

1984
125264

U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



FOR RELEASE ON DELIVERY
EXPECTED 10:00 A.M. EDT
WEDNESDAY, SEPTEMBER 19, 1984

STATEMENT OF
WILLIAM J. ANDERSON
DIRECTOR, GENERAL GOVERNMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE
AND GENERAL SERVICES
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
ON
IMPROVING THE MANAGEMENT OF THE FEDERAL GOVERNMENT

Mr. Chairman and Members of the Subcommittee:

We appreciate very much the opportunity to be a part of these hearings on management improvement in the federal government. Like you, we believe that there are significant opportunities to improve the economy, efficiency, and effectiveness of federal agency operations. In this era of budget stringency, good management is essential and we agree that the subject deserves greater emphasis.

As requested, my statement will provide a brief overview of current government management improvement efforts. Then I will discuss the limited institutional support past management reforms have received and the implications for current efforts. Following that and building on the theme that capable people are

030153

what make the difference in any undertaking, I will discuss two key management areas: human resources and management support systems. I will conclude by providing our views on the roles and responsibilities of the major actors in the management improvement process.

CURRENT MANAGEMENT IMPROVEMENT EFFORTS

The Administration has devoted substantial energy and attention to developing and carrying out an agenda for improving management by various means. The President said in his most recent budget message that, "It is important to continue to reduce the size of government. It is equally important to use the remaining resources as efficiently and effectively as possible."¹ Starting with an attack on fraud, waste and mismanagement through the President's Council on Integrity and Efficiency and the Grace Commission, the Administration has more recently broadened its efforts by initiating a long-range program aimed at improving financial and administrative efficiency through Reform 88, proposed personnel management reforms, and management reviews tied to the annual budget process.

Guidance for all these efforts is provided by the Cabinet Council on Management and Administration. In addition, a President's Council on Management Improvement, composed mostly of the departments' assistant secretaries for management, was recently established to implement the reforms.

Other organizations, including the General Accounting Office, are devoting more attention to management issues. GAO has embarked on a series of general management reviews at three

cabinet departments and a major defense support agency with the goal of demonstrating how the implementation of programs and top management's initiatives can be improved by good management. GAO has also devoted substantial resources to overseeing the implementation of the Federal Managers Financial Integrity Act of 1982, one of whose goals is to strengthen the management of federal operations through improved internal controls.

The National Academy of Public Administration recently completed a major report on the need to "deregulate" public management.² NAPA also published within the last year reports on the Presidential appointment process,³ and budget and personnel processes of the Environmental Protection Agency.⁴ The Congress recently provided the Academy a federal charter designating as one of its purposes to evaluate the government's "structure, administration, operation, and program performance."

Moreover, the Congress itself has been active in examining management issues. The 98th Congress has considered or acted on merit pay, reauthorization of the Office of Information and Regulatory Affairs, extension of the Reorganization Act, a Commission for More Effective Government, and revisions of the budget process.

One issue this Subcommittee may wish to explore is the relationship between the many individuals and organizations who aim to help the federal manager do his or her job better or more efficiently. On balance, are we enhancing the government manager's capabilities or just making the job more complex and

difficult? Attachments 1 and 2 to my prepared statement list these management improvement sources and selected major initiatives of which we are aware.

LIMITED INSTITUTIONAL SUPPORT
FOR PAST MANAGEMENT REFORMS

While many management improvement efforts are now underway, recent history suggests that not all will succeed. Excluding the incomplete record of the current Administration, Executive Branch-led efforts since the creation of OMB have been characterized by episodic attempts at reform, generally of short duration. There have been a range of efforts to achieve a workable balance between Presidential control and departmental autonomy. While the circumstances surrounding the initiatives varied, they generally shared the characteristics of minimal direct interest by the President or OMB Director; limited attention to implementation strategies; and less than ideal working relationships with OMB's budget staff.

We made these observations in a report on a GAO staff study of selected government-wide management improvement initiatives undertaken from 1970, when the Office of Management and Budget was formed, through 1980.⁵ GAO staff reviewed 12 such initiatives which represented a range of approaches: OMB circulars, Presidential Commissions, organizational restructuring, and management tools and systems.

We found that efforts led by the Executive Office of the President alternated between direct intervention into agency management and official--but largely ineffectual--exhortations

of agency leadership to examine operations more critically. The direct intervention efforts were all of short duration. Therefore, none provided a real test of how such efforts would work once the inevitable early problems were resolved. Even with more time, however, there was a question as to whether OMB, an institution consistently dominated by the budget process, would have given any of the various initiatives the necessary attention, priority, and resources to assure a more successful result.

The overall record of this period was sufficiently discouraging as to lead several NAPA panels and the Grace Commission to suggest that the problem of sustaining broad management improvement needs urgent attention. Both groups proposed that an Office of Federal Management be established, although with somewhat different charters. Drawing on suggestions made by others and discussions with knowledgeable observers, GAO's study provided several options--without endorsing any of them--which ranged from accepting the current management improvement framework to establishing a separate central organization to address management issues. Attachment 3 provides an executive summary of this GAO study.

The Cabinet Council on Management and Administration and the other mechanisms now in place may provide an effective framework for management reform, assuming that leadership is sustained, adequate resources are provided, and good cooperation is obtained from the Congress and from the affected departments

and agencies. Without passing judgment on the specific initiatives, we are encouraged that a long-range strategy is part of Reform 88 and that the Administration is giving attention to many management issues. However, it is too early to forecast the outcome. We will be monitoring further developments with interest, and we assume the Congress will do the same.

I want to turn next to a discussion of two key management areas: human resources and support systems.

HUMAN RESOURCES

"Human resources management" covers the full range of personnel-related activities--recruitment and selection, assignment and development, pay and benefits, and so forth. It also encompasses less tangible activities that lead to an effective work environment, including ensuring accountability for results, building trust, and getting employees involved in improving their agencies' operations.

Public management has been defined as "the link between government goals and government accomplishments."⁶ Goals translate into actions through the coordinated application of human effort and economic resources. People--both managers and employees--are what make the difference. Therefore, federal managers need to be given the opportunity to emphasize creativity, encourage prudent risk-taking, foster enthusiasm, strengthen rewards systems, and enhance personal accountability for organizational performance. We believe the result will be improved productivity in the federal workforce. Attachment 4 to my statement provides some examples of productivity improvement strategies being implemented in the Department of Defense.

We have found, however, that federal agencies generally have not placed a high priority on productivity improvement. Few agencies have organized, agencywide efforts to improve productivity. As a result, significant opportunities for reducing government costs are being missed.⁷ Recently, OMB refocused its productivity program under the aegis of Reform 88. A revised Circular A-76 policy will encourage agencies to achieve efficiencies by considering in-house management improvements, cross-servicing arrangements with other agencies, and use of the private sector.

To foster the kind of managerial behavior we seek in the public sector,

- We need to assure that managers are competent, not only in policy development and implementation but also "managing"--getting things done through people.
- We need to give managers the flexibility to manage effectively by eliminating archaic or unnecessary restrictions.
- We need to provide the tools to manage, including sufficient resources and reliable information on program and employee performance.
- Finally, we need to hold managers accountable for organizational performance, insist on excellence, and recognize and reward excellence when it is achieved.

A number of these concepts are embodied in the Civil Service Reform Act of 1978. This act made sweeping changes in federal personnel management and civil service laws regarding

employee incentives and rewards, performance appraisal, mobility, hiring, the roles of career and political executives, as well as other personnel administration issues. Specifically, the act established the senior executive service, provided for establishing a system of merit pay for supervisors and managers in grades GS-13 through GS-15, established a basis for changing performance appraisal systems to link performance of employees to all types of personnel actions, and contained other provisions designed to improve federal personnel management.

This law and the accompanying reorganization of the central personnel operations held out great promise that our government would develop a modern, efficient personnel system consistent with merit system principles. However, we think all would agree that while some advances have been made, much of the promise of the Civil Service Reform Act remains unfulfilled. To illustrate the challenges we still face, I will briefly discuss some current compensation and reward issues affecting both managers and employees.

Merit Pay

The Congress is currently considering two bills (S. 958 and H.R. 5680) to restructure the government's merit pay system and cash award program. The bills provide that merit pay employees would receive uniform pay increases for specific levels of performance. These changes would reinforce the intent of the 1978 act to make pay increases contingent upon performance.

The merit pay system was intended to significantly improve productivity and service to the public by making certain federal employees' pay increases dependent upon their performance.

Specifically, the merit pay system was designed to recognize and reward quality performance by varying merit pay increases within available funds. Agencies were required to use performance appraisals as the basis for determining employees' merit pay adjustments.

Our March 1984 report on the implementation of merit pay in three federal agencies,⁸ however, highlighted many remaining problems and concerns, such as (1) employees' skeptical attitudes about the fairness of merit pay, (2) the influence of factors other than performance on merit pay increases, and (3) the inconsistent quality of performance standards and the procedures used to establish them. We believe that enactment of the proposed legislation would alleviate some of these problems for the over 100,000 federal managers and supervisors subject to the system.

Executive salaries and bonuses

Executive pay and performance awards are another problem facing the government today. Creating the SES was a major reform of the 1978 act designed to improve government operations through excellence in management. The objective was to attract, motivate and retain high quality executives by giving them challenging responsibilities, encouraging them to take risks, and rewarding them for their accomplishments. This objective has not been fully achieved. Indeed, as of June 1984, about 40 percent of the career executives who converted to SES in July 1979 had left government.

Executive pay compression was a critical problem in the formative years of the SES. Although the pay cap was lifted 2

years ago, executives' pay increases are still tied to congressional salaries and pay differences between the SES levels are too small to adequately reflect real differences in responsibility levels. Also, the availability of bonuses has been limited to far less than the maximum number of SES members who could receive bonuses under the 1978 act. The bonus situation improved somewhat in fiscal year 1984.

The merit pay bills contain provisions which would remove the existing 50 percent limit on bonuses and establish an SES bonus pool as a percentage of the total SES payroll. This revision would allow more flexibility in the number of SES members who could receive awards. However, the change could have a negative effect on SES members if individual bonus amounts are substantially reduced to provide bonuses to more SES members.

We continue to advocate an executive pay system that provides competitive salary levels, meaningful pay distinctions to recognize differences in responsibilities and performance, and incentives to encourage valuable, experienced executives to stay in the government.

Employee compensation and benefits

Pay-for-performance and executive compensation and bonuses are but two of the subjects to be addressed in providing an effective, motivated workforce. Another is the total compensation and benefits package for federal employees.

It is very difficult to develop innovative or creative compensation and reward systems for federal employees in the

current environment primarily when additional costs are involved. Federal employees' pay has not been adjusted according to comparability surveys in any of the last 6 years. This year the President has announced a proposed 3.5 percent increase and delayed it from October 1 to January 1.

The present pay adjustment system is not working. The Administration believes the comparability system is too generous for federal employees and needs to be changed to more accurately reflect the nonfederal sector pay and benefit systems. On the other hand, federal employees feel they are being asked to sacrifice for budgetary savings. Given the constraints on providing more money to fund pay raises and other benefits, perhaps we should switch our focus. We have recommended that comparability adjustments be based on both pay and benefits and have offered a number of possible alternatives for changing and improving comparability systems.⁹ We will be reexamining these issues in the near future.

Important pieces of a total compensation system are now on the table. The Congress is developing a retirement system for new federal employees that will supplement social security coverage. The Administration has also proposed a voucher system alternative for federal employees' health insurance. However, we must consider these individual changes in relationship to each other and in the context of the total pay and benefit system. We must also ensure that the individual actions we take

result in pay and benefits that are fair to both federal employees and the taxpayers.

MANAGEMENT SUPPORT SYSTEMS

Capable people need modern, effective, and responsive management support systems to do their jobs well. Such systems include the processes and activities for procurement, information resources management, and facilities management. They also include the financial management structure--the planning, budgeting, accounting and auditing systems.

Work we have performed in monitoring implementation of the Financial Integrity Act¹⁰ and elsewhere has convinced us that the government needs to make a major effort to rebuild its financial management structure.

The Financial Integrity Act requires federal managers, for the first time, to establish a continuous process for evaluating, improving, and reporting on the internal control and accounting systems for which they are responsible. Agencies' first year efforts primarily involved establishment of a process to evaluate systems of internal accounting and administrative controls. However, many material weaknesses were identified by the agencies. Many of these weaknesses are longstanding and cannot be corrected on a piecemeal and partial basis.

The Comptroller General has testified¹¹ that the federal government's basic approach to financial management is obsolete and inefficient. The federal government relies on outdated accounting and management information concepts, systems and structures which are not designed to provide the information

needed by managers, policy officials and the Congress. The flood of information from the government's financial reports provides little of the reliable cost data essential for effective policy making and program management. The long history of unreliable and inconsistent weapons system cost estimates is a case in point.

The overburdened and complex budget process in the executive branch as well as in the Congress is another dimension of the problem. Despite the complexity of the process, the budget or financial plan that emerges from it does not include all government activities, nor does it disclose all costs of those activities. Major activities, referred to as off-budget, are excluded from the budget totals and certain costs, such as unfunded pension costs are not disclosed. Additionally, areas of major concern such as capital investment, are not provided adequate visibility, due in large part to a budget and accounting approach that treats capital investment as if it were spending for current operations. These information gaps make informed policy choices much more difficult.

We are convinced that a modern structure of financial management can be built for the federal government, but it will not emerge by accident, nor can it be created through isolated efforts in a few agencies. Building the structure will require the design and installation of new systems over an extended period. Much of this effort can be accomplished with little additional cost by coordinating new and existing system development activities.

As the first step toward implementing a new financial management structure, we think that discussion and debate are necessary to provide a full understanding of the nature and extent of our financial management problems. This discussion and debate should address at a minimum such issues as the

- poor quality of financial management information;
- poor linkage between the phases of the financial management process
- inadequate attention paid to monitoring and comparing budgeted activity with actual results;
- inadequate disclosure of assets, costs, and liabilities; and
- antiquated and fragmented financial management systems.

We are confident that open discussion will lead to general agreement that these problems are widespread and serious and that they warrant a broad rebuilding of the overall structure. Attachment 5 to my statement provides a brief summary of the key elements to be addressed, a list of objectives, and a suggested strategy for implementation.

Now, I want to provide our views on the roles and responsibilities of four major actors in the management improvement process.

ROLES AND RESPONSIBILITIES

My statement has covered a wide variety of issues that pertain to improving the management of the federal government. The term management improvement is indeed very broad, and it means different things to different people. However, what it

all boils down to is that a need exists to create an environment that supports good management and high productivity in the federal sector.

In addition to its financial and program audits, GAO has performed work over the last several years in several functional areas such as civilian personnel, procurement, productivity, and information resources management. Our monitoring of the Financial Integrity Act implementation and the general management reviews are providing us additional, valuable perspectives. Based on this experience, here is what we see as the major management improvement roles of the various government institutions--including the GAO--in future years.

First, the federal departments and agencies. The primary responsibility for management improvement resides here. These, of course, are the entities to whom our laws generally assign responsibility for policy and program implementation and who carry on the government's day-to-day operations. Agency managers are--or should be--in the best position to know what is going on in their organizations, to design and operate the management systems for financial and program operations, and to motivate their employees to achieve excellence and high productivity. Indeed, there are some encouraging initiatives now underway.

To strengthen agency managers' capacity to improve management systems and productivity, we believe there is a need to provide greater continuity in top management and greater focus on management issues. We recently completed our first department-level management review at the Department of Housing

and Urban Development (HUD).¹² In HUD, as in other departments, the top managers are political appointees who change with each new Presidential administration, or often even more frequently. As a result, we found that HUD lacked an "institutional memory"--that is, the continuity provided by senior executives who understand the causes of HUD's longstanding management problems and the implications of alternative solutions. People inside and outside HUD told us that the frequent management changes deprived the Department of needed continuity.

We offered as an option to effectively address HUD's managerial style, accountability, and continuity, the creation of the position of Under Secretary for Management. This Under Secretary--a nonpartisan presidential appointee having excellent professional credentials and broad management experience--would be responsible for developing, maintaining, and integrating HUD's management systems and the essential management functions, such as management information systems, budgeting, planning, evaluation activities and resource management.

To improve accounting and financial management, we also recommended that the HUD Secretary establish a Chief Financial Officer with clear responsibility and accountability to establish financial policy and provide a central focus to develop improved financial management systems.

Even with greater continuity and a stronger managerial focus, improving management is a continuing challenge as policies and programs change over time. Moreover, because there are wide variations across departments and agencies, solutions

to management problems need to be tailored to the specific environment in which they will be implemented.

Second, the Presidency and the central management agencies.

These institutions at the top of the government pyramid need to provide leadership, direction, and oversight for government-wide management reforms and cross-cutting activities. Even though agencies have the primary responsibility for their own management improvements, there are circumstances where it makes sense for agencies to work together under strong central leadership.

In our study of management improvement efforts during the 1970's, we learned that a key to successful management reform may lie in demonstrating to the agencies that OMB leadership, backed by the President, is truly interested in management reform. OMB leadership has not always demonstrated such interest, and some observers believe that OMB's natural preoccupation with budget issues would always make it difficult for that office to provide stable, long-term leadership on management issues. The current Presidential management improvement initiatives appear to have the strong support of both the President and OMB's leadership. The Cabinet Council on Management and Administration provides an additional source of policy guidance and coordination.

Our study of earlier management improvement initiatives showed that here, too, continuity and dedicated resources appear to be important factors to consider in planning and implementing initiatives. Limits on the size of the Executive Office of the President and dominance of the budget process may be two reasons

why more resources have not been available for management improvement efforts. In addition, changes in the Presidency or OMB leadership have usually resulted in changes in the management improvement agenda and a resulting loss in continuity and momentum.

Third, the Congress. The legislative branch has always played a key role in management. Four laws which have had a significant impact on GAO and a major effect on government management are the Budget and Accounting Act, 1921, the Congressional Budget and Impoundment Control Act of 1974, the Civil Service Reform Act, and the Financial Integrity Act--all major Congressional initiatives.

Our study cited above showed that a base in statutory authorization appears to be helpful for management initiatives, even though OMB usually opposes this approach. Although not a guarantee of success, the legislative process ensures there will be considerable debate and compromise over any reform efforts. That debate extends the base of interest and commitment to reform measures and may lead to a general consensus among affected parties about what needs to be done. Certainly the Congress provided the key impetus to sustained reform in procurement, paperwork reduction, and the inspectors general legislation.

Fourth, the General Accounting Office. From what I have already said, it should be clear that our organization is asserting a larger role in improving management. Our general management reviews reflect a growing concern that the federal

government should be well managed, regardless of specific policy initiatives. By focusing on the overall missions of the departments and agencies from the top managers' perspectives and relating managerial problems to the initiatives and managerial needs of the top officials, we hope to provide insights that will stimulate good management--the element so essential to effective program implementation and less costly operations.

We plan to continue our management review efforts. As we gain experience with the major problems and management issues at individual agencies, we will become better positioned to evaluate the central management agencies as well. Attachment 6 provides our general management review concept and approach.

We also will continue our oversight of the Financial Integrity Act's implementation and its impact on agency accounting systems and internal controls. Finally, we are continuing our dialogue with other interested parties on how to achieve an overall reform of our government's financial management systems. We look forward to working with the Governmental Affairs Committee in these important areas.

This concludes my statement. I would be pleased to respond to any questions you or the other members may have.

FOOTNOTES

- ¹U.S. Office of Management and Budget, Budget of the United States Government, FY 1985 (Washington, D.C.: Government Printing Office, 1984), pp. M16-M19.
- ²National Academy of Public Administration, Revitalizing Federal Management: Managers and Their Overburdened Systems (November 1983).
- ³Macy, J. W., Adams, B., and Walter, J. J. America's Unelected Government: Appointing the President's Team (Cambridge, MA: Ballinger Publishing Co., 1983).
- ⁴National Academy of Public Administration, Steps Toward a Stable Future: An Assessment of the Budget and Personnel Processes at the Environmental Protection Agency (May 1984).
- ⁵U.S. General Accounting Office, Selected Government-Wide Management Improvement Efforts--1970 to 1980 (GAO/GGD-83-69, Aug. 8, 1983).
- ⁶Crane, D.P., and Jones, W.A., Jr., The Public Managers Guide (Washington, D.C.: Bureau of National Affairs, 1982), p.2.
- ⁷U.S. General Accounting Office, Increased Use of Productivity Management Can Help Control Government Costs (GAO/AFMD-84-11, Nov. 10, 1983).
- ⁸U.S. General Accounting Office, A 2-Year Appraisal of Merit Pay In Three Agencies (GAO/GGD-84-1, March 26, 1984).
- ⁹U.S. General Accounting Office, Need for a Comparability Policy for Both Pay and Benefits of Federal Civilian Employees (FPCD-75-62, July 1, 1975), and Determining Federal Compensation: Changes Needed to Make the Processes More Equitable and Credible (FPCD-80-17, Nov. 13, 1979).
- ¹⁰U.S. General Accounting Office, Implementation of the Federal Managers' Financial Integrity Act: First Year (GAO/OGC-84-3, Aug. 24, 1984).
- ¹¹Bowsher, C. A., "Implementation of the Federal Managers' Financial Integrity Act of 1982," testimony before the House Government Operations Committee, May 22, 1984.
- ¹²U.S. General Accounting Office, Increasing The Department of Housing and Urban Development's Effectiveness Through Improved Management (GAO/RCED-84-9, Jan. 10, 1984, two vols.)

ENTITIES "HERE TO HELP" THE FEDERAL MANAGER

EXECUTIVE BRANCH

CONG

White House/Central Agencies

Grace Commission
CCMA
PCMI
PCIE
OMB—Reform 88
Management Reviews
OFPP
OIRA
OPM
GSA
Treasury

Departments

Inspectors General
Management Analysts
Organizational Effectiveness
Program Evaluators

Government C
Government
Other Oversight
Authorization,
Appropriatic
Committees

GAO

LA

Regulat
Rules
Proced



PRIVATE, NON-PROFIT

NAPA
ASPA
SEA
FEI Alumni Association
Center for Excellence in Government
Think Tanks
Universities

PROFIT-MAKING

Accounting Firms
Consulting Firms
American Management Assoc
Other Associations

SELECTED MAJOR MANAGEMENT IMPROVEMENT INITIATIVES

WHITE HOUSE

Grace Commission

Federal Management Systems Report

- Establish Office of Federal Management
- Convert to Common ADP Systems
- Link Presidential Objectives, Budgeting, Agency Plans
- Improve Internal Communications
- Strengthen Financial Management

Personnel Management Reforms

Numerous Cost Reduction Proposals

Cabinet Council on Management and Administration (CCMA)

Field Structure

Property Management

Pay Comparability

Reducing the Middle Management Bulge

President's Council on Management Improvement (PCMI)

Formulate Long-Range Plans

Implement Improved Management and Adm Systems

Resolve Interagency Management Problems

President's Council on Integrity and Efficiency (PCIE)

Model Prevention Plan

Computer Matching

Internal Control System Improvements

Involving Management Through PCMI

SELECTED MAJOR MANAGEMENT IMPROVEMENT INITIATIVES (Continued)

OFFICE OF MANAGEMENT AND BUDGET

Reform 88

Reduce Waste and Fraud

- PCIE
- Debt Collection
- Cash Management
- Improved Monitoring and Accountal
of Program Expenditures

Improve Agency Administrative Operati

- Consolidate and Streamline Adminis
Support Services
- Procurement Reforms
- Productivity & Staffing Standards
- Reduce Non-Personal Resources

Build Government-Wide Management S

- Financial and Accounting
- Payroll and Personnel
- Real and Personal Property

SELECTED MAJOR MANAGEMENT IMPROVEMENT INITIATIVES (Continued)

OFFICE OF MANAGEMENT AND BUDGET (Continued)

Reform 88 (Continued)

Improve Service Delivery

- **Computer Matching**
- **Adjusted Payment Schedules**
- **Contractor and Grantee Performance In**
- **Streamlined Field Structure**

Field Year 1986 Management Review

Government-Wide Administrative Support

- **Organization, Management and Staffin**
- **Information Technology**
- **Circular A-76 Productivity Enhancemei**
- **Payment Integrity**
- **Financial Management**
- **Administrative Support Systems**

Agency-Specific

- **Program Delivery Activities**
- **Administrative Support**

Agency Management Improvement Plans

Individual Department/Agency Plans

SELECTED MAJOR MANAGEMENT IMPROVEMENT INITIATIVES (Continued)

CONGRESS

Merit Pay Legislation

Reauthorization of Office of Information and Regulatory Aff

Reorganization Act Extension

Commission for More Effective Government

Budget Process Revisions

Authorizations, Appropriations

GENERAL ACCOUNTING OFFICE

General Management Reviews

Financial Integrity Act Oversight

Financial Management System Reform

Information Management and Technology Division

SELECTED GOVERNMENT-WIDE MANAGEMENT
IMPROVEMENT EFFORTS--1970 to 1980
EXECUTIVE SUMMARY

GAO staff have reviewed 12 Government-wide management improvement initiatives undertaken from 1970, when the Office of Management and Budget (OMB) was formed in 1970 through 1980. These initiatives included OMB management circulars, major special projects and committees, and public laws mandating major management activities.

This paper summarizes these initiatives and presents observations which could be useful in considering how to better sustain major initiatives in the future. Some of our observations are that:

- Time is required to deal with the complexity of reform issues and to institute change in an entity as large as the Federal Government. Time is something most Presidential initiatives have not had, given the rapid turnover in Executive Branch leadership through the 1970s.
- No broad consensus exists about what constitutes good management in the Federal context, thus diminishing the legitimacy of OMB and other central agency criticism of, and advice to, agency managers.
- The record of ineffectiveness in linking management and budget issues calls into question the viability of the original OMB concept.
- All too often, initiatives are begun without careful and comprehensive implementation planning. The resulting record of implementation problems only contributes to a skepticism that any Government-wide improvement initiative can be successful, adding to the burden of building support for subsequent proposals.
- Continuity and dedicated resources appear to be important factors to consider in planning and implementing initiatives.
- A key to successful management reform may lie in demonstrating to the Executive agencies that OMB leadership, backed by the President, is truly behind the reforms.
- A base in statutory authorization appears to be helpful for management initiatives, even though OMB usually opposes this approach.

Although the record does not suggest a most appropriate structure or process for better sustaining management reforms, a review of the literature and discussions with practitioners developed several not mutually exclusive proposals. These include:

- Working within the current structure in the Executive Office of the President by lending support to specific initiatives already underway or planned.
- Fostering full implementation of the Federal Managers' Financial Integrity Act (P.L. 97-255).
- Supporting establishment of a commission for more effective Government.
- Advocating further strengthening of the OMB management function.
- Establishing a separate central organization to address management issues.
- Requiring by statute an annual President's management improvement agenda.
- Supporting the appointment of distinguished career personnel as under secretaries or assistant secretaries for management.

Following completion of our study, a task force of the President's Private Sector Survey on Cost Control issued a report calling for the establishment of a centralized Office of Federal Management (OFM) in the Executive Office of the President, adding expanded policy-making authority for financial management, personnel management, and management information systems to the budget, planning, and evaluation responsibilities that OMB now has. Key features of the proposal include contractual appointments of the OFM associate directors in charge of management improvement, budget and planning, financial management, administration, and human resources, with a direct reporting relationship of the General Services Administration and the Office of Personnel Management to the latter two associate directors.

DEFENSE MANAGEMENT IMPROVEMENT EFFORTSINVOLVING CIVILIAN PERSONNEL

The Department of Defense (DOD) is pursuing a productivity improvement strategy involving four sets of programs affecting the management of its civilian personnel:

- Operational improvements through A-76 commercial activity cost studies and efficiency reviews of non-commercial activities.
- Capital investments to enhance productivity.
- Work force motivation programs.
- Research on civilian personnel issues.

OPERATIONAL IMPROVEMENTS

DOD is requiring each of its commercial and non-commercial support activities to prepare performance work statements which generate savings through better definitions of mission requirements for civilian personnel. Performance work statements establish quantity, quality, and timeliness criteria for the outputs of specific functions. By streamlining their organizations and procedures, activities which had to compete with the private sector under A-76 or undergo efficiency reviews have been able to make significant reductions in their civilian personnel needs. The freed resources can then be reapplied to meet deferred requirements.

CAPITAL INVESTMENTS

The fiscal year 1984 defense budget included \$128 million for productivity enhancing capital investments which are

expected to save about \$1.1 billion over the life of the investments. Although these funds represent less than one-tenth of one percent of the defense budget, they yield significant returns on investment--approximately \$11 for each \$1 invested, with internal rates of return exceeding 70 percent. The military services and agencies are encouraged to make such investments by being allowed to reapply savings to valid, unfunded workloads.

An example of such an investment is the project to apply bar code technology throughout the defense logistics system. The \$67-million cost of this state-of-the-art technology for inventory control management is projected to be recouped within the first year of operation.

WORK FORCE MOTIVATION

DOD has applied a number of behavioral science techniques to increase the motivation of its civilian work force. The most widely employed technique involves the operation of approximately 1,300 quality circles throughout DOD. DOD believes that quality circles have resulted in tangible and intangible improvements in morale and productivity. One Navy shipyard has reported a return of \$3.25 for each dollar invested in quality circles.

There have also been experiments with pay for performance in DOD. The Army and Navy have tested performance-contingent pay systems which return to employees part of the savings achieved where employee performance exceeds established

standards. The Navy Material Command has experimented with a performance based incentive system at two laboratories in San Diego and China Lake, California. The latter project was intended to demonstrate that mission effectiveness could be increased through a more responsive and flexible personnel management system. The system involves an integrated approach to pay, performance appraisal, and position classification, and it allows greater managerial control over the personnel function.

RESEARCH

DOD supports an active research effort designed to understand how personnel policies and practices affect its work force. The Office of the Secretary of Defense conducts research on civilian personnel issues. The services conduct research through the Navy Personnel Research and Development Center, the Army Research Institute, and the Air Force Human Resources Laboratory. For example, economic modeling techniques are being used to assess how federal compensation policies and proposed changes to them will affect work force retention.

BUILDING AN EFFECTIVE FINANCIAL MANAGEMENT STRUCTURE

The government must make a major effort to rebuild its financial management structure. Old computer systems must be replaced with more modern technology--a long, expensive process. At the same time, however, this updating creates the opportunity to build a structure that will serve the needs of government and the public in the last decade of the 20th century and beyond.

A modern structure for managing government finances will not cause the budget deficit to disappear nor will it make difficult budget decisions easy. But it can ensure that congressional and executive branch officials receive timely, reliable, and consistent information with which to make those decisions.

The problems with the basic structure of financial management cannot be solved in piecemeal fashion. The problems are too intertwined for that approach. In our judgment, successful reform will require a comprehensive, long-term, integrated approach. The effort should be governmentwide in scope, serving the needs of both the Congress and the executive branch, by ensuring that consistent data are available across agency and department lines. The effort should stress four key elements.

--Strengthened Accounting, Auditing, and Reporting. Effective financial management must start with complete, consistent, and timely information. Government financial systems must be designed to produce such information, and its reliability must be assured through effective auditing procedures.

--Improved Planning and Programming. Many of the most pressing national issues cannot be adequately considered using a narrow, short-term focus. A modern financial management system should include a structured process for considering those issues, one that focuses attention on major issues, identifies alternative courses of action, and analyzes the issue's probable future consequences. The process must assure that alternatives are accurately and completely costed on the basis of data from the integrated accounting systems.

--Streamlined Budget Process. To be effective, the federal budget process must focus on budget choices, which must be made more manageable and integrated with the planning, programming, and accounting phases of financial management. Reform is needed in both the Congress and the executive branch. The budget process should exclude any unnecessary repetition, detail and obstacles to action.

--Systematic Measurement of Performance. Effective management of resources requires examining the results of government activities as well as their costs. An integrated and disciplined financial management system that provides consistent data on cost and performance is essential to help both the Congress and the executive branch assess the efficiency and effectiveness of government operations.

Taken together, these elements form the conceptual foundation of a new financial management structure of which successful

implementation of the Financial Integrity Act is an important first step.

Building the structure will require the design and installation of new systems over an extended period. Much of this effort can be accomplished with little additional cost by coordinating new and existing system development activities. An equally important investment must be made in the people who implement and operate the systems. They must be recruited more carefully, trained more thoroughly, and offered a more attractive career path.

In addition, organizational realignments will be needed. Financial operations should be consolidated into more efficient units that use modern technology. Also, responsibilities for interagency policymaking should be clearly assigned.

Finally, all actions must be coordinated to serve the needs of the government as a whole. Because developing a new system is likely to overlap several presidential administrations, it will require firm commitment, clearly identified leadership responsibility, and continuity of purpose. These key ingredients, however, can only exist if supported by a broad and stable bipartisan consensus--including both Congress and the executive branch.

As the first step, discussion and debate are necessary on the nature and extent of our financial management problems. We are confident that open discussion will lead to general agreement that these problems are widespread and serious, and that they warrant a broad rebuilding of the overall structure.

This agreement might best be achieved through a series of congressional hearings that build on prior congressional efforts to improve financial management, such as the 1921 Budget and Accounting Act, the 1950 Budget and Accounting Procedures Act, and the 1982 Federal Managers' Financial Integrity Act. These hearings could result in the passage of a bill or resolution setting forth the objectives of the long-term rebuilding effort, identifying the leadership for the effort, and specifying an initial timetable. A comprehensive list of objectives might include:

- cost-based budgeting and accounting;
- strengthened accounting, auditing and reporting, using consistently applied and comprehensive accounting principles and standards;
- reports for major projects showing planned versus actual costs and accomplishments;
- consolidated financial statements for the federal government, audited annually;
- full disclosure of costs and financial commitments for all government activities;
- greater visibility for capital investments within the unified budget;
- a structured approach, such as planning and programming, for considering the long-term consequences of major policy choices;
- a more manageable and understandable federal budget process;

- performance information that is integrated with the financial management structure and reports.

Organization and leadership of that effort will be critical. The effort may be led by the General Accounting Office and the central financial management agencies--Treasury and OMB--through the Joint Financial Management Improvement Project. All those who will be affected by the new system, including the Congress, and the operating departments and agencies, must have a strong voice in its design. The system must serve the needs of all participants.

GAO has published an exposure draft of two documents explaining this concept in greater detail (GAO/AFMD-84-43 and 43A, March 1984).

GENERAL MANAGEMENT REVIEW CONCEPT AND APPROACH

The General Accounting Office is undertaking a major initiative aimed at focusing attention on the need for a continuing commitment to management improvement in the Executive Branch and demonstrating how management can be improved within each department and agency. Recognizing that principal responsibility for management improvement rests with the departments, GAO plans to conduct management reviews in each department and major independent agency. Another long range objective, to be pursued after a number of departmental reviews are completed, is to identify and address government-wide management issues and evaluate the performance of the central management agencies.

Indicative of the importance the Comptroller General has given to this effort, a panel of distinguished former government executives is being formed to provide counsel to the GAO management review teams. These individuals, as well as persons intimately familiar with each Department's programmatic issues, will be consulted throughout the reviews.

Representing a departure from GAO's more narrowly focused program reviews, the departmental management reviews will more comprehensively address a broad range of management functions and assess how improvements in the management functions can improve each department's execution and delivery of programs and services. The management functions we plan to include in our work are: general management, planning and budgeting; financial management; information resources management; procurement; productivity management; audits and evaluations; and personnel management.

In performing these reviews, we will select policy and administrative initiatives for review to demonstrate how these seven functional areas interrelate and impact a program's or organization's performance. In this regard, we will attempt to identify cause-and-effect relationships between the management functions and the problems that exist in the execution and delivery of programs and services. To facilitate this effort, we will develop a general profile of each department which will provide an overall understanding of the mission, organization, programs, staff, budget size, and major policy issues.

These reviews will generally be completed in a 15-18 month period and result in a comprehensive report to the Congress. To make these reviews as useful as possible, we will also meet regularly with appropriate departmental officials to brief them on our progress and provide them our observations at the earliest possible time.