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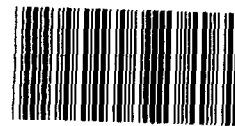
Before the Committee on Governmental Affairs
United States Senate

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**IMPROVING
GOVERNMENT**

**Need to Reexamine
Organization and Performance**

Statement of Charles A. Bowsher
Comptroller General of the United States



148736

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Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today. We have testified many times before this Committee on the need to improve government management. As you requested, I will summarize what we see as the potential roles and focus of a commission intended to drastically improve the way we manage the federal government. I also have some observations on issues you will need to address in order to best structure the commission for success. A commission with a carefully focused mandate can serve as a valuable tool for addressing the growing consensus on the need to change the way the government manages.

COMMISSION SHOULD NOT BE USED TO DELAY ACTION

Any commission focusing on improving federal management should not serve as a basis for postponing needed actions. Congress and the executive branch must move forward on the major targets of immediate opportunity that already have been identified. They should move forward in areas where there is established and growing consensus, such as the full implementation of the Chief Financial Officers (CFO) Act and the enactment of S. 20. Action also is needed in those areas where the possibility for major program improvements has been identified. For example, Congress and the executive branch need to promptly address issues raised in our recent Transition Reports and High Risk Status Reports, the over 2,500 open audit recommendations from other GAO work, and action proposed by agencies' inspectors general. Prompt action in these areas would constitute an important and immediate downpayment to the American taxpayers to demonstrate that Congress and the administration are serious about improving the way government manages.

The recently announced initiative under the leadership of Vice President Gore demonstrates the administration's interest in fundamentally improving federal management. The administration's initiative, the work of the ongoing congressional reform commission, and the role of a legislatively mandated commission to examine the operations of the executive branch would need to be carefully worked out so that their efforts will be complementary and mutually supportive.

CHANGES IN FEDERAL ENVIRONMENT AND MANAGEMENT CONCEPTS

Many new concepts for managing government have surfaced in recent years that are good candidates for careful consideration by a broad-based, bipartisan commission. Although there is consensus on the need for change, that consensus often breaks down as attention is turned to specifics of how to implement those changes.

In areas where broad agreement exists on the direction that needs to be taken, a commission could contribute by determining how these new concepts can be put specifically into practice. In those areas where agreement is lacking on the precise direction to take, such as reforms to the federal personnel system and streamlining the budget process, a commission could be helpful in building agreement on the changes that need to be made, as well as identifying implementation strategies.

Mission and Roles Have Changed

Over the past 40 years, the federal role has changed dramatically. This has required greater reliance on the use of third parties to deliver program services. One result is that while federal spending has increased by more than 250 percent in constant dollars over the 40-year period, federal civilian employment has remained roughly constant.

Traditional management reform has focused on ways to improve the management of federal agencies. Although this agenda is still very relevant and pressing, the results of most federal programs are increasingly a function of the quality of performance by nonfederal entities--state and local governments, private contractors, profit and nonprofit organizations--that do not necessarily share federal program objectives. Reliance on nonfederal entities to implement federal programs has grown far more rapidly than the knowledge about how to design and manage these kinds of programs. The federal government uses a grab bag of subsidies and other tools to engage third parties in programs --tax expenditures, loans, loan guarantees, grants, contracts, insurance, and regulation--without clearly thinking through which tools can best promote national objectives in the least intrusive and costly manner.

Management Concepts Have Changed

The hierarchical, centralized bureaucracies designed in the 1930s and 1940s simply do not function as well in the rapidly changing, knowledge-intensive society and economy of the 1990s. The kind of government that developed during this period, with its reliance on rules, regulations, hierarchical chains of command, and direct provision of services, worked well in a stable environment. It accomplished great things in its time. But today it is a dinosaur. For example, the Department of Agriculture has an extensive and costly field structure of 11,000 field offices, many of which date from the 1930s--before modern transportation systems, computers, and universal telephone coverage facilitated communication.

The recommendations of the 1949 Hoover Commission were based on a set of guiding principles--such as centralization, uniformity, efficiency, and simplification--that worked well in the days

before the availability of personal computers, fax machines, and video and teleconferencing. During the intervening years, commissions have been convened to reorganize government agencies. But these efforts relied on the same principles adhered to by the 1949 Hoover Commission.

However, while some of these principles remain important, they need to be reassessed in the context of newer concepts guiding private sector corporations, state governments, and governments in other countries. The new concepts emphasize flattening hierarchies, decentralizing authority, creating a customer focus, encouraging competition, and achieving results. Sometimes this means that to be responsive requires more complicated organizations, which runs counter to notions of centralizing or uniformity. In other cases, it means creating a more appropriate mix between functions the government needs to do and those that can be better handled by the private sector. Therefore, we need to rethink our principles. We must reorient ourselves to whom we serve and how we serve them. A focus on our citizens' needs should be the foundation for managing and for reorganizing our government.

Restructuring along these lines requires a focus on understanding the incentives that drive elected officials, public managers, and employees. Most programs are budgeted according to their historical funding levels rather than according to their results. This concentrates attention on inputs rather than outputs. To change behavior within the federal government, we must change the basic incentives that shape that behavior.

ISSUES FOR A COMMISSION'S AGENDA

But to change, we need to develop a new consensus about a vision for the future and an action plan. We need to better understand the reasons problems exist and attack the root causes, not just the symptoms. GAO believes federal management can be improved by aggressive action in three broad areas:

- (1) establishing accountability for program results,
- (2) emphasizing a long-term focus, and
- (3) realigning the machinery of government.

Establishing Accountability for Program Results

Ways need to be found to unleash the innovative potential of federal employees and provide them with the tools and incentives to achieve results. However, changing the government's focus from ensuring that funds are spent properly to managing dollars to produce agreed-upon results will be difficult and gradual and will require a strong commitment from those involved.

One tool for changing behavior in the government lies in a piece of bipartisan legislation pending before this Committee--S. 20, the "Government Performance and Results Act of 1993." This legislation would require all agencies to develop strategic plans, set agreed-upon goals and objectives, and measure their progress towards those goals. The bill seeks to create an environment that would provide managers with incentives and tools they need to focus on results.

The bill also provides for a series of pilots on performance budgeting beginning in late 1997. While establishing more direct links between budget levels and performance is a worthy goal, our recent work in this area in several states regarded as leaders in this field suggests that the goal remains elusive. Performance measures have not yet attained sufficient credibility in these states to influence budget decision-making processes. To date, performance budgeting has not evolved naturally from improvements in performance measurement, in part because of difficulties in achieving consensus on meaningful measures and the absence of underlying supporting mechanisms, such as cost accounting systems. The building block approach envisioned in S. 20, in which performance measures are developed and tested before being applied to the budget process, may increase chances for success. We therefore believe that action on the bill should not be delayed.

While action on S. 20 is important, it is not the only area where broad agreement appears to exist. For example, further action on the implementation of the CFO Act should not be delayed, nor should agencies reduce their levels of commitment to the implementation of Total Quality Management.

These are all examples of areas where consensus appears to exist already and action is needed. However, the experience of some states and other countries suggests that providing greater flexibility and incentives for managers to act is critical to fundamentally improving agencies' performance. These governments granted managers greater freedom by

- reforming their civil service systems to make it easier for agencies to hire and to provide different compensation, incentive, and promotion systems;
- recasting their budget execution systems to allow multiyear budget allocations, gainsharing, and a reduced number of line items in their appropriations;
- devolving more responsibility for control of operations away from central management agencies and creating an environment where managers are held more responsible for their actions; and

-- streamlining acquisition processes and allowing choice between government and nongovernment service providers.

Along with this increased flexibility, the governments also increased accountability--but for results rather than processes. Agreement is lacking on the precise approach to providing these and other flexibilities for the federal government. These are exactly the types of issues where a commission would be well-suited to build the consensus needed to take action. But we must be realistic. A commission should be part of a broader effort to improve management in federal agencies. Most of the measures that are essential for new flexibility and accountability will require substantial revisions in procedures currently written into law.

Emphasizing a Long-Term Focus

A misplaced focus on short-term issues is a major deterrent to good management. Several factors create a federal environment that encourages short-term action in the face of long-term management problems. These are most visible in how the federal government fills its top management positions, how it budgets, and how it treats public servants. Addressing the incentives that create a short-term focus will be complex and cut across a wide range of program and policy areas. We believe a commission would be well-suited to address areas where there is consensus on the need for change but not on the specific changes and how they should be implemented.

Choosing leaders

Top positions often are filled by political appointees who generally have little incentive to focus on long-term management issues. Also, there is frequent turnover of people in these positions. The consequences of frequent turnover and the lack of focus on implementation at the top levels of agencies have been substantial. For example, the Social Security Administration has had five permanent or acting commissioners in the past decade. This turnover is disruptive to management operations and a key reason that Social Security has not been able to effectively address long-term organizational problems. Furthermore, over the past decade the roles of senior career managers and political appointees in many agencies have become blurred as the number of political appointees increased. There is not always a clear line between "policy" and "management." However, it is still possible to delegate managerial tasks to career staff and hold them responsible for their performance, while retaining the policy controls that are properly vested in political officials.

A commission's agenda should include a number of issues central to developing leadership continuity and a commitment to act. These should include such issues as reducing turnover among

political appointees, the impact of the growth in the number of political appointees, senior management training needs, senior executive performance agreements on results, and the development of professional standards for political appointees and career executives. The British, for example, have developed performance standards on a program-by-program basis that are the basis for a 3-year performance agreement with the chief executive officers in charge of an agency and annual organizational performance agreements developed between the secretary of a department and the chief executives in charge of agencies within that department.

Revising the budget process

The budget crisis has contributed to a lack of attention to long-term management problems. While this short-term focus is regrettable, it is understandable. Budget decisions are sometimes distorted in order to save cash in the short run; such decisions cost more over the long haul. A prime example is the postponement of maintenance on equipment and buildings owned by the General Services Administration, where maintenance costs were saved in the short term but the total repairs were expensive in the long run.

Consensus is lacking on the precise changes that need to be made to foster a long-term perspective in budgeting. Therefore, a commission should pay particular attention to the following issues:

- Requiring the use of accrual concepts, where appropriate, to heighten the recognition of short-term actions that entail long-term costs. The existing cash-based budget structure fosters a short-term focus. Expanding the use of accrual concepts would help recognize the full costs of current decisions.
- Highlighting the differences between spending that contributes to long-term economic growth and spending for current consumption. Decisionmakers need to be able to see the distinctions between investment programs and current consumption when making choices. In addition, more reliable information on rates of return is needed as a basis for choosing among alternative investment options.
- Emphasizing the likely results of choices that are among competing objectives. Considerable performance information is provided in agency budget justifications, but stronger links need to be developed between reported performance, agency missions and objectives, and proposed spending levels. Pilot projects, such as those that would be authorized by S. 20, would be helpful in developing those links over time.

Strengthening the Public Service

Sustained cuts in agency operating budgets and underinvestment in the public service have diminished the ability to manage well. The lack of sufficient investment in agency staffing and training, coupled with the failure to modernize federal employment practices to stay competitive with other employers, has undermined the federal workforce's ability to effectively manage the programs with which it is entrusted. For example, well over half of agency chief financial officers have highlighted serious problems with attracting and retaining well-qualified personnel and upgrading their training efforts.

Human resource issues need to be dealt with seriously if the public service is to provide the leadership necessary to address the management problems facing the government. While we and others have gone a long way toward identifying some of the major human resources problems facing the government, consensus is lacking on the specific changes that are needed. Many of the possible changes are particularly sensitive and require broad agreement on the course we should take. A commission could devote attention to identifying ways to

- enhance the government's ability to effectively manage its workforce by giving agencies more flexibility to manage the mix and performance of their employees,
- modernize the government's employment policies to recognize and accommodate the impact of dramatic demographic changes that have occurred in the nation's workforce, and
- restore a positive public image for the public service to rebuild the public's confidence in government and to make it a more attractive career choice.

Realigning the Machinery of Government to Support Results-Oriented Action

All too often, the existing machinery of government stifles results-oriented agency action. The traditional posture of central management agencies has been to control and regulate line agency actions and resource usage, encouraging Congress to take the same overly detailed approach. Individual agencies frequently have unclear missions and ineffective organization structures.

Central management agencies

In recent years, the central management agencies--the Office of Management and Budget (OMB), the General Services Administration (GSA), and the Office of Personnel Management (OPM)--have begun a

gradual shift from being control-oriented to helping agencies take the lead in a series of areas.

The historical controlling role has created an environment of often ineffective results. For example, GSA's management of public buildings has created tensions with its agency customers. In its attempt to be cost-effective, GSA has acquired space in locations perceived by client agencies as undesirable; tried to relocate agencies into this space; and on occasions when it failed, paid rent for months on empty space.

In addition, OPM controls certain aspects of the hiring process for agencies. The examination process introduced in 1990 for job applicants imposed new and undesirable administrative procedures on both applicants and agencies. It further reduced the already tenuous link between an agency's recruiting and hiring functions. As a result, there is no guarantee that agencies can hire the candidates they meet and interview on college campuses, and applicants may get job offers from agencies for which they have no desire to work.

Decreasing central management controls and giving line managers the authority to act within an overall framework of results-oriented objectives have been significant management trends in private corporations, states, and other countries during the past decade. Some states and other countries have devolved certain functions traditionally held by their central management agencies to line agencies. They have broadened the authority of individual agencies to take the lead, for example, in classifying personnel positions, recruiting staff, acquiring office space, and determining appropriation drawdown rates. Broadening agencies' authority to act within a defined framework seemed to provide managers the incentive to focus on results instead of complying with top-down constraints.

There is a distinction to be made between being controlling on the one hand and, on the other hand, establishing needed overall governmental policies and standards and providing helpful advice and assistance. For example, it is unacceptable for the top levels of government to fail to provide accounting, reporting, and systems standards to the agencies that will help them to meet the information needs of users across government and to properly inform its citizens. Yet, that is the position we are in today.

It is also unacceptable that central agencies do not provide line agencies with models of information systems that show how to meet most expeditiously the information needs of people who lead government activities and who provide the budgetary resources for government operations. Yet today, agencies and departments are virtually on their own when they seek to develop basic information systems. As a result, costs are higher than they should be and there is no assurance that the systems will best

serve the users' needs or fit together at the top of the government.

In the last decade, the federal government's central management agencies have begun to serve a support role and delegate the authority to act in certain areas. Credit for this is partly attributable to OMB's support for Total Quality Management and the creation of a deputy director for management position. OMB's management staff has increased its emphasis on assisting, rather than instructing, agencies in resolving their management problems.

A commission's contribution could be to identify and promote agreement on ways to encourage and accelerate the central management agencies' efforts to devolve authority to the agencies.

Agency missions and structures

Agencies also need to realign their efforts. In many cases, the federal government has become too complicated for the average citizen to understand. The government should be made comprehensible and "citizen friendly." To do this, though, first requires that agencies themselves have a clear sense of their own purposes.

Many federal departments and agencies--having taken on their present characteristics over the course of some 60 years or more --no longer articulate a clear sense of direction and mission. They are asked to do too many things without a sense of priority and are given competing objectives. GAO's reports are replete with examples of agencies that have multiple competing objectives and complex program efforts that are fragmented among several agencies. For example:

- The Department of Commerce is a loose collection of more than 100 largely unrelated agencies and programs and seems to have no coherent mission. Some have argued that the Department's logical assignment would be to promote U.S. industrial competitiveness. Perhaps that view will prevail. But if it does, the Department will need to not just clearly articulate this mission but to build the capacity to fulfill it.
- Both the guaranteed student loan and the farmers loan programs face conflicting objectives of (1) providing assistance to those unable to obtain loans from the commercial markets and (2) being fiscally prudent lenders.
- The Department of Labor administers most of the federal government's training programs. But the \$16 billion federal investment in employment and training is scattered among a

myriad of 125 separate, uncoordinated programs that are administered through 14 departments and agencies. In some cases, these programs suffer from insufficient oversight, spend money improperly, and inadequately serve the people they are supposed to help.

Government organization is a major problem and would logically seem to be among the first that a commission could address. However, because of entrenched interests and the adverse effects major structural changes have on the morale and capacity of an organization, it may be the most difficult. Any effort should not be focused solely on the "boxology" of streamlining or simplifying. Rather, a commission's contribution could be to pose the fundamental questions involving agencies' roles and missions.

CREATING AN EFFECTIVE COMMISSION

I would now like to address some of the issues that need to be considered in creating a commission to address these problems. The issues surrounding the creation of a commission are much like the major questions facing the government as a whole: what should be its purpose, and how should it be structured and operated to achieve results?

Focus of the Commission

Defining a clear focus for the commission will be crucial because it will be a precondition for success. The legislation will need to set a commission's scope and give it a clear mission. A commission will then need to translate its mission into specific objectives, identify areas of consensus, and identify areas that lack consensus that will need more work.

Without a clear mission and objectives, there is a danger that a commission could be diverted to focusing primarily on eliminating individual instances of inefficiency and mismanagement, or getting rid of "unneeded" programs or activities. Such efforts are clearly needed. However, the most productive use of a commission's time would be to identify the underlying causes of these problems and solutions.

GAO's past work on agency management indicates that over the long run there is a need to reform practices in personnel management, budget execution, accounting and financial management, performance standards, delegation and accountability, training at all levels, recruitment, and executive competence and leadership. Further, there is a critical need to develop practical information about what works, particularly at the state and local level where so many of the federal dollars are actually spent.

Structuring a Workable Commission and Getting Action

In addition to a clear focus, a successful commission should be small and composed of high-caliber people. They should be given a defined time frame and a defined set of products. We believe a commission with a small number of members will be able to meet more often, resolve their differences more constructively, produce reports more quickly, and may be more effective. The two Hoover commissions, for example, had 12 persons each. The caliber of people on these commissions was considered to be exceptional. They were given a defined time frame of about 18 months, and each produced a series of about 20 reports.

Because of the potentially broad focus of a commission, it may want to use task forces, like the Hoover commissions, to address specific functional areas. In that case, one or two commissioners headed each task force. More recently, a commission that staffed its task forces with career government employees--who had institutional knowledge of previous reform efforts--completed its work rapidly and was largely successful in implementing major recommendations for personnel reform.

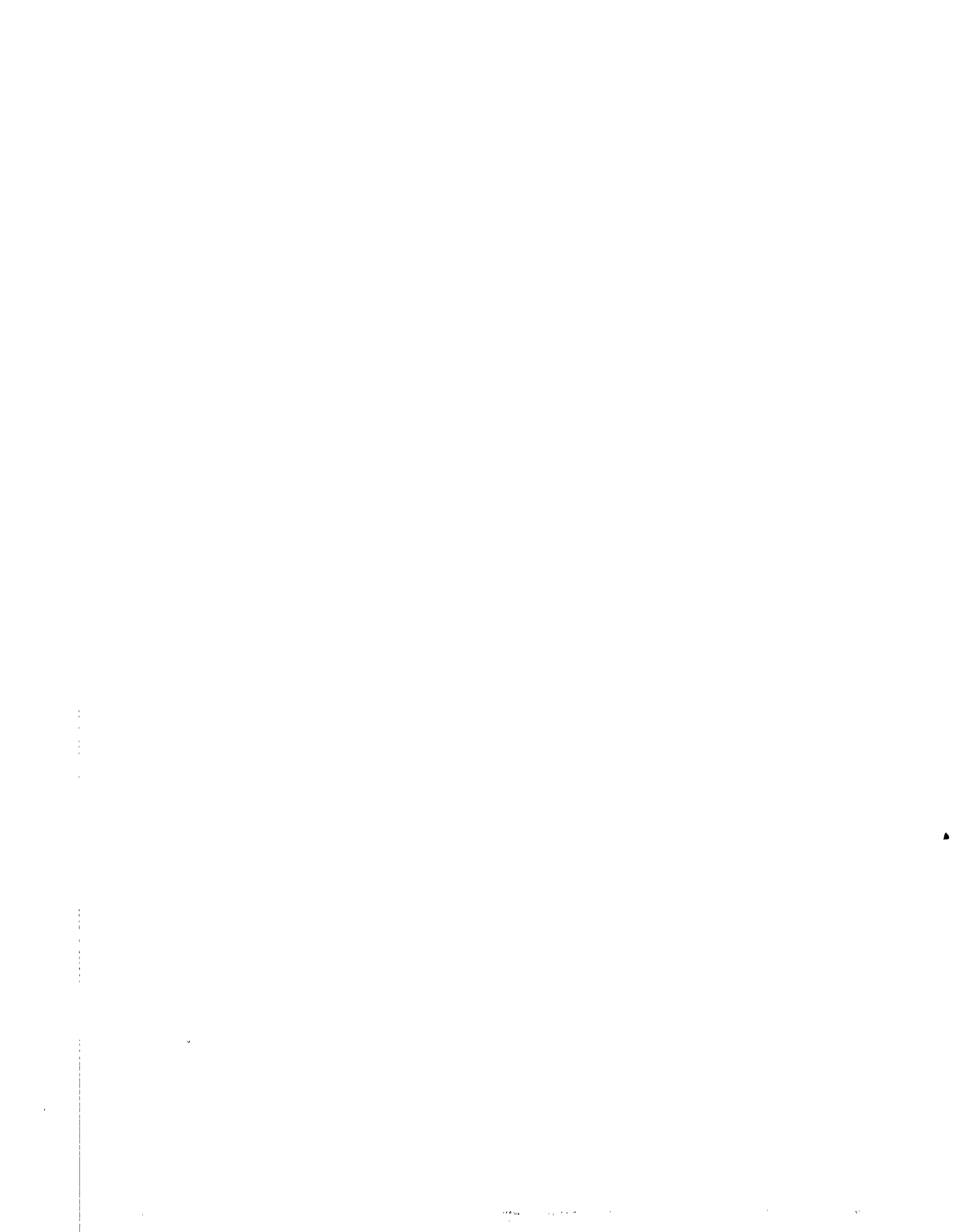
Of utmost importance is the need for a close working relationship between the commission and those whose responsibility it will be to implement its recommendations. One way would be for the commission to have representation from both the legislative and executive branches. Another would be to require periodic interim reports by the chairman of the commission to the congressional leadership, and the president could encourage such working relationships.

In summary, Mr. Chairman, we believe that a commission could play a valuable role as one of a broad range of efforts to improve federal management. Most federal managers want to be efficient. When they run inefficient operations, it is usually because something requires them to do so, or because there are strong incentives to do so, or because they do not know how to fix it. The problem is the system, not the people in it.

We believe a commission can add value to the broad agenda of change facing Congress and the president but it must not be a substitute for action in the areas where there already appears to be broad agreement--for example, acting on S. 20 and continuing the implementation of the CFO Act.

This completes my prepared statement. My colleagues and I would be pleased to respond to questions.

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