theory, Congress must enact legislation authorizing or reauthorizing Federal programs before money can be appropriated for them. The Congressional Budget Office (CBO) recently reported, however, that Congress enacted about $121 *billion* in fiscal year (FY) 2000 spending for programs with expired authorizations.[11] The CBO report doesn't include funding for programs that have never been authorized. Although appropriating funds for unauthorized programs violates both House and Senate rules, these rules are routinely "waived." The appropriations process does not provide systematic oversight and review of program performance and is not a substitute for regular program reauthorizations. Appropriators typically focus on the margins of funding requests, *i.e.,* whether funding should be increased or decreased from the prior year's level. Rarely do they consider whether a program's performance justifies its continued funding at all.

The need to assess regulatory performance results. Regulation is another area of Federal activity that needs more scrutiny of performance results. Much current Federal policy is prescribed by administrative regulations, through which agencies exercise the sweeping discretion that Congress delegates to them. As the Governmental Affairs Committee observed:

> By any measure, Federal agencies are engaged in an enormous volume of regulatory activity. In a 1997 report to Congress, OMB reported that there are over 130,000 pages of Federal regulations, "with about 60 Federal agencies issuing regulations at a rate of about 4,000 per year. . . . Federal regulations now affect virtually all individuals, businesses, State, local and tribal governments, and other organizations in virtually every aspect of their lives or operations."[12]

Federal rules impose huge economic costs and burdens on our society. It is essential to ensure that they produce positive results that are commensurate with their costs. In 1996, Congress enacted the Congressional Review Act.[13] This Act established a process for Congressional review and potential disapproval of agency regulations, particularly "major rules" having an annual economic impact of $100 million or more. Just this year, Congress also enacted the Truth in Regulating Act. [14] This Act provides for analyses by GAO of the potential costs and benefits of major rules. However, agencies do not routinely specify in measurable terms the results that their rules are intended to achieve. In the absence of concrete performance goals, it is difficult to weigh the costs and potential benefits of rules, assess their results, and hold them accountable.

THE PROMISE OF THE RESULTS ACT

With little fanfare but strong bipartisan support, Congress passed and President Clinton signed the Government Performance and Results Act of 1993, popularly known as the "Results Act." [15] As its name indicates, the fundamental purpose of the Act was to refocus performance measurement and accountability from the activities of the Federal Government to the results these activities achieve. Thus, the Governmental Affairs Committee report on the legislation (S. 20) enacted as the Results Act stated:

> At present, Congressional policymaking, spending decisions, and oversight are all seriously handicapped by the lack both of sufficiently precise programs goals and of adequate program performance information. Federal managers, too, are greatly disadvantaged in their own efforts to improve program efficiency and effectiveness by the same lack of clear goals and information on results. The goal-setting, performance measurement, and results reporting requirements of S. 20 are intended to address these needs of Congress and of Federal program managers.
>
> This reform has the potential to mark a significant change in the way that managers, policymakers, and the American people think about what services the government should provide, and how well it does at providing them. The legislation will provide the information necessary to strengthen program management, to make objective evaluations of program performance, and to set realistic, measurable goals for future performance. [16]

The Results Act requires Federal agencies to prepare: (1) 5-year Strategic Plans that set forth the mission results they seek to achieve and strategic goals to achieve them; (2) Annual Performance Plans that set performance goals for each fiscal year; and (3) Annual Performance Reports that describe how the agency did in achieving its performance goals for the applicable fiscal year. The Act also requires OMB to prepare and submit as part of the President's budget an annual Government-wide Performance Plan.

Judging Federal agencies and programs by the results they achieve may seem to be nothing more than common sense, but this concept was revolutionary for Washington. As embodied in the Results Act, it was intended to produce fundamental improvements in Federal performance and thereby restore public trust in the Federal Government. Among the stated purposes of the Results Act were to:

- improve public confidence in the Federal Government by systematically holding Federal agencies accountable for achieving program results;
- improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction; and
- improve Federal decisionmaking by providing more objective information on program performance results and the relative efficiency and effectiveness of Federal programs and spending.[17]

LACK OF RESULTS FROM THE RESULTS ACT SO FAR

Recognizing the challenges that the Results Act posed, Congress delayed full-scale implementation of the Act for several years in order to allow agencies to gear up to meet its requirements. The first full cycle of Results Act implementation was completed in March of 2000 when agencies submitted their first round of Annual Performance Reports covering FY 1999. Thus far, the results of Results Act implementation have been disappointing. Some agencies have done a good job of establishing meaningful, results-oriented performance goals and reporting candidly on their performance against these goals. However, most agencies are struggling to define and report on their performance in a meaningful, results-oriented way.

What are agencies accomplishing? The Governmental Affairs Committee identified several key results for each major Federal agency and asked GAO to determine whether the agencies' FY 1999 Performance Reports demonstrated progress toward achieving these results.[18] The Committee identified a total of 97 key results for the 24 major agencies. The Performance Reports demonstrated definite progress toward achieving only 13 of these results, and some progress toward achieving another 26. The Performance Reports demonstrated a clear lack of progress toward four others. Most disturbing, the Performance Reports did not provide a sufficient basis to assess performance for the remaining 54 key results—*over half* in all.[19] The following chart lists some of the key results for which the Performance Reports failed to provide useful information on agency performance.

GOALS WITH NO USEFUL PERFORMANCE INFORMATION
• The Nation has an adequate and reasonably priced food supply (Agriculture).
• Combat readiness is maintained at the desired level (Defense).
• Energy systems are secure, competitive, and serve the needs of the public (Energy).
• The public has prompt access to safe and effective medical drugs and devices (Health and Human Services).
• U.S. borders are secure from illegal immigration (Justice).
• Reduced international crime and terrorism (State).
• Tax laws are administered effectively and fairly (Treasury).
• Small businesses become self-reliant and successful in the competitive marketplace (Small Business Administration).

In most cases where progress could not be assessed, the agency either had no relevant performance measures or the measures it did have were inadequate. For example, reducing the availability and/or use of illegal drugs was a key outcome for seven different agencies. None of these agencies had a specific FY 1999 performance target tied directly to actually reducing the availability or use of illegal drugs.

The other recurring problem was that performance data were unavailable at the time the Performance Reports were issued. The Departments of Education and Health and Human Services lacked FY 1999 performance data for a number of their key results at the time their Performance Reports were submitted. They attributed these problems to reliance on States and other third parties for much of their performance information. The Social Security Administration (SSA) also lacked FY 1999 data for several important measures, for reasons that were unclear.

Lack of performance goals to resolve major management challenges. The Results Act provides an excellent venue for agencies to make firm commitments to resolve their major management problems. These problems are, in themselves, major impediments to successful achievement of agency goals. With that in mind, Chairman Thompson wrote to the heads of the 24 agencies in August 1999 urging them to establish specific and measurable goals to resolve major management problems in their Annual Performance Plans. The Chairman's letter noted that OMB's guidance on Results Act implementation specifically called for this by stating:

> Performance goals for management problems should be included in the annual plan, particularly for problems whose resolution is mission-critical, or which could potentially impede achievement of program goals . . .[20]

In reviewing FY 2000 Performance Plans last year, GAO found that agencies had established specific performance goals and measures for only about 40 percent of the over 300 major problems that had been identified by GAO and agency IGs.[21] Unfortunately, there was no improvement this year. The agency FY 2001 Performance Plans again established specific performance goals for only about 40 percent of their major management problems. Chairman Thompson has issued a more detailed report on agencies' use of the Results Act to address major management challenges.[22]

GAO and IG reviews of the FY 1999 Performance Reports offer little evidence that major management problems are being remedied. With the notable exception of the Y2K problem, which all agencies successfully resolved, most of the major management problems that existed in August 1999 remain today. For example, Chairman Thompson asked GAO to look specifically at nine Federal program activities that have long experienced high levels of fraud, waste, and error. Only three of these areas were addressed to any degree of specificity in agency Performance Reports—fraud and error in food stamps, Medicare, and Supplemental Security Income payments. The following chart shows six problem areas that had *no* performance goals or measures whatsoever.

PROBLEM AREAS LACKING ANY PERFORMANCE GOALS OR MEASURES
• Contractor overpayments (Defense). • Student assistance fraud and error (Education). • Medicaid fraud, waste, and error (Health and Human Services). • Fraud, waste, and error in Department of Housing and Urban Development programs. • Earned Income Tax Credit fraud and error (Treasury). • Fraud and error in the Federal Employee Health Benefits Program (OPM).

Not all major management challenges identified by GAO or an agency IG lend themselves to specific and measurable performance goals under the Results Act. Nevertheless, few agencies have made the case that the major management problems for which they have not established such performance goals would not benefit by them. Nor, it appears, have they adopted alternative means of dealing with the problems as suggested in Chairman Thompson's August 1999 letters.

Little progress in rationalizing duplication and overlap. The Results Act also provides a valuable tool to address the problems of overlap and fragmentation described previously. In the near term, developing consistent performance goals for crosscutting programs can improve coordination and encourage agencies to administer them as compatibly as possible. In the longer term, consistent performance goals can help decisionmakers assess relative performance and make choices among crosscutting programs. As GAO observed:

> [T]he Results Act should offer a new and structured framework to address crosscutting issues. . . . [I]f the Results Act is successfully implemented, performance information should become available to clarify the consequences of fragmentation and the implications of alternative policy and service delivery options, which, in turn, can affect future decisions concerning department and agency missions and the allocation of resources among those missions. [23]

Thus far, agencies have made little progress in using the Results Act to improve the coordination and consistency of crosscutting programs. They got off to a slow start when OMB initially took the position that the Results Act was not appropriate for these purposes. In response to Congressional pressure, OMB changed its position. Its current guidance states in part:

> An agency should also review the fiscal year 2001 performance plans of other agencies participating with it in a cross-cutting program or activity. This review should focus on assuring that related performance goals and indicators for a crosscutting program are consistent and harmonious. As appropriate, agencies should modify performance goals to bring about greater synergy and inter-agency support in achieving mutual goals.[24]

With each successive round of Annual Performance Plans, agencies have done a better job of identifying crosscutting programs and activities and discussing what they have done, or intend to do, to coordinate them with other agencies. However, there has been very little progress in the most important area—actually developing consistent performance goals and measures for crosscutting programs and activities.

WHY THE LACK OF PROGRESS?

Overall, the most charitable way to characterize progress in implementing the Results Act is "mixed." There are examples of significant progress toward meeting important results, as well as equally valuable examples of forthright disclosure of significant performance shortfalls. However, these examples tend to be the exceptions rather than the rule. Most of the initial Performance Reports failed to answer the fundamental Results Act question: What is the agency accomplishing in terms of concrete results that matter to the American people?

Based on the Committee's review of Results Act submissions and many other contacts with the agencies, it is obvious that agencies vary greatly in their commitment to results-oriented performance management and accountability. Some agencies clearly demonstrate such a commitment and have achieved impressive results. The Transportation Department has been a leader from the outset. The Veterans Affairs Department and SSA have made good progress as well. The Departments of Education and Health and Human Services appear to be making good efforts, although they are severely challenged in measuring many of their key performance results.

Other agencies, such as the Departments of Energy and Justice, offer no evidence of taking performance-based accountability seriously. GAO said of the Energy Department's Performance Report, "We could not determine what the Department was trying to accomplish or how it planned to get there." [25] With respect to Justice's Performance Report, GAO stated, "Overall, DOJ's progress in achieving desirable program outcomes cannot be readily determined since the agency has yet to develop performance goals and measures that can objectively capture and describe performance results." [26]

There appear to be several key reasons for the lack of greater progress in implementing the Results Act and making the transition to results-oriented governance. These reasons include the following.

Lack of leadership commitment. Many dedicated career employees in many agencies are working very hard to make the Results Act succeed. They are to be commended for their efforts. However, their leaders must develop the same commitment these employees demonstrate if results-oriented governance is to become a reality at the Federal level. With a few exceptions, most notably the leaders of the Transportation Department, this hasn't happened yet. The Administration and OMB likewise have failed to lead in these efforts. Finally, the Congress needs to engage much more to bring about results-oriented decisionmaking.

Measurement and data challenges. Measuring the results of many agencies and programs poses conceptual challenges, such as how to gauge reliably whether some results the Federal Government seeks are occurring and, if they are, how to attribute causation to Federal efforts. The intended results of Federal programs often depend on the actions of other participants, such as State and local governments, and can be affected by a host of economic, societal and other external factors beyond the control of the Federal Government. For example, U.S. Agency for International Development has a minuscule role in affecting its stated outcomes. In addition, many results that hinge on widespread societal changes, such as improved academic achievement and reduced poverty, may not lend themselves to meaningful results-oriented measurement in annual increments. The Departments of Education and Health and Human Services are two agencies that have particular difficulty in developing annual performance data.

Measuring results also poses a series of practical and even political challenges. Efforts to obtain the best performance data often raise concerns in terms of privacy implications and the reporting burdens they impose. Another difficulty is attempting to develop overarching, agency-wide goals for Federal entities that plainly lack any real cohesion. For example, the Departments of Agriculture and Commerce are, in effect, "holding companies" for organizations with divergent and sometimes contradictory missions. Finally, given the massive weaknesses in Federal financial and information systems, many agencies may have difficulty processing and analyzing performance data reliably even when the raw data are available.

In sum, for a variety of reasons, almost all agencies face substantial challenges in coming up with reliable data needed to measure their performance. In reviewing agency FY 2000 Performance Plans, GAO found that only four of the 24 major agencies could produce credible performance data. GAO expressed less than full confidence in the credibility of performance data even for those four agencies. GAO emphasized the seriousness of this problem:

> The continuing lack of confidence that the performance information will be credible is . . . a source of major concern. . . . The inattention to ensuring that performance data will be sufficiently timely, complete, accurate, useful, and consistent is an important weakness in the performance plans. Ultimately, performance plans will not be useful to Congressional decisionmakers unless and until this key weakness is resolved. [27]

Performance measurement problems in areas within Federal control. It is not surprising that agencies like Education and Health and Human Services are struggling to measure their contributions toward achieving results over which they have limited control. What is more surprising, and disappointing, is that many agencies seem to be struggling just as much to measure progress in areas where they have greater control over their performance. The FY 1999 Performance Reports demonstrate few results in areas of direct and primary Federal responsibility such as: Fairly and effectively administering Federal tax and immigration laws; securing the Nation's borders; reducing the availability of illegal drugs; preventing fraud, waste, and abuse in the use of taxpayer dollars; resolving other major management problems; and providing timely and accurate services to the public. There is great room for improvement in these and many other areas, and little excuse for the current lack of progress.

GETTING BETTER RESULTS FROM THE RESULTS ACT

We have reached a critical juncture when it comes to implementing the Results Act and, more fundamentally, moving Washington toward results-oriented governance. Unless performance information is actually integrated into Federal policy-making, Results Act plans and reports will degenerate into paperwork exercises and the Act itself will become the latest addition to the graveyard of failed Federal management improvement initiatives. Worse yet, Washington will continue to do business as usual—with partisan ideology, special interests, and attacks on motivations framing the terms of policy debate.

The fate of the Results Act, and with it results-oriented governance, will be in the hands of the next Administration and Congress. We have gained enough experience to know how to implement the Results Act effectively. What remains to be supplied is the political will to make it happen. The key to progress depends greatly on what the incoming President does. Congress can play a significant role in encouraging or discouraging results-oriented governance. However, only the President and his Administration can supply the unified leadership, overall perspective, and consistent focus to convert it into reality. In particular, the new President needs to lead by example, embracing performance-based governance in word and deed. The President must demonstrate that this is a priority. If he does so, surely the agencies and OMB, and hopefully the Congress, will get on board.

Using the Results Act to implement Presidential priorities. The Results Act is a potentially powerful tool that can help the new President articulate and achieve his policy agenda. By using the Act in this way, the new President also would send a clear signal throughout Washington that he is intent on moving toward results-oriented governance. The President should focus on a few of his priority policy objectives and develop concrete, results-oriented, and measurable performance commitments that would define success in achieving the policy objectives. These commitments should be translated directly into goals for the annual Government-wide Performance Plan, as well as for the Strategic Plans and Performance Plans of the responsible agencies. Annual Performance Reports would track progress toward achieving these goals. This approach would greatly enhance accountability and transparency in the execution of key Presidential agenda items.

Using the Results Act to establish key expectations for agencies. A similar approach could be used to define and fix accountability for the most important results that agencies are expected to achieve. Agencies are often criticized for establishing too many Results Act performance goals and failing to prioritize them. Based on the President's priorities and the work of his transition teams, a few key outcomes could be identified and highlighted for priority attention at each agency. These outcomes would be translated into specific Results Act goals for which the agency head would be held personally responsible and by which his or her performance would be assessed. The goals would also be made part of the performance assessments of the agency's managers.

Making greater use of the Results Act to address mission-critical management problems. Despite the repeated admonitions of Congress and OMB, agencies have not taken full advantage of the Results Act to address their mission-critical management problems. Working in consultation with their IGs, GAO and OMB, each major agency should: (1) systematically identify its mission-critical management problems; (2) establish specific Results Act performance goals to resolve them; and (3) if they determine that a particular problem does not lend itself to a specific Results Act performance goal, establish an alternative means of ensuring accountability for its resolution. If agencies fail to do so voluntarily, Congress should amend the Results Act to mandate these steps.

Making greater use of the Results Act to address duplication and fragmentation. Agencies have made good progress in identifying crosscutting programs and activities in their Results Act plans. However, they need to take the next and more important step of establishing consistent and complementary performance goals within and among agencies for these program activities. This should force greater coordination and better management in the near term, and provide a basis for making rational choices among overlapping and fragmented Federal agencies and programs. OMB must play a leadership role in making this happen. OMB should also use the Government-wide Performance Plan as a vehicle for establishing common goals for the most significant crosscutting programs and functions.

Improving the credibility and usefulness of performance data. It is essential that the massive data challenges faced by most agencies be overcome if performance-based governance is to become a reality. Some agencies, such as the Department of Education, are making impressive strides to deal with performance data challenges. Others must follow suit. Here again, OMB can play an important role, particularly in helping agencies develop strategies for resolving common data and performance management challenges. Agency IGs and GAO should also be a valuable source of assistance to agencies.

Doing the doable. While agencies must continue to work on the more challenging aspects of defining and measuring performance results, this should not distract them from giving greater priority to resolving less daunting challenges. As noted previously, agencies can and must do a much better job of achieving results in those areas of Federal activity that readily lend themselves to performance measurement and accountability.

OTHER STEPS TOWARD PERFORMANCE-BASED GOVERNMENT

Changing the Washington culture. The point has been made repeatedly that results-oriented, performance-based governance requires fundamental "culture change" on the part of Washington decisionmakers. Policy decisions now turn largely on abstract and ideologically-driven arguments over whose proposals stem from better intentions and purer motives. Decisionmakers are loathe to stray very far from the orthodoxies of their political "bases" and the interests of their core constituencies. In this environment, there is little room for objective, fact-based analysis of program performance.

It is unclear whether or to what degree the terms of debate in Washington can be shifted from battles over intentions and motivations to engagement on how best to achieve results. If our next leaders heed the obvious desires of the American people, they will appreciate the need for less partisanship and more constructive, bipartisan problem solving. In the final analysis, of course, most policy decisions are inherently subjective and political in that they require the balancing of competing interests. This will never change, nor should it. However, decisions that are ultimately political can and should be *informed* by objective, results-oriented, performance analysis.

A shift toward meaningful performance-based governance entails risks for our new leaders. It will require them to undertake specific performance commitments and to accept accountability for them. As discussed previously, such culture change can occur only with the strong leadership of the new President. At the same time, it is essential that the new Congress be an ally in this effort. Accountability and risks must be shared among those in the Administration and the Congress who develop, authorize, fund, and implement Federal policies and programs.

Use of performance information for decisionmaking. The Executive Branch and Congress must systematically integrate performance information into all aspects of Federal policy development and execution, including authorization, budgeting and appropriations, and oversight. Several specific steps would encourage this:

- The President, through OMB, should insist that performance data be incorporated into annual budget requests and that the annual budget demonstrate, in a clear and transparent way, how performance results were factored into budget decisions. The appropriations committees should likewise clearly and explicitly indicate how program performance data and results are reflected in their funding decisions.
- The President, through OMB, should require that all legislative proposals for new and reauthorized programs submitted by the Executive Branch to Congress: (1) include specific results-oriented performance goals and measures; (2) include, for reauthorizations, information on past performance results; (3) be subject to sunset; and (4) be accompanied by an explanation of how these proposals relate to, and add value to, existing programs having similar objectives.
- The Senate and the House should adopt rules precluding consideration of program authorization and reauthorization legislation that does not include the above features.
- The Senate and House should consistently enforce their existing rules against funding unauthorized programs.
- Congress, through its authorizing and oversight committees, should conduct regular and systematic oversight of program performance. Enactment of legislation to move the budget and

appropriations cycle to a biennial basis would free up much more time for enhanced Congressional oversight.

- The President should require by Executive Order that major rules incorporate specific performance goals and measures as well as sunset provisions as a means of holding them accountable for performance results. If the President declines to impose such requirements administratively, Congress should legislate them by an amendment to the Congressional Review Act.

Use of performance information to improve service to the public. Federal performance is particularly well suited to tangible performance measurement and improvement in the area of services provided to the public. This includes processing applications for benefits and services and responding to citizen inquiries timely, courteously, and accurately. Agencies have embraced the notion of improving customer service, and they have undertaken customer service surveys under the auspices of the NPR. However, NPR permitted agencies to decide what aspects of their performance and which customers would be surveyed. Also, the results of the surveys were not tied directly to agency performance assessments. Agencies should be required to systematically conduct more objective and meaningful customer surveys and to use the results to adopt appropriate performance goals to improve customer service. OMB and Congress should oversee this process in order to ensure objectivity.

Reactivate the Reorganization Act (5 U.S.C. §§901 et seq.) in order to provide a ready means of implementing organizational and program reforms. There may well be a need for a comprehensive review of current Federal agencies in order to identify ways to reduce duplication and overlap, eliminate unneeded programs and functions, and perform needed functions more efficiently and effectively. One way to do this is through a commission, as proposed in bills such as S. 2306, the "Government for the 21st Century Act." Another approach would be to enact an across-the-board sunset review process for existing Federal agencies and programs.

A more immediate way to at least partially address duplication and overlap is to reinstate the so-called "Reorganization Act." This Act, which ceased to be effective in 1984, authorized the President to submit reorganization plans to Congress for expedited consideration. Such reorganization plans could transfer, consolidate, and within certain limits abolish agency functions. According to the Act, a reorganization plan took effect if approved by joint resolution within 90 legislative days after its submission to Congress. The Act would be more workable if it permitted reorganization plans to become effective unless *disapproved* by joint resolution within 90 legislative days after submission.

Key decisionmakers in the new Administration and the new Congress should earnestly consider these preceding steps. Although they are by no means exhaustive, these recommendations could clearly provide notable progress toward a results-oriented, performance-based government.

ENDNOTES

1. *Washington Times,* November 28, 1999.
2. *USA Today,* December 15, 1999.
3. American Customer Satisfaction Index, *Federal Agencies Government-wide Customer Satisfaction Report for the General Services Administration* (December 1999), p. 38, note 5. The significance of the satisfaction levels reported in this survey are questionable since the Federal agencies themselves designated what they would be rated on and who would rate them.
4. *High-Risk Series: An Update*, GAO/HR–99–1 (January 1999).
5. *Id.*, p. 7.
6. *Performance and Accountability and High-Risk Series: Responses to Questions*, GAO/OCG–99–25R (March 1999), p. 2. (Emphasis supplied)
7. The one notable exception most recently was the Year 2000 computer conversion problem.
8. *Government Reorganization: Issues and Principles*, GAO/T–GGD/AIMD–95–166 (May 17, 1995), at pp. 2–3.
9. *Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus*, GAO/T–AIMD–00–73 (February 1, 2000), p. 11.
10. *Management Reform: Continuing Attention Is Needed to Improve Government Performance*, GAO/–GGD–00–128 (May 4, 2000), p. 13. (Emphasis supplied)
11. CBO, *Unauthorized Appropriations and Expiring Authorizations* (January 7, 2000).
12. S. Rept. No. 106–225, pp. 2–3 (1999).
13. Public Law 104–121, title II, 110 Stat. 868, 5 U.S.C. §§801–808.
14. Public Law 106–312, 114 Stat. 1248.
15. Public Law 103–62, 107 Stat. 285.
16. S. Rept. No. 103–58 (1993), p. 3.
17. Public Law 103–62, §2, 107 Stat. 285.
18. The Committee selected the key results in consultation with GAO and the Congressional Research Service, based on a review of the agencies' statutory missions and their Strategic Plans. The selected key results were not designed to cover all of the agency's important functions, but only a representative sample.
19. The Governmental Affairs Committee Results Act website provides detailed information on the GAO findings and the Committee's analysis for all of the 97 key agency results.
20. OMB Circular No. A–11, Part 2, §220.9(e).
21. *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans*, GAO/GGD/AIMD–99–215 (July 1999), pp. 13–14.
22. *Major Management Challenges Facing Federal Departments and Agencies,* October 2000.
23. *Managing For Results: Using the Results Act to Address Mission Fragmentation and Program Overlap*, GAO/AIMD–97–146 (August 1997), pp. 2–3.
24. OMB Circular No. A–11, Part 2, §220.9(f) (2000).
25. *Observations on the Department of Energy's Fiscal Year 1999 Accountability Report and Fiscal Year 2000/2001 Performance Plans, GAO/RCED–00–209R* (June 30, 2000), p. 2.
26. *Observations on the Department of Justice's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan,* GAO/GGD–00–155R (June 30, 2000) pp. 1–2.
27. *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans,* GGD/AIMD–99–215 (July 1999), pp. 6–7. The four agencies whose performance data had some credibility were Education, Justice, Transportation, and SSA.