OMB 2000 REFORMS: WHERE ARE THEY HEADING?

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

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WEDNESDAY, FEBRUARY 7, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Davis and Peterson.

Staff present: J. Russell George, staff director and counsel; Anna Miller, professional staff member; Andrew G. Richardson, clerk; and David McMillen, and Matt Pinkus, minority professional staff members.

Mr. HORN. A quorum will be established at the end of my statement, not before it. But in the interests of time, I am going to begin.

Today, the Subcommittee on Government Management, Information, and Technology will review how a reform initiative, known as OMB 2000, has impacted upon management practices in the Office of Management and Budget, and where OMB is headed as a result of all this.

And since it was reborn in 1970 from the Bureau of the Budget, the Office of Management and Budget has wrestled with how to achieve the proper balance between its responsibilities for management practices within the executive branch and its responsibility for budget formulation. There are some experts who say that a proper balance has never been achieved. They question whether it is feasible to integrate the two functions in one organization, and suggest that the solution is to set up a separate office within the Executive Office of the President, devoted entirely to management issues.

In March 1994, the Office of Management and Budget commenced a far-reaching reorganization intended to make OMB more effective in serving the President. Entitled OMB 2000, the reorganization fundamentally changed the organizational structure of OMB. The former budget program areas were recreated as resource management offices, otherwise known as RMOs, staffed by former budget examiners, who now have both budget and management responsibility.

The Office of General Management is gone. The staffs of the three offices mandated by law do remain. They are the Office of

Federal Procurement Policy, the Office of Federal Financial Management and the Office of Information and Regulatory Affairs. But their staffs have been reduced. Over half of the authorized staff positions in the Office of Federal Financial Management were moved to the RMOs. This reduction was out of proportion to the cuts absorbed by other areas.

Last year this subcommittee held a series of hearings on Federal Government management reforms which resulted in a report entitled Making Government Work. One of the findings from that report was that management capacity in the Office of Management and Budget has steadily declined and now barely exists.

Federal management organization, oversight authority and general influence have been consistently overridden by recurring budget crises in a budget cycle demand. This occurred in spite of the best intentions on the part of OMB leadership to give budget and management equal voice within OMB.

The intent of the OMB 2000 reorganization was to address the problem by increasing the attention given by OMB staff to management issues. Today we will attempt to determine whether this has worked. Has enough attention been given to management? Is more drastic action needed to ensure that OMB increases its capacity to advise key members of the executive branch on the very complex problems of management which they confront?

We are pleased to have as our first witness this morning the Director of OMB, Dr. Alice Rivlin. She will be joined by Dr. John Koskinen, OMB Deputy Director for Management.

We will later receive testimony from the General Accounting Office Directors, Nye Stevens and Paul Posner, and they will discuss the GAO report on OMB 2000 reforms.

We will also hear from former OMB officials Ed Harper, who was Deputy Director of OMB under President Reagan, and Dwight Ink, who has served under every President from Eisenhower to Reagan. Dr. Ink was Assistant Director for Management, Bureau of the Budget, and also Assistant Director when it became the Office of Management and Budget under President Nixon.

We thank you for joining us, and I would like to yield to Mr. Davis, if he has an opening statement.

Mr. DAVIS. Thank you, no statement. I know everybody is busy, so I will let them get right to it. I will have some questions.

Mr. HORN. Very good.

You know our tradition here on swearing in witnesses. If you will, raise your right hand.

[Witnesses affirmed.]

I am delighted to have the Director of OMB with us. We know she has many things to do and there is never a vacation for the Director, so please proceed.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY JOHN KOSKINEN, OMB DEPUTY DIRECTOR FOR MANAGEMENT

Ms. RIVLIN. Thank you, Mr. Chairman. John Koskinen and I are both very pleased to be here, and we share with this subcommittee the strong desire to improve the management of the Federal Government's resources. That is a never-ending quest.

It was important when Dwight Ink was running things at the Bureau of the Budget, and it continues, and it will not end with this administration. We all need to focus on how to use the resources of the Federal Government most effectively, and this subcommittee has given enormous leadership in that direction.

The premise from which OMB 2000 proceeded, and which I very strongly believe in, is that management is about using resources effectively. It is about how agencies can deploy their resources, their money, and their people to get the best value from the taxpayers' dollar. That means there really is no good way to separate resource management from other management.

It is very hard for me to think about what a totally separate operation would be like. This is especially true in an era of very constrained resources. There may have been a time when adding incremental resources is what we were about at the Office of Management and Budget, and people worried about where to add the marginal dollar, and that was largely a budgeting thing. That era is over. We are not doing that anymore. We are managing in an era of declining Federal resources to get the best value for those resources for the American taxpayer.

It was with that background and mind-set that we started into OMB 2000. OMB 2000 represented the most comprehensive self-examination that OMB has undertaken in recent memory. In the spring and summer of 1993, a project team conducted numerous interviews reaching nearly one-third of OMB's professional staff, many career and political alumni, personnel from other agencies, congressional staff and others in the public affairs community. We had an electronic suggestion box set up through E-mail to encourage staff to contribute ideas and received more than 200 recommendations. The work of all OMB units was reviewed, providing a snapshot of how the organization functioned and how its resources were deployed.

Based on these materials and the deliberations of a steering committee of several senior career staff and policy officials, then-Director Leon Panetta and I announced our decisions on March 1, 1994, in a memorandum to OMB's staff. Most fundamentally, we concluded that OMB's disjointed approach to dealing with both Governmentwide and agency-specific management issues was counterproductive.

OMB was influencing agency program operations through two distinct channels, its budget divisions and the units responsible for discrete aspects of management, the Office of Information and Regulatory Affairs, the Office of Federal Financial Management, the Office of Federal Procurement Policy, and the then-General Management Division.

The budget divisions tried to deal with management issues, but their impact on agency management was uneven, at best; and management units often approached management issues without the benefit of detailed program knowledge. We just felt that this was not working.

Frequently the results were unnecessary duplication and conflicting signals to agencies. Moreover, agencies gave scant attention to management advice from OMB's units because it was divorced from resource decisions. Consequently, OMB was hampered in its efforts to address and resolve questions of program effectiveness and efficiency.

Under our new course, all OMB activities are part of a comprehensive whole. OMB must carry out its responsibilities in serving the Presidency from policy development through program implementation in as integrated a manner as possible, not through two separate sets of organizational and operational procedures.

As Leon Panetta and I wrote in our memo, to be successful in improving executive branch operations, OMB's oversight role must better integrate budget analysis, management review and policy development roles.

To implement this new vision, OMB established resource management offices, which combined staffs with the previous budget divisions with selected staff from management offices. These RMOs work with agencies on all facets of policy development and implementation. They are responsible and held accountable for budget formulation, analysis execution, program effectiveness and efficiency, annual mid- and long-range policy and program analysis, implementation of Governmentwide policy, as formulated by OIRA, OFPP, and OFFM and for program evaluation. They not only review the policy and budgetary implementations of program issues, they also examine and make recommendations on the effectiveness with which proposed new policies can be or are being implemented, ensure that policy proposals to Congress are accompanied by adequate explanation of and resources for implementation; and ensure effective implementation of Governmentwide management initiatives.

OMB's statutory management offices continue to provide leadership and policy direction for the specific areas within their purview, such as procurement, financial management, regulations, and paperwork. They work with the RMOs and the agencies to ensure that policies are understood and adequately carried out.

For example, the Office of Federal Procurement Policy has been working with an RMO to help the Energy Department improve the management of its contract operations. OFFM and the RMOs held joint meetings with each financial officer this fall to discuss each agency's progress in meeting financial system requirements, and we believe there has been very considerable progress on this front. These joint meetings leveraged the special technical expertise of the financial management staff with the program knowledge of the RMOs.

Mr. Chairman, our experience so far shows clearly that OMB 2000 has successfully integrated budget and management responsibilities, which was its objective. The most recent review of the organizational and process changes that OMB 2000 has generated was the GAO's December report, entitled Changes Resulting from the OMB 2000 Reorganization.

GAO found that there was greater attention to agency management issues in the fiscal year 1996 budget process after OMB 2000 was implemented than in the fiscal year 1995 process. A greater variety of management issues were presented in more depth in fiscal year 1996 documents than previous years' documents. These results reflected the clear commitment of OMB's top officials to ensure the treatment of management issues within the budget cycle.

In particular, in the fiscal year 1995 budget process, we focused on agency streamlining plans. We wanted to know how agencies were meeting the requirements of the Work Force Restructuring Act of 1994. But equally important, we wanted to assess how the restructuring process was affecting agency operations and programs.

Moreover, the consequences of OMB 2000 extend beyond the budget cycle, although the budget cycle never seems to end. We are committed to new processes that enable OMB to provide analysis that cut across traditional organizational boundaries. Under the leadership of my colleague, John Koskinen, OMB working groups have addressed a number of issues that have arisen in the last few years: guidelines for creating Government corporations, acquisition of information technology, the development of OMB's spring review of agency performance measures, the implementation of the Government Performance and Results Act.

These working groups include staff from all parts of OMB, often with most of the group representing the RMOs. Even in areas as technical as financial management, OMB 2000 has led OFFM and the RMOs to work together with the agencies on such matters as designing the steps needed to meet the audit requirements of the Government Management Reform Act.

We have enhanced OMB's impact by having the RMOs deal with agency management concerns in their day-to-day dealing with agency staff, collaborate with the OMB's statutory offices and focus on common problems in internal working groups. The old idea of management and budget sides of OMB is rapidly evolving into the notion of a common core of professionals working cooperatively to bring their varied talents to bear on the problem of delivering public services in the most effective way.

This has been a real culture change, Mr. Chairman. We used to talk all the time about management and budget sides of OMB. I have not heard those words recently; they have dropped out of our vocabulary. We are really all working together to manage more effectively.

Another key innovation of OMB 2000 was the creation of an OMB management committee concerned with OMB's internal structure and functioning. That committee, which has 13 members, including John Koskinen and 10 career staff from all levels, has provided leadership and guidance in, for example, assessing staff training needs, making the employee appraisal system more effective. The committee's work on questions of organizational effectiveness and work practices can play a major role in institutionalizing the integration of management and budget activities in OMB.

GAO recommends that we periodically assess the effectiveness of OMB 2000 and our capacity to provide leadership in Government-wide management issues. We wholeheartedly concur. As noted in our written response to the GAO report, we are working on an OMB strategic plan which will address the integration of management and budget responsibilities, including the adequacy of employee training and different approaches to integration and coordination among OMB's various units.

Organizations must adapt to changing needs, priorities, experience; and we are looking for better ways to implement OMB 2000.

It is only through the type of cooperative, integrated approach that OMB exemplifies that we can help Federal agencies grapple with the complex issues raised by an era of limited financial resources, downsizing, restructuring and other management changes, and create a Government that works better and costs less.

We look forward to working with this subcommittee as we continue to search for better ways to serve all our citizens.

Thank you, Mr. Chairman.

Mr. HORN. Thank you.

[The prepared statement of Ms. Rivlin follows:]

TESTIMONY OF
ALICE M. RIVLIN
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
HOUSE SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

February 7, 1996

Mr. Chairman, Members of the Subcommittee, I am pleased to discuss with you today the impact of OMB 2000 on OMB's capacity to improve management practices in the Federal Government. I am accompanied by John Koskinen, OMB's Deputy Director for Management.

This Subcommittee has had a continuing concern with the development of policies and procedures that would improve the management and effectiveness of Federal agencies. I believe that OMB 2000 has made a significant contribution toward improving OMB's ability to provide Executive Branch leadership in this area.

OMB 2000 represented the most comprehensive self-examination that OMB has undertaken in recent memory. In the spring and summer of 1993, a project team conducted numerous interviews, reaching nearly a third of OMB's professional staff, many OMB career and political alumni, personnel from other agencies, Congressional staff, and others in the public affairs community. An "electronic suggestion box," set up through E-mail to encourage all staff to contribute ideas, received more than 200 recommendations. The work of all OMB units was reviewed, providing a snapshot of how the organization functioned and how its resources were deployed. Based on these materials and the deliberations of a Steering Committee of several senior career staff and policy officials, then-Director Leon Panetta and I, then the Deputy Director, announced our decisions in a March 1, 1994 memorandum to OMB's staff.

Most fundamentally, we concluded that OMB's disjointed approach to dealing with both government-wide and agency-specific management issues was counter-productive. OMB was influencing agency program operations through two distinct channels: its budget divisions and the units responsible for discrete aspects of management -- the Office of Information and Regulatory Affairs (OIRA), Office of Federal Financial Management (OFFM), Office of Federal Procurement Policy (OFPP), and the then-General Management Division. The budget divisions tried to deal with management issues, but their impact on agency management practices was uneven at best. The management units often approached management issues without the benefit of detailed program knowledge.

Frequently, the results were unnecessary duplication and conflicting signals to agencies. Moreover, agencies gave scant attention to management advice from OMB's units because it was divorced from resource decisions. Consequently, OMB was hampered in its efforts to address and resolve questions of program effectiveness and efficiency.

Under our new course, all OMB activities are part of a comprehensive whole: OMB must carry out its responsibilities in serving the Presidency -- from policy development through program implementation -- in as integrated a manner as possible, not through two separate sets of organizational and operational procedures. As Leon Panetta and I wrote in our memo, "to be successful in improving Executive branch operations, OMB's oversight role must better integrate our budget analysis, management review and policy development roles."

To implement this new vision, OMB established Resource Management Offices (RMOs), which combined staff from the previous budget divisions with selected staff from the management offices. The RMOs work with agencies on all facets of policy development and implementation. They are responsible and held accountable for budget formulation, analysis and execution; program effectiveness and efficiency; annual, mid- and long-range policy and program analysis; implementation of government-wide policy as formulated by OIRA, OFPP and OFFM; and program evaluation. They not only review the policy and budgetary implications of program issues, but they also:

- examine, and make recommendations on, the effectiveness with which proposed and new policies can be or are being implemented;
- ensure that policy proposals to Congress are accompanied by adequate explanation of, and resources for, implementation; and
- ensure effective implementation of government-wide management initiatives.

OMB's statutory management offices continue to provide leadership and policy direction for the areas within their purview -- procurement, financial management, and regulations and paperwork. They work with the RMOs and the agencies to assure that the developed policies are understood and adequately carried out.

For example, OFPP has been working with an RMO to help the Energy Department improve the management of its contract operations. OFFM and the RMOs held joint meetings with each agency Chief Financial Officer this fall to discuss each agency's progress in meeting financial system requirements. These joint meetings leveraged the specialized technical expertise of the financial management staff with the program knowledge of the RMOs.

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> there was a greater attention to agency management issues in the fiscal year 1996 budget process (after OMB 2000 was implemented) than in the fiscal year 1995 process. A greater variety of management issues were presented in more depth in the fiscal year 1996 documents than in previous years' documents. These results reflected the clear commitment of OMB's top officials to ensure the treatment of management issues in the budget cycle.

In particular, in the fiscal 1995 budget process we focused on agency streamlining plans. We wanted to know how agencies were meeting the requirements of the Workforce Restructuring Act of 1994. But, equally important, we wanted to assess how the restructuring process was affecting agency operations and programs.

Moreover, the consequences of OMB 2000 extend beyond the budget cycle. We are committed to new processes that enable OMB to provide analyses that cut across traditional organizational boundaries. Under the leadership of John Koskinen, OMB working groups have addressed a number of issues that have arisen in the last few years -- guidelines for creating government corporations, acquisition of information technology, the development of OMB's 1995 Spring Review of agency performance measures, and the implementation of the Government Performance and Results Act. These working groups include staff from all parts of OMB, often with most of the group representing the RMOs. Even in areas as technical as financial management, OMB 2000 has led OFFM and the RMOs to work together with the agencies on such matters as designing the steps needed to meet the audit requirements of the Government Management Reform Act.

We have enhanced OMB's impact by having the RMOs deal with agency management concerns in their day-to-day dealings with agency staff, collaborate with the OMB's statutory offices, and focus on common problems in internal working groups. The old idea of "management" and "budget" sides of OMB is rapidly evolving into the notion of a common corps of professionals working cooperatively to bring their varied talents to bear on the problem of delivering public services in the most effective way.

Another key innovation of OMB 2000 was the creation of an OMB Management Committee concerned with OMB's internal structure and functioning. That Committee, which has 13 members (including the Deputy Director for Management and 10 career staff from all levels), has provided leadership and guidance in, for example, assessing staff training needs and making the employee appraisal system more effective. The Committee's work on questions of organizational effectiveness and work practices can play a major role in institutionalizing the integration of management and budget activities in OMB.

GAO recommends that we periodically assess the effectiveness of OMB 2000 and our capacity to provide leadership in government-wide management issues. We agree. As noted in our written response to the GAO report, we are working on an OMB strategic plan which "will address the integration of management and budget responsibilities, including the adequacy of employee training and different approaches to integration and coordination among OMB's various units." Organizations must adapt to changing needs, priorities, and experiences, and we are looking for better ways to implement OMB 2000.

It is only through the type of cooperative, integrated approach that OMB exemplifies that we can help Federal agencies grapple with the complex issues raised by an era of limited financial resources, downsizing, restructuring, and other management challenges -- and create a government that "works better and costs less." We look forward to working with this Subcommittee as we continue to search for better ways to serve all of our citizens.

Mr. Chairman, Members of the Subcommittee, that concludes my prepared statement. I would be pleased to answer any questions that you may have.

Mr. HORN. A quorum having been established at the end of page 1 of my remarks, I now yield to Mr. Davis, the gentleman from Virginia, to open the questioning.

Mr. DAVIS. Thank you.

Dr. Rivlin, I want to ask a question. As you know, I represent a district that has numerous constituents who perform contract work for the Federal Government, either as independent personal service contract employees, who work side-by-side with civil servants, or as corporate employees of firms that provide services to Federal agencies.

They have complained that they have received stop-work orders without any advance notice or, in some cases, what they consider to be a reasonable explanation. There is a real concern that some agencies are either overreacting to the stress of operating under a continuing resolution, or are misinterpreting the law with the result that contracts are being needlessly interrupted.

Has OMB issued any guidance, or are you aware of any legal opinion or guidance that would provide agencies with consistent policies and procedures with respect to contract decisions that are made while an agency operates under a continuing resolution?

Let me note that there is a lot of fiscal year 1995 money that was available that was stopped when continuing resolutions did not move forward, particularly in EPA.

Ms. RIVLIN. This has been a very difficult period to manage through, as I know you appreciate, and we have been working with the agencies to manage under what is now the ninth continuing resolution; and each one has posed somewhat different problems.

But I will turn to John Koskinen for a more specific answer.

Mr. KOSKINEN. The agencies have the responsibility, obviously, to manage their programs. Under the CRs, we have not given them any guidance that instructs them to do anything out of the ordinary with regard to contractors.

Most of the issues arose during the two Government shutdowns. They arose for the first time because we have never shut the Government down more than 2 days in the past. We had two shutdowns, one for almost a week and then one for 21 days. It was in those periods that contract employees, much as Federal Government employees, in many cases were, in effect, furloughed.

The contracts many agencies have have provisions in them that, if there is no funding available, those contracts have to stop. The Antideficiency Act makes it a criminal violation of the law to incur obligations during a shutdown unless there are emergency services being provided or unless there is funding available.

Mr. DAVIS. Let me ask. How would that affect fiscal year 1995 money that is sitting there?

Mr. KOSKINEN. Fiscal year 1995 money, initially, the question is—the money can go out. The question is whether you can have unfunded Federal employees that are either to make the payments or to supervise those contractors. The judgment and the guidance we gave to agencies was, to the extent that a program continued and Congress had authorized the program to continue with obligational authority into 1996. Then you could keep unfunded Federal employees in place to make the payments and supervise the contracts. But if the contract and the program did not have obligational authority, the Congress had not authorized that program to operate in 1996, the fact that you had fiscal year 1995 money during a shutdown did not make that money available in the sense of allowing you to bring Federal employees in who had not been funded.

So, in effect, the Congress, in that situation, would have voted no twice. One, it would have voted no funding for the employees; and second, it would have voted no obligation authority in 1996 for the program. If Congress had voted yes on one of those two issues, then the program could continue.

Mr. DAVIS. So basically that is where the authorizations play a role, in the fact that authorizations may not have come in and would have stopped the funding for that period?

Mr. KOSKINEN. That's correct. But there were a number of programs that had fiscal year 1995 money and had obligational authority, although they did not have additional funds running through 1996, and those programs continued.

Then, of course, the well-known example of Social Security, which is permanently appropriated, and it has been always the position of the Government and the Office of Legal Counsel that you can imply congressional authority to make payments under Social Security because you have a permanent appropriation.

The question you raise is a difficult one where you do not have an appropriation for 1996, you had 1995 money, but no obligational authority for that program to continue. And in those cases the program stopped.

Mr. DAVIS. Do you differentiate between trust funds or profit-making programs versus general funding?

Mr. KOSKINEN. No. Actually, the Antideficiency Act simply requires you to stop when there is no funding. It does not have to be an appropriation. So revolving funds or trust funds can continue to fund their operations.

Mr. DAVIS. If Congress had put forward an authorization in the continuing resolutions, that would take care of it in the future?

Mr. KOSKINEN. Let me make clear, once there is a continuing resolution and the agencies are authorized——

Mr. DAVIS. What if you do not have a continuing appropriation, but you can do a stopgap authorization, which—at that point, that would take care of it; would it not?

Mr. KOSKINEN. If you authorize the program without the appropriation that said this program has obligational authority by going forward, that would solve the problem.

Mr. DAVIS. OK.

Thank you, Mr. Chairman. I will stop there. I may want to come back and revisit this in some other questions, but I will yield back my time to the chairman.

Ms. RIVLIN. I think the moral of this colloquy is, it would be a good idea not to shut the Government down again.

Mr. DAVIS. I would agree with that.

Mr. HORN. I think the moral is, it would be a good idea to sign some appropriations bills so we did not have to put people out in the street, as far as morals go. But let me proceed with the subject under discussion.

As I look at the chart in the GAO study before OMB 2000 and after OMB 2000, in a structural sense, in terms of what box is where and does it continue, there is very little change that I can see. The economic policy, for example, has been moved from one side of the staff line over to the other side of the staff line.

When we get down to health, which was one of the five basic budget and program areas prior to OMB 2000, we now have health and personnel, including veterans affairs personnel. And, obviously, that makes sense, since they are mostly combined in the rendering of health services.

Going through, I notice we drop credit and cash management from the Office of Federal and Financial Management. What did we do with credit and cash management?

Mr. KOSKINEN. Credit and cash management is now in the RMO for General Government, because major credit agencies—HUD and Treasury and Commerce—are in that branch. That branch, that RMO and the people who manage credit management, work with me in the interagency group called the Federal Credit Policy Working Committee, a working group which is the group that oversees credit policies for the Government.

Mr. HORN. Would that not include Agriculture and Interior and some of their operations?

Mr. KOSKINEN. Those agencies and the RMOs are all represented on the Federal Credit Policy Working Group.

Mr. HORN. They are really a separate resource management office. So you are telling me——

Mr. KOSKINEN. They are an interagency group. They have program managers and credit managers and financial people from the agencies.

The way we have moved is to, in fact, engage the agencies in the management initiatives that we are involved with on the theory that, ultimately, management take place in the agencies, not at the central management operations; and that, therefore, the real essence of working with the President's Management Council, the CFO Council, the President's Council on Integrity and Efficiency, and the Federal Credit Policy Working Group is, in fact, to engage the agencies in these issues.

Mr. HORN. I note the evaluation and planning function was moved out of the General Government Division. Now, are you saying that function is in all five resource areas?

Ms. RIVLIN. Absolutely. I think you put your finger on what is really important here, Mr. Chairman. That evaluation, particularly, cannot be some sort of separate group sitting over in a corner talking to each other about evaluation. It has to be an integral part of each agency, of the OMB's interface with each agency. We have to be able to work with them on evaluating their programs as a whole and as an important part of our interaction with them.

Mr. HORN. Well, I agree with you on that, and this committee, as perhaps you know, is very interested in what type of evaluative methods we are setting up in the Government. We have looked at what the State of Oregon is doing. We have looked at Minnesota, South Carolina and so forth, as well as New Zealand and other countries that are way ahead of us in this area.

So do you feel, Director, that there will be a greater emphasis at the agency level on coming up with some sensible benchmarks in consultation with the ultimate consumer, who is the taxpayer? That is what Oregon has done; they have sat down with a sample of consumers and said, how should we be judged? Are we going to do that in OMB, working with the agencies?

Ms. RIVLIN. We have been pushing very hard on this, Mr. Chairman. I am not satisfied with the results so far. I think one of the big problems is that we do not know enough about the specific results of Government programs to be able to make good decisions about what we want to do with those programs.

This is a continuing problem that I have been wrestling with most of my professional life, and others in this room have too. But what we have tried to do in OMB is to make very clear to the agencies that we must have evaluation information and they must produce it. And we do that in every way we can, but particularly in the context of reviewing their budgets.

Mr. KOSKINEN. If I could add to that——

Mr. HORN. Have your people gone out to Oregon to look at how they are doing this in their Government?

Mr. KOSKINEN. Yes. We have a task force. A White House task force with agency participation that is working very closely with Oregon, studying what they have done, but also working with them on Federal waivers.

I would just note, in further response to your question about performance, which is a critical issue facing the Government, that as the GAO report on OMB 2000 noted in the fiscal year 1996 budget process, not only did management issues generally get higher visibility, but there was a significant focus on performance.

Then this last spring, working through the RMOs, we created a spring review on performance with the agencies in which the RMOs and the agencies worked on the development of, as you say, sensible performance measures. In the 1997 budget process, we asked the agencies to provide even more performance information, particularly consistent with the discussions they had held in the spring. We are now working across OMB in an RMO-led GPRA implementation group, working toward doing a dry run on GPRA for fiscal year 1998 next fall.

None of that would happen or could happen if GPRA were marginalized by being off on the side somewhere. It is critical, as the Director noted, that GPRA be viewed as a central, core function of agency program operations.

Mr. HORN. That is very helpful.

Let me bring up one minor item, but it happens to affect this committee and the individuals on it.

Under the Chief Financial Officers Act and GPRA, you are required to submit agency CFO reports with an executive summary from OMB, if necessary, to the House and Senate committees of jurisdiction, that is, this committee and the Senate Governmental Affairs Committee, and perhaps the authorizing committees.

Our records show that only 14 of the 24 agency reports have been received by the committee, to date; and I have a list here which shows the date the agency sent the reports to OMB and when OMB sent it to the chairman of this committee. The average time it took to get the report through OMB was nearly 5 months.

Furthermore, in many cases, all that OMB is adding is a transmittal letter from you, the Director. No. 1, without objection, I will put this chart in the record.

[The information referred to follows:]

H.R. GRO: 2/7/96

Date on Agency Letter to OMB	Agency	Date Received	Date of OMB Letter	Months Elapsed
4/20/95	Environmental Protection Agency	1/25/96	1/23/96	9
5/5/95	Office of Personnel Management	1/30/96	1/22/96	8.5
8/22/95	Department of Treasury	1/4/96	12/26/95	4
7/6/95	Department of Labor	12/15/95	12/8/95	5
4/14/95	FEMA	11/1/95	10/30/95	6.5
Jul-95	Department of Education	10/24/95	10/18/95	3
7/7/95	Small Business Administration	10/17/95	10/10/95	3
2/28/95	Department of Interior	?	10/4/95	7
7/28/95	Department of State	?	10/4/95	2
3/1/95	Department of Energy	8/9/95	8/2/95	5
No Date	Nuclear Regulatory Commission	?	8/3/95	?
No Date	General Services Administration	5/19/95	5/9/95	?
3/1/95	National Science Foundation	?	4/18/95	1
10/31/95	Department of Transportation	2/5/96	1/29/96	3
	Average Months Elapsed			4.75

Mr. HORN. And let me just give you an idea: The Environmental Protection Agency submitted its report to OMB on April 20, 1995. The date of the OMB letter is January 23, 1996; that is a 9-month lapse.

Office of Personnel Management, an 8½-month lapse. Department of the Interior, a 7-month lapse. Federal Emergency Management Agency, a 6½-month lapse. Some of it gets down to just one.

Some are questionable. We have not seen them. We do not know if they have disappeared off the face of the Earth. The Nuclear Regulatory Commission, the General Services Administration, we are not sure what those dates are.

The average months lapsed are almost 5 months, 4.75 to be exact.

I am curious, how can we speed up the process? Five months seems a long time to make Congress wait for reports which derive much of their value from their timeliness. These are fine reports. We would just like to see them not sit on somebody's desk at OMB.

Ms. RIVLIN. You are absolutely right, Mr. Chairman. And we are working on that. Let me let John say what we are doing.

Mr. KOSKINEN. Your point is well taken. We certainly need to improve our customer service and shorten that timeframe.

A couple of things first, for the record. I think we have now supplied the committee and made sure the committee has all the reports this week. Second, this last year was the first year in OMB 2000 in which we engaged the RMOs as the primary reviewers of these statements and engaging in discussions with the agencies; and that has led us to do a certain amount of on-the-job training with the RMOs in terms of how to read financial statements, what they show and what they signify.

Clearly, now, as we move now into the next cycle, our expectation is we should be able to get those statements to you in a much more timely manner and make sure all of them are here. We have arranged that OFFM, which provides the oversight and the policy guidance to the RMOs, will, in fact, track that.

As I say, we should, I think, get that down to less than 2 months. But it is important, again, for this process to involve the RMOs in their discussions with the agencies about how they are doing on financial management because that is a critical part of budget execution.

Again, we could be much more efficient if we just did it all with a little group on the side, who looked at them and never engaged the agencies and sent them on to you. But we went through the first year, and we did not do it in as timely a manner as we should, but I can guarantee you that this next year, it will be not only more effective in terms of time, but I think you will begin to see, and if you discuss with the agencies, there will be more dialog between the RMOs and the agencies about the status of their financial systems.

And, in fact, as the Director noted, OFFM and the RMOs met with each Chief Financial Officer this fall as part of the budget process to get a report from each CFO about the status of the financial planning in each agency. That is a major step forward.

Mr. HORN. Is OMB changing the language that the Chief Financial Officer submitted to go to the Congress? I mean, is that what is taking the lag? You are getting them to rewrite it or what? Soften it, whatever?

Mr. KOSKINEN. No, no, no. There have been a couple of cases of that. What we plan—if you look at those, in the cases where it has worked more effectively, we have, beyond the auditors' reports and the CFO reports, we have had RMO reports. Now, once the CFOs have understood that there will be more review by the RMOs, they have actually—part of the time lag has been they have been revising their CFO letters to, in effect, the Congress and OMB in light of conversations they have had with the RMOs.

So I think, ultimately what we expect is that the CFO cover letter will reflect the OMB input, and there will not be another layer on top, other than the transmittal from the Director.

Mr. HORN. It seems to me when you get letters from the CFOs, that you are correct, they ought to be ground into the review process so that they become really meaningful in terms of budget review and management questions that arise therefrom. But I would hope we do not lag, as we have with EPA, an immensely sensitive agency, and one in which there is great congressional interest on all sides. We need those reports to see what the CFO is saying about an agency.

Mr. KOSKINEN. There is no doubt about that. We should be able to get those to you in a regular manner very promptly.

Ms. RIVLIN. We will speed that up, Mr. Chairman. But I do not think you want us to just rubber stamp them and send them on.

Mr. HORN. Well, I do not know. If they are not changed and just sitting there, I would just as soon have them. And if you want to give a revised version, fine. I do not have a problem with the cover letter. But it just seems to me, once we have looked at it, there is not much we can tell is different. But if you have changed the basic text that the CFO is sending to us, that, A, worries me; and B, I can see where it would take some time.

Let me go on to a little broader area. You state in your testimony that the Office of Federal Financial Management and the RMOs held joint meetings with agency Chief Financial Officers this fall to discuss agency progress in meeting the various financial system requirements.

What do you propose to do about those departments, such as the Department of Defense? And this committee, as you know, held a hearing on, can they find $15 billion to $25 billion that is floating around somewhere over there; and it is not stolen. We think it is just lost. And part of the loss is, there are 49 separate accounting systems in the Department of Defense.

So I guess I am saying, what do you propose to do about those departments, such as Defense, where the systems are not only numerous but they are also inadequate? I think that could be said about a lot of the Federal agencies.

It could be that Congress is part of the problem there; that basically the administrations, regardless of party, regardless of ideology, ought to be asking for the resources to get these systems in place, one, for just better customer service; two, because we are looking for efficiency, and thus saving money in agency operations.

So are there not OMB circulars that ought to be complied with and, say, use the U.S. standard general ledger? What is happening on that front?

Ms. RIVLIN. We are working very hard with the agencies, and Defense is—I think Defense is not exactly an example. It is such a big agency and such a difficult problem that it is going to take a while to get it fixed. It is my perception that the current Controller of DOD is working very hard on merging these systems and has made a good deal of progress. We are very supportive of that.

Mr. KOSKINEN. Again, I think it is a good example of the importance, as you noted, of integrating these reviews into the resource allocation process. Historically, Defense finance and accounting issues have been off on the side, both in the department and in the executive branch generally, and the dialog has been really only with OFFM and the financial officers at Defense.

Under OMB 2000, that dialog is now centered in the budget process. We are working directly with not only OFFM experts, but also the RMO, people involved with the development of the Defense Department budget, looking at the issues raised, which are, what are the resources necessary to solve this problem?

Defense has a program they have worked out, that we have approved, and moved those systems down to five. Even that, we think, in the long run would be ultimately, potentially consolidatable into a single basic system. But if we can get it down to five, obviously that will be a significant step forward.

But we get much better response, we get much better dialog as a result of the fact that that is part of their annual budget review now and not simply off on the side as part of a second conversation.

Mr. HORN. It is true, is it not, that the OMB circulars say agencies ought to use the U.S. standard general ledger? Is that correct?

Mr. KOSKINEN. Yes. We are working, in fact, to try to get, as you know, all the agencies to simplify their systems, to develop with the Financial Accounting Standard Board. FASB is now concluding its development of all Governmentwide accounting standards. We would like agencies to use more off-the-shelf software for their financial systems.

There is now under the CFO Council a group we are working with, looking at standardizing financial management systems across the Government, and that is really our goal.

Mr. HORN. Have any agencies refused to use the U.S. general standard ledger?

Mr. KOSKINEN. We have actually, thanks to the fact that we have been able to energize the CFO Council, gotten very good response. I think the agencies understand their problems. It is really a question of—as you say, of resources and time in terms of moving here to there. There is no one objecting to making these improvements.

Mr. HORN. Well, so they do not object. How many are not using the U.S. standard general ledger?

Mr. KOSKINEN. I do not know the number. I can get you a number on that.

Mr. HORN. Can we file that for the record?

Mr. KOSKINEN. Yes, be glad to do that.

[The information referred to follows:]

Table 2. STATUS OF AGENCY FINANCIAL MANAGEMENT SYSTEMS IN OPERATION—Continued

Agency	Designated as a Department-Wide Standard Application	Part of Agency Single Integrated Financial Management System	Meet Agency Classification Standards for Financial Data [1]	SGL Fully Implemented at Transaction Level [2]	Meet Agency Standards for Computing Environment [3]
USDA	29%	38%	3%	15%	7%
Commerce	33%	3%	100%	67%	50%
DOD	17%	17%	36%	25%	42%
Education	90%	35%	100%	50%	75%
DOE	71%	100%	100%	0%	100%
HHS	4%	100%	99%	97%	95%
HUD	16%	11%	10%	43%	72%
DOI	6%	34%	51%	57%	87%
DOJ	40%	40%	40%	55%	100%
DOL	26%	16%	100%	23%	95%
State	16%	0%	95%	5%	46%
DOT	9%	43%	8%	100%	81%
Treasury	27%	58%	44%	77%	96%
VA	80%	46%	94%	17%	96%
AID	33%	3%	12%	0%	0%
EPA	70%	50%	60%	100%	80%
FEMA	55%	65%	0%	0%	0%
GSA	64%	20%	86%	0%	97%
NASA	38%	38%	100%	0%	100%
NRC	100%	67%	100%	100%	100%
NSF	100%	88%	100%	71%	100%
OPM	88%	75%	100%	50%	100%
SBA	94%	0%	98%	9%	96%
SSA	100%	100%	100%	100%	100%
TOTAL	34%	34%	51%	40%	66%

[1] The following agencies have not defined financial data standards for the indicated percentage of their applications: USDA (91%), State (5%), DOT (92%), Treasury (52%), AID (70%), FEMA (100%), GSA (11%), and SBA (2%).

[2] Percentages are based on the number of applications in all operational financial and mixed systems for which agencies consider the SGL to be applicable. OMB Circular A-127 requires application of the SGL at the transaction level throughout an agency's financial management system, meaning both financial and mixed system applications. Despite this policy, agencies believe that the SGL does not apply to more than one-third of their financial management system applications. Core financial systems control and support the key financial management functions of an agency, including the general ledger. Therefore, they are most likely to be affected by the SGL. Only 37% of agency core financial systems fully comply with the SGL at the transaction level.

[3] The following agencies have not defined agency standards for computing environment for the indicated percentage of their applications: USDA (92%), DOT (2%), HUD (1%), and Treasury (2%).

Mr. HORN. You are saying, they all say it is marvelous, and let us do it someday, and we agree with it in principle. I want to know, do they agree with it in action? I am curious what agencies of the executive branch are not using the standard general ledger, and if so, does that worry anybody?

Mr. KOSKINEN. We will get you that report.

Mr. HORN. OK. But I am curious, does it worry anybody? Is that a problem in why we cannot find——

Ms. RIVLIN. Sure, that is what this effort with the CFO Council is about. It is to get everybody onto the same system. But these systems are very diverse and it takes a while to do that.

Mr. HORN. I agree, and I am glad you are started on it, and it is too bad the first Secretary of Defense, in the case of Defense, did not start on it way back in 1947.

We have not received yet from OMB the Department of Defense's CFO report for fiscal year 1994. The Defense Department sent it to OMB, according to the legislative people. They sent it on time, which was June 1995.

Who goes to the RMO that is responsible for Defense and says, when are you going to get this to Congress? Is anybody working on that?

Mr. KOSKINEN. First of all, Mr. Chairman, I may be wrong, but my understanding is, we have made sure that all of those reports have been delivered to your committee early this week or late last week; so you have those reports.

But second, as I noted, we need to do a better job, especially with a major agency like Defense, in reviewing those reports and getting them to you in a timely manner; and we will do that.

Mr. HORN. Staff tells me they did not get the RMO report, they got the financial statements.

Mr. KOSKINEN. Yes, sir, that is right. We still are refining our system and trying to make sure the RMOs are responsive in a timely way. But we were concerned when we discovered that they had not come and you did not have all the reports; that is why we delivered all those. But we will get you the RMO reports, and as I say, going forward, we will make sure the committee gets these in a timely manner.

Mr. HORN. Great.

Now, I am curious. Do you know whether agencies are paying more attention to your management advice now that you have reorganized? Do you have any feeling or sense of that?

Ms. RIVLIN. We do think so. But I think there are lots of reasons for this, and I do not want to claim absolute credit for OMB 2000.

This is an era in which management is absolutely necessary, better management is absolutely necessary because of the declining resources. It is also an administration which has put an enormous amount of emphasis on management across the board, from the Vice President's National Performance Review through OMB 2000.

So I think this is all coalescing to make the agencies much more conscious of improving their management practices than they were a few years ago.

Mr. HORN. Have we had any comparison studies done of the situation in management, in terms of how much OMB pursued that, agencies pursued it, jointly pursued it, prior to the reorganization and the situation today?

Has there been any sort of objective study where you have had a few of your brighter hotshots that are around saying, hey, take a look at this, and go out and sort of get a feeling for what did go on and what is going on now?

Ms. RIVLIN. That is what we tried to do in OMB 2000, was to assess what was actually happening out there and how to improve it. And we think we have improved it. The only outside study that I know of is the GAO.

Mr. HORN. Right. But I am thinking of internal studies. As its former executive, I would like to think my own staff would go out and could give me the bad news, as well as the good news.

Ms. RIVLIN. But this is what we do every day, all the time.

Mr. KOSKINEN. There are a set of initiatives going on, and your report talks about them. We have streamlining plans and restructuring going on in the agencies. Over 200,000 employees have been—the size of the Government was reduced by over 200,000.

Mr. HORN. I understand all of that.

Mr. KOSKINEN. But those are all management changes that have been initiated by the executive branch. Your report says, and I agree with it, it says its first finding is the management of the Federal Government needs improvement, which we would agree with, but I am interested in your question about a survey.

You make a finding and an assertion that the executive offices has abrogated its responsibility to oversee and improve the management structure, and you say the capacity available to the President in OMB to reform and improve has declined and barely exists.

I do not know where the findings are behind that, because I think the evidence is, in fact, quite the contrary; that this administration not only has not abrogated its interest, but with the President and the Vice President and the NPR now running for 4 years, there is a significantly greater and more heightened interest in management in this administration than in the past. So I do not know where the facts are that support that.

Mr. HORN. I understand there are a lot of studies floating around. What I want to know is, did you get anybody assigned to look at where you were in a culture and how it dealt with this, not on specific studies, but has there been a change?

I realize it might be too early for that. It is very difficult when you turn a culture around. But what is your sense of that, or did you have anybody look at it prior to the organization, looking at it now, months after? This could be years later that you might have to do it to get any meaningful results. I am just curious if that was done.

Ms. RIVLIN. No, that has not been done in any formal sense. We do spend a lot of time on particular issues, like procurement, for instance, where there has clearly been a sea change, in part because the Congress weighed in on this and in part because we did.

Steve Kelman is a very vigorous person and has made enormous changes in procurement, and we can document that very easily. But we have not done a——

Mr. HORN. And as you know, we are supportive of that.

Mr. KOSKINEN. I would note that GAO, and you will hear from them, did a review and did a study and they said,

> Our review of budget documents and interviews indicated there was greater attention to agency management issues in the fiscal year 1996 process than in the fiscal 1995 process. A greater variety of management issues were presented in more depth in the fiscal year budget documents than in previous years' documents. These results reflected the clear commitment of OMB's top officials to ensure the treatment of management issues in the budget cycle.

So there has been that review, done with a whole series of interviews by a third party, that says there has been the beginning of a significant culture change. They appropriately say, we have to continue to monitor it, it will not self-execute; and we are committed to doing that.

Mr. HORN. Sure.

Let me ask you, how many full-time equivalent positions did you have that were devoted to management prior to the reorganization, approximately? I realize you do not have the exact number, but are we talking 10, 20, 30, 40, 50, 60, full-time positions devoted to management in OMB?

Mr. KOSKINEN. Well, if you took the statutory offices as being, "management offices," those would have had in the range of about 120 people. The General Government Division had a significant number, a number of people, but a number of those were, in effect, budget examiners for GSA and OPM; so that I do not know what those numbers are, but the bulk of that division was involved in program examination.

The OMB 2000 initiative moved between 30 and 40 of those people, approximately, but again I do not know the numbers directly, but about 40 people, into the RMOs to assume management responsibilities.

Mr. HORN. Do you remember what it was historically at the height, let us say, of the management function, even though it was not separate? Let us say under the Truman administration, the Eisenhower administration, on into the Kennedy-Johnson administration?

Mr. KOSKINEN. Interestingly enough, in those days you had fewer people, because you did not have the statutory offices. The OIRA, OFFM and OFPP have all been created in the last several years by the Congress. And, in fact, if you go back and look at the historic self-studies, which we have done, in the 70 years of OMB this issue has continued to wax and wane.

The 1959 self-study concluded by saying the RMOs should be involved more in management, and management at that time was housed in the budget examiners. So it has waxed and waned over time. But I would suggest that, as a result of the Congress' creation of the statutory offices, there are more personnel now labeled, even after OMB 2000, in statutory offices devoted to management questions.

Mr. HORN. And I think Congress did that for a reason. They wanted to see certain areas that really were tackled on a consistent basis.

I think what I am talking about are the flexible staff that have an institutional memory, a corporate memory, which can be used by the President and/or his top staff and his Cabinet to solve a lot of problems that exist in agencies, to get an outside look that understands where that experience has worked before. And to try to bring the best practices to the executive branch of the Government.

If I remember correctly, 30, 40 years ago you had about 50 full-time equivalent positions of much more generalist management willing to tackle a real thorny problem and "do something about it" types, than we have now.

What the worry here is, and as I have told you privately and I have said publicly, basically for years I agreed with your approach. I thought that, gee, with that budget clout, they will listen on management questions. I have become convinced that while that is a great theory, it just has not worked, and what you need is sort of a dedicated staff that has that experience.

Granted, they can be involved in the budget process. A good budget examiner ought to involve them. But basically, I think we are sort of making little hopes that will never become actuality if we think the budget clout is going to get an agency head to pay attention to some of the management. They need help. And if they had a resource of people that they could count on, that were not sort of spies for the central administration, regardless of who is running it—and you know, there have been views about Presidents, views of their Cabinet officers who wonder who they worked for since the time of Harding, when BOB was created.

So I am just curious on how we are going to get that general management capability to help a Cabinet officer solve some of their problems that are management problems.

Ms. RIVLIN. Can I speak to that?

Mr. HORN. Sure.

Ms. RIVLIN. I think the premise is the right one, that the management of the Federal Government, if it is to be improved, the major burden has to be carried by the Cabinet officers. They often need consulting-firm-type advice. There is nothing to bar them from getting it, and many of them do. They get in specific teams of people from the outside who can help them solve specific problems, and we encourage that. They do that.

The question of what OMB can do is really—it is the President's arm. It cannot be something else. It needs to help the President do the best job he can to encourage better management of the Government, and there, we think we cannot act as a little team flying in from outside at the response of Cabinet officers. We need to look at the whole resource management picture, and on a continuing basis, work to see if we cannot improve the way resources are managed at the Cabinet level.

That means focusing everybody's attention on this. The number of people who are working on management issues has, by the way we think about it, greatly increased because we have now made management of resources the major focus of the entire agency.

Mr. HORN. I now yield to the gentleman from Minnesota, Mr. Peterson. Welcome.

Mr. PETERSON. Thank you, Mr. Chairman. I apologize for jumping in here in the middle, and I may be asking something that is inappropriate, but something that I am interested in.

I was looking at this one page in the GAO report where they are showing the staffing levels. I am particularly interested in the implementation of the CFO Act and the slowness that it has taken us. I know it is better now than it was, but it is still, I do not think, where it should be.

What I am concerned about in this one chart here, and I do not know what these categories are, but under Federal financial management, you are reducing the staff from 41 to 20, the biggest percentage increase. Maybe that is not where this function rests, but I guess I am just concerned that we are not backing up on trying to get that accomplished.

Also, I would like to know where that is. Does each agency now have a CFO?

Ms. RIVLIN. Yes.

Mr. PETERSON. They all have theirs appointed?

Mr. KOSKINEN. We now have three agencies where they had CFOs that have moved on. One became an Inspector General and one became the Chief Financial Officer for the control board and another left. So we have three that we are refilling. But they have all had CFOs, and up until a few months ago, we had them all filled.

Mr. PETERSON. If I could further clarify that. One of the concerns that some people had was that the CFO jobs were being filled by, in some cases, the old guard budget people who did not want to develop an accounting system. Some people felt like they were trying to hold back the progress in this area. And there was some concern about types of people that were being put in these positions, whether they were CPAs and whether they had the background necessary to try to develop an accounting system so we could get some way to measure the performance of these agencies.

Ms. RIVLIN. We worked very hard, and this is before John got there, actually, to have people with the right credentials in those offices. We reviewed them in OMB.

But let me ask John to——

Mr. KOSKINEN. The process is, no CFO can be appointed without my approval. And we have moved—historically, what happened when the act passed in 1990, people were designated as CFO and a number of those were not, as you note, CPAs or people with accounting backgrounds. But at this stage, if you look at the backgrounds and qualifications of the 24 CFO Act agencies and their CFOs, in virtually every case they have not only CPAs or financial backgrounds, they have actually managed financial systems.

I think the caliber of that office has improved significantly, and I think it will continue into the future because there is now a precedent and a tradition that those officers should be filled by people who are expert in that discipline.

Mr. PETERSON. How many of the agencies have an accounting system in place now?

Mr. KOSKINEN. I am sorry?

Mr. PETERSON. Do any of the agencies have an accounting system, or are they all still operating just on a budget system?

Mr. KOSKINEN. No, the CFO Act required them to have not only accounting systems, but audited financial statements.

Mr. PETERSON. Do they have them at this time?

Mr. KOSKINEN. And they all have audited—they are moving toward—I think there may be a few, a couple, that do not have the capacity to have their statements audited, but they are all moving toward audited financial statements.

The Government Management and Reform Act, passed last year, requires the full Government to issue a Governmentwide audited financial statement; and OMB—a group headed by OMB, Treasury and GAO is working with the agencies to ensure that we can meet that standard. So we ultimately will have not only audited financials for each agency, we will have a Governmentwide audited financial statement.

Mr. PETERSON. How soon will that happen?

Mr. KOSKINEN. As I recall, the statute requires us to do that—in March 1998 we have to issue that statement.

Mr. PETERSON. Now, this one area on page 34—do you have this book here?

Mr. KOSKINEN. Yes.

Mr. PETERSON [continuing]. Where you have reduced the Federal financial management from 41 to 20. Do you know what that is or what is going on there?

Ms. RIVLIN. That goes to the basic heart of what we were trying to do in OMB 2000. Instead of having separate offices like OFFM, which had the sole responsibility for working with agencies on financial management, we wanted to institutionalize financial management throughout the agencies, and so we moved people into the resource management operations that interface with the agencies and have the financial management people working through them to implement the financial management.

Mr. PETERSON. So you have added positions on the category up above, and those are the ones that used to be down below; is that correct?

Ms. RIVLIN. Yes. We have moved people around to make the interface with the agencies on financial management and procurement and other aspects of management more effective. But I think this really goes to the heart of what we were trying to do. It is to make the financial management more important and more pervasive in the interface with the agencies.

Mr. PETERSON. Mr. Koskinen, have you prepared a report on where the CFO Act is at, or is that available?

Mr. KOSKINEN. We have not. We worked, actually—we have been delighted—there is a CFO Council composed of all the CFOs, and they have really become a very energetic and dynamic group. They put out an annual report. There is a 5-year, annual 5-year plan that is put out that we publish that does give you the status of financial systems, the status of audited reports, and we can make that available.

Mr. PETERSON. If you would send that to my office, I would appreciate that.

Mr. KOSKINEN. That would be fine.

[Note.—A copy of the report entitled, "Federal Financial Management Status Report & Five-Year Plan" can be found in subcommittee files.]

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. HORN. I now yield to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS. I am going to ask you the question the whole town is asking. The New York Times had an article on Monday that said, "Shortfall Posted By Medicare Fund Two Years Early." A surplus was expected. We have gone into deficit.

In this article they quote Richard Foster, chief actuary: "Things turned out a little worse than we expected. We had projected that 1997 would be the first fiscal year with a deficit."

What I would like to ask you, it is unclear to me when this information was available. This would have been useful during the budget negotiations. At what time did you become aware of this, or do you know when the President became aware of this?

Ms. RIVLIN. I believe that this was discussed—these are still preliminary results. I believe that these preliminary results were discussed by the trustees at their December meeting. I am not a trustee.

Mr. DAVIS. Did they forward that to you?

Ms. RIVLIN. No, I didn't know these specific things. What I did know is that we have a very great concern about the future of the Medicare trust fund, and every year we have been worrying about this. In some years the estimates have shown that the solvency point was pushed out a little bit. This year it got a little worse. That just dramatizes that we need to do something about this fund. We have a proposal to do that.

Mr. DAVIS. I have a very high regard for you and the integrity you have brought to this office. I am concerned because there was very key negotiations and a lot of political posturing by both sides in this whole debate on the deficit and on Medicare in particular. And of course the trustees included three of the President's Cabinet members.

I just wondered if the White House may have known or your office may have known that this situation was actually more serious than the American public and perhaps the congressional leadership were led to believe at the time. It could have had a bearing on the negotiations.

Ms. RIVLIN. I really do not think so, Mr. Davis. What we were all saying was that this fund is going to run out of money in about 2002, on current projections at the time we were talking about. Now it looks like it may be 2001. It does not matter. We have got to fix the situation. And I do not think it could have had any bearing.

The President has a plan which would extend the life of the trust fund to 2011. The Republican majority has a plan that would get it to 2014. We have to do one or the other.

Mr. DAVIS. Without getting into the specifics, I think we all realize that it needs fixing. The reality is, at a time when both sides were negotiating on this and one side was showing a little more intransigence on this issue than the other—that would be my interpretation, you would look at it differently—if this knowledge had come to bear it might have shifted the public debate. What I hear you saying is from your perspective in your office, you were not really aware of these preliminary numbers until after these negotiations?

Ms. RIVLIN. They are still preliminary numbers, and I don't know why we should have introduced preliminary numbers into the debate. But basically they are a very small change. They do not change the basic picture, that we all know that this fund needs fixing.

Mr. DAVIS. Except that it is bleaker than the bleak reports we had earlier.

Ms. RIVLIN. Slightly bleaker than the reports we had earlier, but not enough to materially change the discussion.

Mr. DAVIS. Were you aware of the preliminary reports in December? Did they get that up to you ahead of time?

Ms. RIVLIN. I was not.

Mr. DAVIS. You were not in the loop.

Ms. RIVLIN. I do not get all preliminary information.

Mr. DAVIS. That is fine. I just wanted to understand. Thank you very much.

Mr. HORN. I must say, I am shocked that you weren't in the loop. I would hope if the trustees did discuss it, that the first person they would say something to would be the Director of OMB. Hey, we have got a fiscal problem here.

Ms. RIVLIN. This is not a new fiscal problem. This is a slightly different preliminary estimate of the same fiscal problem that we all knew we had. This was not very big news.

Mr. HORN. If I may use an example in foreign affairs, it is new in this sense. As I recall, the Department of Defense had a projection that maybe Saddam Hussein would have the nuclear weapon in 5 years. Once they sent U.N. inspectors over there, they realized he would have had it in 1 year. So it does make a difference between the years.

Since people were pooh-poohing us around here that said we have to do something about this, some just do not ever want to do anything that will risk them a little vote, that will anger somebody. They would rather wait until the crisis is on top of them and then heroically be sort of like Don Quixote or the Lone Ranger coming to the rescue. This shows that everybody was right that said, let us get to fixing it now and not create a crisis in 2002.

Ms. RIVLIN. That is the President's position, that we need to fix it, and we have a proposal to do that. We need to work out the differences between the proposals, but both the Republican proposal and the President's proposal would extend the life of the trust fund at least another 10 years.

Mr. HORN. Which one had the taxes in it? Is that the President's proposal? I am not familiar with his proposal.

Ms. RIVLIN. The President's proposal is to reduce Medicare spending over 7 years by $124 billion. Not all of that is the Part A trust fund, but about $90 billion of it is. The proposals on the trust fund are very similar. They involve slowing the rate of growth of hospital costs.

Now, there is very little difference between the two parties on that issue. There are differences on some other things, like the Part B premium, but the Part B premium is not at issue here. It does not go into the Part A trust fund. So I think we have very large common ground on what to do about the Part A trust fund. And as the President has said, let us get on with it. Let us pass it.

Mr. DAVIS. When you said the President wanted to reduce Medicare spending, you mean he was going to reduce the increase in spending by $124 billion?

Ms. RIVLIN. In nominal dollars, the Medicare spending will increase. We all know that. We will cut out of that increase $124 billion over 7 years.

Mr. DAVIS. But it is a cut from an increase.

Ms. RIVLIN. It is a cut in increase, but not an increase in real services, an increase in the dollars needed to provide services to more people who are actually older and sicker.

Mr. HORN. In your testimony you write that the RMOs ensure effective implementation of Governmentwide management initiatives. Could you give us two recent examples of how they are doing this? What two things have they done recently on the Governmentwide management initiatives that resulted from this reorganization?

Ms. RIVLIN. I think the various procurement initiatives would be maybe the most obvious example, and the RMOs have been working with the Office of Procurement Policy across the Government on that. We cite one example in the testimony of working with the contractors at the Department of Energy. That is one of them, but it is only one place where we have procurement problems that are serious.

Then I think that financial management is probably another obvious example where, despite our tardiness in getting some of these reports forwarded, we believe there has been really very great progress in improving financial management. That has come through the RMOs working very intensively—and sometimes it has slowed down getting the reports forward—with the agencies on this matter, including DOD, which you mentioned before.

Mr. HORN. A lot of the members of the Cabinet come with great executive experience. Some come with hardly any. Have either of you sat down with Cabinet officers or the principal Deputy Secretaries, Under Secretaries, as the case may be, and said, "Look, give us your fix on what kind of management problems do you think we ought to be addressing, and what do you see?" Because a lot of them bring a very good perspective from either the private sector, the nonprofit sector, whatever it is. They have management experience. So have we had that discussion with the Cabinet and whoever on the firing line?

Ms. RIVLIN. We have it all the time. We also have a venue for doing it continuously, which is the President's Management Council, which I chaired for awhile and now John chairs it. It is the group of chief operating officers of each of the Cabinet Departments, and in some cases that is the Deputy Secretary. In other cases, it is somebody else. But that is a new feature. We never had chief operating officers before, and we never brought them together to talk once a month and often in between about management problems.

Mr. HORN. Has OMB developed performance goals and a performance measurement system so they can track the progress in the same way agencies are required to do under the Government Performance and Results Act?

Ms. RIVLIN. Yes.

Mr. HORN. Is there comparability there?

Ms. RIVLIN. Well, it is all the same thing. We are working with the agencies as they develop those performance measures and using them in our reviews of their performance. And, as John mentioned earlier, we had a special performance review in the spring, and we will hope to do that again, where we really focused on what measures do you have, what are you doing to make them better and what results do you have, and did this agency-by-agency in a very time-consuming but I think quite productive way.

Mr. KOSKINEN. I would say internally at OMB as well we have tracked the OMB 2000 recommendations. One of the recommendations was to create a management committee that runs vertically through the agency, so that we have people at the staff level, career level and a couple political people. One of its roles is to in fact do performance measurement: How have we done on things we set out to do? How are we doing on performance appraisal? How are we doing on training? So there is an internal performance review mechanism set in place that monitors how we are doing, as well.

Mr. HORN. I don't think we are trying to get rid of you, John, but let me ask this question: The merging of the management functions and the budget functions into a single entity at OMB lends itself to the question whether a statutory Deputy Director for Management is necessary. Can you discuss why the management and budget functions of the Deputy Director should not be merged into one Deputy?

Ms. RIVLIN. Let me answer that before John does. I have felt very keenly in the last year or so the importance of having a Deputy Director for Management, never more keenly than when we shut down the Government. That was a management problem of major proportions. It had not been done before for more than a few hours.

To have John Koskinen, with his management experience from the private sector, with his good relationships with the agencies over management issues, step into the breach and become Mr. Shutdown was extremely important. Though none of us would like to do this again, we know now how to do it, and John is the expert on how to shut down the Government. But that is just one example.

I really think we need somebody at the highest echelon of the institution that I can rely on to be sure that the management issues are covered and to work with these teams that cut across the agency on management issues. You mentioned credit management earlier. That is something that cannot be its own little branch. It occurs in different agencies. John is the one who pulls that together.

Mr. KOSKINEN. I think the concept would be similar to the issue of the analysis of OFFM and the other statutory offices. The fact is that combining the execution of those policies into the RMOs does not mean that you don't need policy-setting special areas, so that that is really what OFFM and OFPP do now. They are basically setting Governmentwide policy, and policy that OMB RMOs have an area of expertise that they can rely on. The position of Deputy Director for Management should be continued in the future for the same purpose. It would be a place for a residue of expertise about management issues.

It would also be the catalyst for making sure those issues progress not only within OMB but within the agency. My position chairs the President's Management Council, the CFO Council, the President's Council on Integrity and Efficiency and the Federal Credit Policy Working Group, and provides management leadership not just to OMB but as a result across agency lines. I think you need that kind of focus and interrelationship with ongoing RMO activities.

Ms. RIVLIN. Can I add a personal note? For awhile before John came we didn't have a Deputy for Management. It was in hiatus. I was then the General Deputy. I had to do both jobs. I do not recommend that anybody do that again.

Mr. HORN. I have concluded my questioning.

Mr. DAVIS. I have nothing further. Thank you very much.

Mr. HORN. We thank you for coming. Thank you very much.

Mr. HORN. Moving right along, panel two, our friends from the General Accounting Office.

[Witnesses sworn.]

STATEMENT OF L. NYE STEVENS, DIRECTOR, FEDERAL MANAGEMENT AND WORK FORCE ISSUES; AND PAUL L. POSNER, DIRECTOR OF BUDGET ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. HORN. Will the clerk note that the two witnesses have affirmed.

Please proceed. Mr. Stevens, you may go first.

Mr. STEVENS. The report that we are prepared to discuss today on OMB 2000 was a joint effort between two divisions in GAO, the budget issues group, which Mr. Posner heads, and Federal management issues, which I do, and so we would like to share this statement as we shared the preparation of the report.

It is important to us to bear in mind that OMB 2000 is but the latest in a very long series of attempts to improve the linkage between the budget and management sides or activities of OMB. We have recognized the need for a closer integration of budget and management responsibilities in our 1989 management review of OMB, and the diagnosis of problems in the management area that OMB faced in March 1994, which Director Rivlin recounted from their own self-study, indicated that as of that time, March 1994, not much had changed. The management side of OMB had problems of relevance, of capacity, and of credibility, and OMB 2000 was an attempt to energize management not through bolstering its autonomy or its sequestered resources but integrating it and all of its agency-specific responsibilities into what had been the budget staff.

We did find, through reviews of agency decision documents and interviews with fully 15 percent of the OMB staff at all levels, that management issues were given notably deeper and more consistent attention in the fiscal year 1996 budget development process than in the one that had preceded it before OMB 2000 was implemented.

In particular, streamlining plans, downsizing plans and a concerted emphasis on agency performance indicators and information came in for heavy scrutiny in the continual back and forth that constitutes the budget process between the agencies and OMB. However, neither the OMB staff that we interviewed nor we ourselves could determine to what extent this emphasis was a result of the clear personal interest and attention of the current top leadership of OMB, including Dr. Rivlin and Dr. Koskinen, and to what extent it will become an institutionalized part of this process.

OMB officials at all levels are well aware of the historical tendencies, as you are yourself, Mr. Chairman, for management initiatives and capabilities to become swallowed up by the exigencies of the short-term budget decisions and implementation of the President's policy agenda.

I think Mr. Posner will add a few comments, and we will respond to any questions you have.

Mr. POSNER. Thank you. I would just like to stress that our review covered one budget cycle. And the key question, as Nye said, is, are the initiatives that we have seen here sustainable over the long-term? Will it be a management focus that will be sustained for all the pressures that apply to OMB as an institution?

Particularly in an approach like OMB 2000, it really critically relies on the commitment and expertise of RMOs coordinating with each other and with the statutory offices and with the agencies. In a decentralized environment there are three factors we think are important to watch.

One is the Director and the Deputy Director for Management, and ultimately the President's guidance and concern for addressing management issues across the RMOs. The first year it was clearly there and transmitted to all the component parts of the institution. Questions about whether that will be sustained are obviously there.

The second factor is frankly the continuing congressional oversight, and is important in sustaining a management focus. Congressional initiatives have provided already a set of tools through the GPRA, CFO and the information technology area that may prompt greater integration on their own, if properly implemented between management and budgeting, and rely on integration for their successful implementation.

The third factor has to do with the capacity and expertise internally of the RMO staff to address these issues. And we noted some concerns in our review and report expressed by some of these staff about their own capacity and expertise or about their access to expertise in addressing some of the issues that were handed off to them.

We think these issues warrant continued OMB assessment and attention, and accordingly we did make a recommendation in the report that OMB consider these issues, its capacity to sustain a management focus in an integrated environment on its own, as part of its strategic planning process under the GPRA plan.

The issues we think they should address include training for staff, and the models that they have for the RMOs to gain access to statutory expertise through the various offices is important. It is important to note that OMB agreed to do such an assessment, and we are awaiting that study.

[The prepared statement of Mr. Stevens and Mr. Posner follows:]

United States General Accounting Office

GAO

Testimony

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House Committee on Government Reform and Oversight

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OMB 2000

Changes Resulting From the Reorganization of the Office of Management and Budget

Statement of L. Nye Stevens, Director,
Federal Management and Workforce Issues, and
Paul L. Posner, Director, Budget Issues
General Accounting Office

GAO/T-GGD/AIMD-96-68

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the changes at the Office of Management and Budget (OMB) resulting from its April 1994 reorganization–commonly known as OMB 2000. The primary goal of OMB 2000 was to integrate OMB's budget analysis, management review, and policy development roles under a new organizational structure. In doing so, OMB intended to improve its decisionmaking process and its oversight of executive branch operations. A critical question facing OMB is whether its new approach toward integrating management and budgeting, as well as its implementation of statutory management responsibilities, can be sustained over the long term.

At the request of the Chairmen and Ranking Members of this Committee and the Senate Committee on Governmental Affairs, we conducted a descriptive review of this initiative. We did not, however, evaluate OMB's capacity to carry out its central management responsibilities. Our report, Office of Management and Budget: Changes Resulting From the OMB 2000 Reorganization (GAO/GGD/AIMD-96-50), was issued on December 29, 1995.

Throughout the history of OMB and its predecessor organization, the Bureau of the Budget, management and budget issues have competed for attention and resources. In general, budget issues have tended to squeeze out management issues. During the past 50 years, a number of presidential advisory groups have recommended changes designed to strengthen central management leadership in the Executive Office of the President.

Previous OMB reorganizations have alternated between integrating management into the budget review process and creating separate management offices. Congress has also attempted to increase OMB's attention to management problems, creating three statutory management offices–the Office of Federal Financial Management (OFFM), the Office of Federal Procurement Policy (OFPP), and the Office of Information and Regulatory Affairs (OIRA). Congress also gave OMB clear management responsibilities through legislation such as the Chief Financial Officers Act and the Government Performance and Results Act (GPRA). Therefore, OMB 2000 is the most recent in a series of attempts to bolster OMB's management capacity and influence.

Our review of OMB 2000 focused on three issues: (1) changes in OMB's structure, responsibilities, and staffing, including changes to the statutory offices; (2) changes in OMB's attention to management issues in the budget process; and (3) the way OMB planned to evaluate OMB 2000. Concerning the first issue, OMB 2000 reorganized and replaced OMB's former budget program areas with five resource management offices (RMO) staffed by employees reassigned to new program examiner positions. Program examiners' responsibilities were expanded from those of budget examiners to include responsibilities for agency management oversight. The RMOs were assigned integrated responsibilities for examining agency management, budget, and policy issues. In general, the agency-specific oversight responsibilities of the three statutory offices were shifted to the RMOs, but OMB decided to retain responsibility for developing governmentwide management policies in the statutory offices.

Staff reductions in these statutory offices varied, and each office followed a different approach in devolving its responsibilities. For example, 21 of OFFM's 41 authorized staff positions were shifted to the RMOs, directly transferring responsibilities and resources to the RMOs. In contrast, only 4 of OIRA's 56 staff positions were transferred because OMB wanted OIRA staff in place to implement Executive Order 12866 on regulatory planning and review. In OFPP, 10 of the 30 staff positions were reallocated, and 6 of the 10 became jointly managed in a "matrix management" approach. After the initial restructuring, each RMO branch chief was permitted to determine what, if any, technical skills the branch needed to fulfill its new responsibilities and to develop those skills within given staffing allocations. However, OMB did not provide specific guidance or technical support in this regard. In addition, OMB's General Management Division was eliminated when two of its branches with oversight responsibilities for the General Services Administration and the Office of Personnel Management were moved to the RMOs. The third branch, Evaluation and Planning, was eliminated.

Our review of budget documents and interviews with OMB staff indicated that there was greater attention to agency management issues in the fiscal year 1996 budget process (after OMB 2000 was implemented) than in the fiscal year 1995 process. A greater variety of management issues was presented in more depth in the fiscal year 1996 budget documents than in the previous year's documents. For example, in fiscal year 1995 documents for one agency, the discussion of financial management issues was limited to a statement that the agency faced challenges in such areas as contract management and financial systems. In contrast, the fiscal year 1996 documents contained a detailed assessment of financial management issues at the agency, including a review of the agency's 5-year plan and how it related to reengineering and streamlining efforts.

RMO staff said that budget examiners had looked at agency management issues before OMB 2000. However, they said that more attention was given to particular management issues by the RMOs after the reorganization, specifically the fiscal year 1996 budget initiatives on agencies' streamlining plans and use of performance information. OMB's emphasis on these issues was also apparent in the budget documents. For example, whereas the fiscal year 1995 documents discussed streamlining primarily in terms of the number of positions to be eliminated, the fiscal year 1996 documents included discussions about how proposed staff reductions could affect the agencies' performance. Several OMB staff also said that OMB and agencies were more likely to take action on management issues when they were associated with the budget. They said linking management and budget issues provided examiners with more leverage for change in the agencies.

Although OMB staff generally had a positive view of OMB 2000, some RMO staff expressed concerns about its initial implementation. For example, because they had to balance competing responsibilities, several program examiners said that less emphasis had been placed on certain management issues--those that lacked a clear budgetary impact, did not require an immediate response to a short-term deadline, or did not reflect the administration's priorities. In particular, they said that the expansion of their responsibilities as a result of OMB 2000 combined with short-term budget pressures could limit their examination of long-term management issues.

Some program examiners also said that the reduction of centralized management expertise in the statutory offices and the elimination of the General Management Division left them with fewer sources of expertise and assistance. For example, some program examiners said that they were uncertain how to address certain credit and cash management questions. Finally, although they said that top OMB officials had focused greater attention on management issues in the budget, OMB staff also voiced concerns about whether this focus had become institutionalized for the longer term.

Although OMB initially planned to evaluate OMB 2000 as a distinct management initiative, it now plans to assess more broadly its overall effectiveness in formulating and implementing management policies for the government in response to GPRA requirements. Part of this assessment will be an evaluation of the integration of OMB's management and budget responsibilities.

Only one budget cycle has been completed since this reorganization. Therefore, some of the problems OMB staff described may be transitional in nature. OMB's initial experience with this approach during the 1996 budget process showed the clear support of top OMB officials and staff to enhance the treatment of certain management issues in the budget. Even though this was a particularly difficult budget cycle, there was a noticeable increase in the attention given to management issues that transcended immediate budgetary concerns. However, it remains to be seen whether OMB 2000's initial positive results can be sustained over the longer term. Congress expects OMB to play a key role in addressing federal management issues. In view of this expectation and the historic tension between the two concepts of integrating and segregating management and budget responsibilities, we believe it is important that OMB understand how the reorganization has affected its capacity to provide sustained management leadership. A review focused on this issue could also inform the ongoing debate regarding how best to protect management from being overwhelmed by budgetary pressures–specifically, whether a separate office of management is needed.

We believe that OMB's planned GPRA-based review of its management strategies and approaches is the appropriate context in which to consider these issues. Therefore, in our report we recommend that OMB consider the lessons learned from OMB 2000 by focusing its analysis on the specific concerns raised by OMB staff during our review. For example, OMB could assess whether its on-the-job training and decentralized staffing approach are appropriate to develop the skills and abilities RMOs need to carry out their management oversight responsibilities. OMB could also assess how well its RMOs and statutory offices are working together to address management issues. In particular, OMB could determine whether any of the approaches it used to structure relations between the statutory offices and the RMOs are more effective than the others or whether changes are needed in the way those approaches have been implemented.

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Mr. Chairman, this concludes my prepared statement. We will be pleased to answer any questions.

(410015)

Mr. HORN. Just ignore the light. We have got the time to really get into some of these things. So if you want to make some more general statements, you may certainly proceed.

Mr. STEVENS. We are ready to respond to the areas that you are interested in, Mr. Chairman.

Mr. HORN. Let me read a few parts from the next panel. Mr. Ink, former president of the Institute of Public Administration and ex-member of the fine staff of both the Bureau of the Budget and the Office of Management and Budget, makes these comments. I would just like to get your reaction, since he will come after you.

He suggests that this particular committee we are on discuss with the Comptroller General the possibility of GAO undertaking a review of the letter M function of OMB, namely management, as a companion to the recent review which he feels focused primarily on the budget process. This review should include a look at some of the ways in which BOB and OMB have provided positive management leadership in the past. Admittedly this leadership has not been in great abundance and when it has occurred, each time it was snuffed out by transferring most of the management positions into budget-dominated units. And he would obviously argue that is what has happened in this OMB 2000.

Nevertheless, there have been periods in which nonbudget units of BOB, operating with some degree of autonomy, provided the President with strong management leadership which far exceeds what we have seen in recent years. The institutional memory of these events probably no longer resides in either OMB or GAO.

What do you think of that suggestion, looking at the management side and not coming in through the prism of the budget side? Would you feel that on this report that we have that you primarily came in on the budget side?

Mr. STEVENS. We took it on its own terms, which was an integration of management and budget, and really I think one of the premises was that the distinction between the two was rather a false one. With regard to a study, a more thorough study of OMB and its effectiveness in management, that is really what we did in 1989, we had a general management review of OMB.

One of the products of that was indeed a recommendation that there needed to be a much closer relationship between what was then the various management activities and the resource allocation or budget process. It was not the recommendation to do exactly what they did, to integrate them, but it certainly was to build some way of a much closer relationship.

And, second, I would say that this is essentially what we have said that OMB itself needs to do. They really need to examine their effectiveness. They need a strategic plan, as the Government Performance and Results Act requires them to have, and they need to continually ask themselves that question, "What are the indicators of success, and how well are we meeting them?" We would agree with that. Whether we should do it independently, I think probably it would be premature for us to substitute for OMB's own attention to its performance.

Mr. HORN. Based on your study, does one factor come to mind as to what you think there ought to at least be that factor as an indicator of success? If so, what is it?

Mr. STEVENS. It would probably emerge from something that we did not do very much of, and that would be consultation with the agencies themselves and their perceptions as to whether the Government is better managed as a result of the interaction between OMB and their own efforts. Ultimately, it is the agencies themselves and their performance that both OMB is trying to affect and will ultimately determine the quality of government management.

Mr. POSNER. If I could add to that, there are a number of criteria you would want to look at because OMB has a number of hats. One is to improve management. I think there are two pieces to OMB 2000 that are interesting in tracking, management-wise. One is what I would call the big M, and the other is the small M.

The big M has to do with the statutory management policies that Congress has set forth and tracking how well those have been adopted and implemented. The small M is the kind of thing that you could almost just call good budget analysis of implementation issues. In other words, what you don't want, what we do not do well enough, it seems, is we create programs. We don't understand the implementation environment and how design in programs and organizations affects ultimate results.

I do think that was one of the real emphasis in OMB 2000. That is obviously very difficult to capture, the quality of analysis done by OMB for its principal client, the President and the Congress, and how was that improved. That is an important dimension to try to capture.

Mr. HORN. I think that is a point well taken.

Just to get back to Mr. Ink's testimony, he notes that budget examiners are widely regarded as some of the most knowledgeable, dedicated professionals in Government but their tasks drive them to concentrate most heavily on how to develop the lowest possible appropriation level for the budget year, not how to manage most effectively. Then he goes on to say, most departments and agencies learned long ago not to combine the two functions in the same organization, for much the same reasons that such efforts have not been successful in the Executive Office of the President.

In your studies of departments, do you find that that is true, that generally a separate management function and a separate budget function? How do you feel about that?

Mr. STEVENS. I would not dispute Mr. Ink on the point. I do not think we have made a specific study of either departmental organizations, or I think part of his observation was international, too. I do not believe we have studied this internationally. I wouldn't dispute what he said.

I should note that, as I pointed out at the very beginning of our statement, at GAO we do have a budget issues group headed by Mr. Posner, and I head the general management issues. We are in different divisions. We find it a challenge but ultimately I think we are quite successful in working together and integrating our two perspectives, and the process of doing that improves our work.

With regard to the first point that Mr. Ink said, budget examiners tend ultimately to look for the short-term budget cuts, I think what OMB would say is different is, one, the job description has been changed. There has been a formal assignment to them of a much broader range of responsibilities, including what Mr. Posner talked about, the program implementation, information management resources management, procurement and so forth. They are now expected to know something about all of those things.

And, second, if there is a President who comes in and who does not have a management agenda, who does not appoint a budget director who does not do what Ms. Rivlin has done, which is to ask very pointed questions about management issues, about management goals, about accomplishment of those goals, but instead asks the program examiners, no longer budget examiners, asks them simply, "Do what you can to cut the budget as quickly as possible for this year," I am sure they will revert to that behavior because they are a very responsive organization to the leadership they get.

Mr. POSNER. In some sense there is an inherent tension, if you will, when you try to manage with and link it with budgeting. Budgeting, as Mr. Ink indicates, has its own logic. But it also brings the ability to gain the attention of people in the agencies. And the other thing that I think is important to recognize is the initiatives that we have been most concerned about, the GPRA and the CFO, for example, really all depend for their ultimate effectiveness on the linkage into resource allocation. At least we believe that there is great potential for using financial information to inform budget choices and provide better information as we go about doing that.

Certainly GPRA, it is a principal rationale of that, that the tension there is somehow trying to get these issues dealt with seriously in resource allocation, while at the same time enabling resource allocation not to be dragged down into the short-term focus, which it often tends to happen.

Mr. HORN. My last point, quoting from Dr. Ink, is that he was struck by the fact that only in the last year of this Presidential term has OMB begun to address many important management problems. He notes that within weeks after taking office, President Nixon issued Executive orders and BOB issued other instructions to implement major decisions made on organization and management issues. He would stress that these were change actions, not announcements of studies to be made.

Eight months after taking office, the President devoted much of a Cabinet meeting to reviewing actions that departments had already taken in such management reforms and streamlining programs and administrative processes, some of which were dramatic, and in restructuring of field operations. The point being, there was a ready capacity of able people in the career service, in OMB, that one could draw on and move very rapidly if one wanted to move very rapidly.

My instinct is, having watched BOB and then OMB from probably the late 1940's on—I started watching them when I was a freshman in college, as a matter of fact—and what I find is that there has been increasing politicizing of OMB by successive administrations. At the time of President Eisenhower there were very few political appointees. That was one of the last.

It seems to me, whether Democrat or Republican, they steadily increased, where pretty soon they were pushing political appointees down into the bowels of the organization. And a lot of those people simply didn't have the experience or the knowledge to render the type of service that say Presidents Roosevelt, Truman and Eisenhower had from the old Bureau of the Budget.

I don't know if you have any feeling on that historically at GAO.

Mr. STEVENS. We do, because the No. 2 official in OMB was our former Comptroller General, Mr. Elmer Staats. He exemplified the career dominance of that agency and the continuity. Because just as Mr. Ink was there for over a number of institutions, so was Elmer Staats, so we are quite familiar with that. There is a much greater turnover in the institution now when the Presidency changes than there used to be.

But one point I would make with regard to the readiness of the OMB with a new President to have a large management agenda is that this was pre-OMB 2000. The management side that existed then, with its 90-some people in various statutory offices, I think was not prepared with that kind of a program.

But OMB itself had not, did not have a management capability internally that was then capable of doing so. It is not a question of destroying something that was ultimately highly valuable, but dealing with what they found, which was much less capable than I think Mr. Ink found.

Mr. HORN. Under this new reorganization, who in OMB is ultimately accountable for the work getting done in management? Is it the Deputy Director for Management? How is it organized? It is now done with those sort of programmatic budget review decisions, is what they have been for 30 years. They haven't changed the titles much. Who is accountable?

Mr. POSNER. I think it is the Deputy Director for Management ultimately that has the accountability. I think it is, this is a process where all offices play a role now. The statutory offices still retain a role for policy development and coordination, and the RMOs now have the responsibility for dealing with the agencies on a lot of those issues. I would say it is a joint responsibility, with the ultimate accountability up to the DDM.

Mr. HORN. The line certainly goes to that little box that includes the Deputy Director, the Deputy Director for Management, and the Director. And I guess through either charm or delegation of the Director, any one of the three can get into that fight and try to have some control over what goes on in those areas in terms of the management aspect. Maybe collegiality has hit OMB. I don't know. That is the problem. Nobody is accountable.

Mr. STEVENS. Our perception of the current leadership is that it does work quite collegially and quite well; in the financial management area, where we are close, for example, to them, quite successfully.

Mr. POSNER. I do believe the one issue that bears watching here, as I said earlier, is that this is a decentralized approach, and the RMOs are more on their own and in some ways in a devolution scheme to take ownership of this. One of the strengths of that is, if they do it, it can be very effective, but you have the potential for uneven implementation of these initiatives which bears watching.

Mr. HORN. Have agency-specific oversight responsibilities of the three statutory offices been affected by OMB 2000, or have they just gone on the way they have been going on since we set them up by law?

Mr. STEVENS. I think it was the very explicit purpose of OMB 2000 to break away the agency-specific responsibilities and concentrate those in the RMOs, and to have what is left of the management side to deal only with general crosscutting policy issues. And in fact I think they feel under some fairly firm instructions not to do agency-specific work that relates specifically to the agencies.

Mr. HORN. In other words, you are saying the crosscutting areas such as financial management, procurement and policy, information, regulatory affairs, those sort of remain? Or would those people sit in on budget reviews in these five Resource Management Offices? How does that work in practice?

Mr. STEVENS. It would be less likely that they sit in on budget reviews from the statutory offices because the same capability for procurement or financial management, information resource management, is meant to be in the RMO itself, and the agency-specific knowledge is in the RMO itself. So since the budget reviews are on individual agencies, it would be much more likely that it would be drawn from the Resource Management Offices rather than the——

Mr. HORN. That is interesting, and it worries me in the sense that I would hope the people in the statutory offices have, No. 1, in-depth knowledge of the policies at stake; No. 2, an interdisciplinary cross-government crew of comparison so they wouldn't be bulldozed by somebody coming in and saying, "I'm sorry, we really can't implement that procurement law since we have passed it in the last year." It is a little confusing, and I wonder just what is that linkage? Do you think it is an appropriate area to take a look at some day?

Mr. POSNER. I think it is. I think the Deputy Director for Management does sit in on these, as I understand it, from time to time, others in the statutory offices do also, from looking at our interview notes.

Mr. HORN. If I were to quote the budget examiner, I would sure want them around the table because they would bring to the table a tremendous amount of experience and knowledge, hopefully.

The statutory offices have been stripped of their statutory oversight responsibility, according to the testimony. What is your opinion of the impact on that?

Mr. STEVENS. Again, I think it is the agency-specific oversight responsibility is what OMB has affected. And OMB's view, of course, is that the ultimate effect of OMB 2000 is to have many more people within the OMB staff working on management issues. I think if you are asking us for an evaluation of that, it is not the work we have done yet. I think when we were there it was premature to make an evaluation, and we agree one needs to be done. It has not yet been done. I think we can't pronounce it a success or failure yet.

Mr. HORN. We really need to go through a cycle or so, I take it. And then Dr. Ink's suggestion of going in there and looking at it from the management prism I think makes some sense. I don't know quite when that would be, since they are usually managing three budgets at once in that organization. But when do you think it would be an appropriate time to go back and take a look and see how it is doing in the human sense as well as the sort of lines of organization sense?

Mr. STEVENS. Well, our recommendation is really that they do this and that they do it as part of their GPRA strategic planning requirements. The schedule of GPRA is more or less immediate. I think they should get on it now, and from what they have said to us, I think that is their intention.

Mr. HORN. Well, it is the old story. You could do it in most organizations, you are right, if you went around and asked the question. Often people are very bashful about telling people in their own organization, that affect their promotions, what is really going on, so that is why you pay consultants.

That is why you have GAO. Presumably they might, unless they have some assistant to the Director sitting there taking notes of every interview you have, and I don't know, maybe that is the practice. Do they sit in on your interviews with people, or can you wander around and try to ascertain what is really going on?

Mr. POSNER. We were able to interview people on our own. I do think the idea that, as Mr. Ink noted, that our study was a descriptive study and very self-consciously so, because it was the first year of this process, I think it would be unreasonable to draw any broader conclusions from something that just had so many other influences going on at the time. So you would want to see several cycles pass to give this a chance to see patterns emerge.

Mr. HORN. Did you find that the RMOs and those that coordinate that effort within an area had any training in assessing and evaluating performance and development of strategic plans? Are they being asked to do that?

Mr. STEVENS. There was a good deal of emphasis, in written guidance and the informal guidance that travels through OMB, that the Director would be asking a great deal of performance-related information in both the spring review and the budget review. There was a 2-day seminar, I think it was called a dialog on the 1996 budget process and what it would involve, that was open to all OMB staff. A couple of hours of that did specifically emphasize strategic planning and performance reporting.

We were told, but we didn't check, that a large majority of OMB resource or program examiners did go to that. However, they did not do what the question implies, which some other agencies might have done, which is to have a dedicated required period of intense how-to-do-it skills building in this, and OMB rarely has done that. Their training philosophy is, "Here is the assignment, here is the emphasis we are going to be placing on it, and there are lots of people here know about it, and you better find out if you don't want to embarrass yourself and the Director." That is their normal approach.

Mr. HORN. Do they have any plan at OMB, to your knowledge at this point, to assess the overall effectiveness in management, or are they just letting the system occur, seeing what happens? Is there some plan that you know about for evaluation, assessment, various points?

Mr. STEVENS. You mean a plan for their evaluation as opposed to——

Mr. HORN. Yes.

Mr. STEVENS. OMB 2000 itself is a sort of a plan or philosophy of operating. No, we have not seen that. We have had a very general description of it in response to our report. Dr. Rivlin mentioned it briefly in her statement. We didn't find that very detailed. We are looking forward to it. We haven't seen it yet.

Mr. HORN. How do you see OMB's role in addressing Federal management issues? What do you think? We have got obviously the action occurs in the departments. We all know that. Do you feel there is an interest there in developing a management capability? I don't know how many years you have observed BOB and OMB, but there is an argument said that that capability, despite the ability and excellent capacity of the Directors and Deputy Directors in the area, that capability in terms of institutional memory and experience is not really around.

Mr. STEVENS. We did do a really in-depth general management review of OMB in 1989. I think that is a fair characterization of what we found there. The management part of OMB was not very effective for a number of reasons, and it was not heavily disputed that it wasn't very effective. Our recommendation was that it needed to be a much closer link with the resource allocation, the budget process within OMB, that one of the great problems was that they were so separated.

And while we didn't periodically check that, I think OMB's own survey that led to OMB 2000 I think confirmed that, at least the report that Dr. Rivlin made of that did. So as Dr. Ink can describe with greater historical overview than we have, this has been a periodic problem. The management side has had its ups and downs. I think the period before OMB 2000 was not an up period, and it remains to be seen whether the period immediately after OMB 2000 is an up period or further decline.

Mr. POSNER. Ideally, I think you would like to see both things happen. You would like to see greater integration and buy-in and ownership by the RMOs on these issues. You would also like to see them retain the capacity to address these longer-term issues at the same time, and in some sense they have that in the statutory offices. We can argue how effective that is. They really do not have it in the general management area at this point. But in some sense you would like to see both.

Mr. HORN. As you know, this subcommittee has recommended there be a separate office of management in the Executive Office of the President. Do you have any feelings on that, either individually or as a GAO feeling? Does GAO not have feelings? Just the members?

Mr. POSNER. Well, I won't take the feelings question, but I think it is fair to say that is ultimately a policy call——

Mr. HORN. You are right.

Mr. POSNER [continuing]. That Congress has to make.

Mr. HORN. If you are not going to give the right answer, that is a good answer.

Mr. POSNER. We do think though that whatever you do, there are certain issues that are going to be perennials even if you have an office of management. The linkage with the budget side is going to remain an issue to make whatever we do in management effective. And the intention and interest of the President, the things that have somewhat hampered OMB's current effectiveness, may also come to hamper an office as well. So there is a number of issues that would have to be addressed there.

Mr. STEVENS. I would have to say, based on our 1989 review, which did deal with that question fairly briefly, is that some of the same problems that affected or afflicted the management side of OMB would have to be dealt with in a separate Office of Federal Management. Who would assure that their phone calls got returned? And the link with the budget process is one way of assuring that phone calls do get returned.

Mr. HORN. Well, I thank you for coming and joining us. If you don't have any other remarks to make on the subject, we appreciate your taking the time. Sorry it is a little delayed, but we thought we would be a little freer this morning than the usual madhouse of 5 minutes of testimony and then we go to questions.

As you know, all the statements are put in the record right after we introduce you. And we appreciate your exchange back and forth. Thanks very much.

Mr. HORN. Our third and last panel is Dr. Dwight Ink, president emeritus, Institute of Public Administration, and Dr. Harper, former Deputy Director of the Office of Management and Budget under President Reagan and current president and CEO of the Association of American Railroads.

STATEMENT OF DWIGHT INK, PRESIDENT EMERITUS, INSTITUTE OF PUBLIC ADMINISTRATION; AND EDWIN L. HARPER, FORMER DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, AND PRESIDENT AND CEO, ASSOCIATION OF AMERICAN RAILROADS

Mr. HORN. We will start with Dr. Ink. As you know, we can't read all of these statements, Dwight, since it boils down to about 18 pages double-spaced, but you have been clever and had 9 pages single-spaced. Be our guest. We will try to cover everything we can in the next hour.

[Witnesses sworn.]

Mr. HORN. Dr. Ink.

Mr. INK. Mr. Chairman, I am not going to go through my formal statement but I have 5 or 6 minutes of comments that I would like to make.

First, it is always a pleasure to testify before this committee, and many of us who are following management have been very much impressed with the hard work of you, the Members and the staff over the past year in this field.

My comments represent my personal views. They result from experience in which I had responsibility in both budget and management functions for several agencies, and having been Assistant Director for Management in both Bureau of the Budget and OMB. My staff drafted the reorganization plans which gave birth to OMB, and I was the chief spokesperson on the Hill in defending the proposal, which was, I think, the biggest mistake I ever made in my professional years.

The GAO report on OMB 2000 does provide some encouraging information regarding the budget portion of OMB responsibilities. And I think credit must be given to Director Alice Rivlin, Deputy Director of Management John Koskinen, and the OMB staff.

This is important progress, but I do not find the GAO report useful concerning the M portion of the OMB responsibilities. The scope of the GAO report is so limited. The first paragraph states, "We did not evaluate OMB's overall capacity to carry out its central management responsibilities."

In other words, the report does not pretend to address the type of issues which form the basis for reorganizing the old Bureau of the Budget into the Office of Management and Budget. OMB came into existence not to strengthen the already effective budget examining process, but to increase the attention given to a broad range of management issues which were having great difficulty competing for attention in the budget-oriented Bureau of the Budget.

OMB is fortunate in having strong leadership today, which appeared before this committee, but I do not believe it has the structure to support the management challenges of today even when it has good leadership. My written testimony indicates why I continue to be concerned about this OMB 2000 reorganization, which merges management, most of management, with the budget staff, an approach which I would stress has been tried and failed twice before.

The first and most obvious problem is that the intensity of the budget pressures makes it unrealistic to expect OMB to find the time and energy to provide sustained leadership for major management initiatives.

Two, pay dirt for better management in agencies often involves crosscutting issues. Productivity enhancement, financial management, intergovernmental actions such as devolution to State and local governments, contracting out, these are all difficult to address through a structure that is focused on the budget process.

Three, OMB no longer has much capacity to provide meaningful advice or leadership to departments and agencies or to Congress on reorganization issues, yet we are in a period when downsizing and other major structural changes are becoming more and more important.

Four, unlike the private sector, domination of the Federal budget process leads too easily to costly cuts in long-term investments such as training, equipment maintenance and facilities upgrading. Computer modernization has been one of the serious casualties of this.

Five, we found some years ago that it was only when financial management was temporarily separated from OMB that an effective program of cash management throughout Government could be limited or could be initiated. Now, after rejoining OMB, then OMB was able to sustain and under the Reagan administration build on it, but it could not get started until it was pulled out of OMB. The same was true in ascertaining what portion of our assistance programs was eaten by excessive overhead, which could be done only when it was separated from the budget.

Six, consolidation of budget and management can on occasion weaken or block actions to prevent abuse. A costly consequence of merging management and budget occurred in the President middle 1970's, when the resulting management-oriented budget review prevented GSA from reforming its procurement operations. The furniture scandal that ensued was only one of the negative results.

Aggregate impact of Government. I mentioned this is another problem. We have lost the OMB capacity to assess the total impact of Government regulations on local communities, businesses and families, and the reorganization I think makes that even more difficult. The budget process can provide only limited information regarding strengths and weaknesses of agency management.

The downgrading of human resources management under NPR is a very troubling development which I believe threatens the future of many of the best objectives of the NPR reforms. The more the Federal work force is downsized, the more important it is that those who remain are retrained for their new tasks and are highly qualified.

OMB has lost much of its capacity, I would say most of its capacity, to address issues affecting field operations where over 80 percent of the Federal employees work, and I do not see that capacity being regained at all through this reorganization.

Finally, the merging of management and budget staff places undue reliance on the use of budget controls as the driving force to implement management improvements and reform. It has been my experience that far more important are leadership and technical assistance in ways which give agencies a greater sense of ownership of the reforms, and a greater likelihood of them being sustained after there is a change in political leadership.

Management oversight by OMB was weakened long before OMB 2000, but I think this reorganization is likely to weaken it even further. Rather than one more effort to strengthen the role of the M in OMB, a strategy which has always failed since the day it was established, I strongly support this committee's recommendation that a separate Office of Management be established in the Executive Office of the President.

I do suggest that this committee ask GAO or some other respected organization to undertake a review of the management role in OMB as a companion to the review it has just made. I think that would be very helpful in moving forward with a separate Office of Management.

Thank you, Mr. Chairman.

Mr. HORN. Thank you, Dr. Ink.

[The prepared statement of Mr. Ink follows:]

Testimony of Dwight Ink

Before the

House Subcommittee on
Government Management, Information and Technology

Mr. Chairman, I appreciate the opportunity to comment on the impact of OMB 2000 on the management practices of the Federal Government. This a subject which I believe has greater significance in this period of change than most people realize.

But first I should like to congratulate this subcommittee, and your strong leadership, on the outstanding report the full committee issued in December resulting from the hearings on the National Performance Review and related matters. I believe the recommendations, if implemented, would move us toward a leaner, more effective government far better than most of the approaches being pressed forward by either the executive or legislative branches today. Most knowledgeable people with whom I have talked, agree. As your recommendations are translated into legislative proposals, I hope they will gain the support needed for passage.

Now I will turn to the OMB issues to be addressed in this hearing. My comments represent my personal views and do not necessarily represent any organization with which I am affiliated. They result from experience in which I had responsibility for both budget and management functions in several agencies, as well as having been Assistant Director for Management in both BOB and OMB. In fact, my staff drafted the reorganization plan which gave birth to OMB and I served as presidential spokesperson in defending the proposal before Congress.

GENERAL ACCOUNTING OFFICE REPORT

I believe the GAO report on OMB 2000 provides some encouraging information regarding the budget portion of the OMB responsibilities. But I do not find the report very useful concerning the "M" portion of the OMB responsibilities, the area which has been under severe criticism for a number of years. In fact, because of the very narrow focus of the report, I fear it is quite misleading with respect to the impact of OMB 2000 on management within the Federal Government.

On the positive side, the report indicates progress in integrating performance goals and indicators in the review of agency budget submissions. My information supports this conclusion, and I believe considerable credit is due Director Alice Rivlin, Deputy for Management John Koskinen, and the OMB staff for this important emphasis. The Government Performance and Results Act has the potential of noticeable improvement in agency operations, and a strong relationship to the budget process is important in achieving this potential. I would caution, however, that if GPRA is implemented exclusively through the budget, it will likely contribute to a rigid and mechanistic process, weighted down with a growing overburden of procedures and reporting rigorously monitored by overlapping oversight bodies. Further, to the extent it is an integral part of the budget process, there is a danger that agencies will use it only for the purpose of supporting their estimates rather than the broader goal of improving program management. Finally, the field of management covers a wide range of management issues that GPRA does not pretend to address.

On the negative side, the GAO report does not provide a basis on which one can assess where OMB is with respect to its management leadership role.

A major reason for this is that the scope of the GAO report is very limited, a fact made clear by the first paragraph of the report which stated that "We did not evaluate OMB's overall capacity to carry out its central management responsibilities." In other words, the report does not pretend to address the type of issues which formed most of the basis for reorganizing the old Bureau of the Budget (BOB) as the Office of Management and Budget. OMB came into existence, not to strengthen the already effective budget examining process, but to increase the priorities given to a broad range of management issues which were having difficulty competing for attention in the budget-oriented BOB.

Because of this narrow scope of the GAO report, the type of people interviewed by GAO was correspondingly limited. It is not apparent, for example, that there were interviews of management people with knowledge and experience in past successful management activities in BOB and OMB and who might have informed perspectives on the potential impact one might expect today with alternative organizational approaches.

Further, the review was "...descriptive rather than evaluative in nature...," a major limiting factor.

Finally, the conclusions were based only on changes from 1994 to 1995. Although a useful comparison, 1994 does not provide a useful baseline for assessment of the "M" role of OMB, because 1994 is one of a series of many years in which the management capacity of OMB has been widely regarded as very inadequate.

Unfortunately, observers from the press and elsewhere have failed to note these major limitations and have drawn conclusions far more broad than the coverage warranted. For example, some have drawn conclusions about the wisdom of the proposed Office of Federal Management, an issue which would require a greatly expanded review if it were to be addressed. This misconception is created in part by language in the report. On page 20, for example, it is stated that "...OMB's attention to management issues changed following OMB 2000...", even though the discussion of management is done almost entirely within the context of the budget process. On the first paragraph of page 32, it is clear that "...changes in the attention OMB gave to management issues..." was confined to the budget process. How could GAO be expected to reach broad conclusions on the OMB management role when, by design, its review excluded so many critical areas of management?

I suggest this Committee discuss with Mr. Bowsher the possibility of GAO undertaking a review of the "M" function of OMB as a companion to this recent review which is focused on the budget process. This review should include a look at some of the ways in which BOB and OMB have provided positive management leadership in the past. Admittedly, this leadership has not been in great abundance and, when it has occurred, each time it was snuffed out by transferring most of the management positions into budget dominated units. Nevertheless, there have been periods in which non-budget units of BOB, operating with some degree of autonomy, provided the president with strong management leadership which far exceeds what we have seen in recent years. The institutional memory of these events probably no longer resides in either OMB or GAO.

I do not believe the 1989 study, or any other GAO review, has looked carefully at what management functions have worked well on other occasions, and such a review would seem to be most timely now in view of the structural and management changes under discussion in both executive and legislative branches of the government.

OMB CAPACITY FOR PRESIDENTIAL REFORMS

I believe the OMB is fortunate in having strong leadership today. Alice Rivlin has a well deserved reputation in the field of budget formulation, and I am an admirer of John Koskinen's personal leadership in the field of management. As this presidential term nears an end, the OMB team is beginning to show greater promise in addressing several areas of government management, but we can only speculate on how long this team will continue to be in place regardless of the outcome of the 1996 election. In addition, OMB no longer has the structure to facilitate an active management role even when it has good leadership. It is even further handicapped by the fact that responsibility for reform is still divided between OMB and the Vice President's NPR staff.

There are several reasons I continue to be deeply concerned about the last OMB reorganization of merging much of the management staff with the budget staff, an approach that failed twice before:

- **Competition With the Budget.** The complexity and intensity of budget pressures makes it unrealistic to expect OMB to find the time and energy to provide sustained leadership for management other than in those instances in which there is a direct relationship to the numbers crunching challenge of each annual budget. Most management issues do not have this direct relationship and, as the years pass, the budget pressures continue to increase.

- **Budget Not Focused on Crosscutting Issues.** The greatest potential pay dirt for improving government often involves crosscutting issues that affect many, if not all, of the government programs and agencies. Productivity enhancement programs, financial management, intergovernmental actions such as devolution to state and local governments, contract administration, and techniques of program management are examples of areas that are difficult to address through any structure that is focused on the budget process.

  Budget examiners are widely regarded as some of the most knowledgeable and dedicated professionals in government, but their tasks drive them to concentrate most heavily on how to develop the lowest possible appropriation level for the budget year, not how to manage most effectively. Past efforts to combine management and budget staff have improved the budget process, but only temporarily and at severe cost to the capacity to assist the president with management improvement or reform. Most departments and agencies learned long ago not to combine the two functions in the same organization for much the same reasons that such efforts have not been successful in the Executive Office of the President.

- **Reorganization.** OMB no longer has much capacity to provide meaningful advice or leadership to departments and agencies on reorganization issues. There no longer seems to be any conceptual framework. Yet we are in a period in which structural changes are taking place in many areas, and we are likely to see more such proposals over the next two years than we have ever seen before. When in 1981 I had responsibility for eliminating the independent agency I headed, the management staff of OMB provided valuable help that I do not see OMB in a position to offer today.

  Discussions in this committee regarding the possible need for a temporary ad hoc organization to manage major restructuring, such as the elimination of the Department of Commerce, illustrates this lack of OMB institutional capacity. At one time, this committee would have drawn upon the OMB professional management resources before ever drafting that type of bill. A series of proposals for **government corporations** have surfaced over the past two years. Because its management capacity has been decimated, OMB has been severely handicapped in addressing the task of developing credible plans for consideration of Congress that reflected consistency in approach. Mr. Koskinen is now developing some useful policy guidance, but in earlier years he would have had an inhouse technical resource that would have greatly reduced the time and effort required to do so.

- **Long-term Investment.** Domination of the budget process leads too easily to cuts in long term investments such as training, equipment maintenance, facilities upgrading, and management systems modernization. Computer modernization has been one of the casualties.

- **Financial Management.** We found some years ago that it was only when financial management was temporarily separated from OMB that a meaningful program of cash management throughout government could be initiated. Again, it was only after this organization separation that it was possible to research the total portion of Federal grant programs that was eaten by overhead. This research confirmed the critics' allegations that 35% to 40% of the appropriated funds often went into overhead, information which had tremendous significance for the effective operation of the expensive grant programs. Similarly, separation from OMB gave new life to improvement in the auditing of our assistance programs and communication within the audit community on new approaches. Cooperation with GAO on the improvement of financial management was also enhanced. It may seem a bit ironic that these efforts depended upon separation from OMB for their success, but this history illustrates why consolidation of budget and management have so often been counter-productive.

- **Scandals.** As people have testified in earlier hearings, consolidation of management and budget functions, far from strengthening management in the Federal Government, has generally limited the capacity of BOB and OMB to provide leadership for reform. It can also unwittingly weaken or block actions to prevent abuse.

  A very costly consequence of merging management and budget occurred in the middle 1970s when the resulting "management-oriented" budget process prevented GSA from reforming its procurement operations. The furniture scandal was only one of the negative consequences of this earlier ill-fated OMB consolidation.

- **Aggregate Impact of Government.** Today we see tremendous concern about the impact of government on society, and missionary zeal by Congress directed toward reducing that impact. Yet we have lost the OMB ability to measure important aspects of that impact, and the current budget oriented structure of OMB aggravates that deficiency. We no longer have an OMB capacity, for example, to quickly analyze the total policy or operational impact of all the regulations and requirements imposed by the Federal Government on local communities, businesses, and families. Yet this is an important dimension of factors which fashion the attitude of people toward their government.

- **Agency Management.** In the course of their work, budget examiners often learn of a number of management difficulties confronting agencies, and the utilization of budget information is a management tool which the current organization has probably enhanced at least temporarily. This intelligence has had certain limitations, however, because of the dominance of the annual budget process and the preoccupation with dollars which tend to distort the information. Further, competition for budget resources is not conducive to the willingness of agencies to share certain information that is highly relevant to management activities.

- **Human Resources Management.** The downgrading of human resource management under NPR is a very troubling development that threatens the future success of government reform. The more the Federal workforce is downsized, the more important it is that those who remain are highly qualified. And the more the culture of the Federal bureaucracy changes, and the more changes that take place in an employee's assignment, the more essential it is that training be given high priority. Yet the opposite is taking place in OPM and most domestic agencies.

  The quality of agency managers, how they are equipped to manage, effective internal communications, and the need for training and development, are critical elements of agency management that have to be considered in addressing the effectiveness of agencies. OPM has very little leadership capacity in these areas of human resource management, and OMB is far less well equipped to play a constructive role than it once was.

- **Field Operations.** OMB also has lost much of its capacity to address a number of important issues involving field operations where over 80% of the Federal employees reside and where the majority of interactions with the public take place. These days we talk a lot about measuring outcomes of government actions, and our field operations have much to do with the results. We have also lost much of our ability to coordinate operations of closely related program delivery activities involving different agencies, a customer service dimension that needs attention.

- **Control vs Leadership.** The current merging of most of the OMB management resources with the budget staff places undue reliance on the use of budget controls as the driving force to implement management improvements and reforms. There are a few situations in which budget leverage can be useful, but I believe our experience over the years demonstrates rather clearly that it is generally counter-productive for long range results.

  Leadership that is respected by the departments and agencies is more effective than controls in facilitating enduring gains. In fact, in my role as Assistant Director of BOB and OMB for Management, I found that in most instances the more I could distance myself and my staff from the budget process, the greater our acceptance by the agencies and the more we could accomplish. To my surprise, we found that we could often elicit more useful information and advice from budget examiners when the separation enabled us to discuss agency operations with greater freedom from the constraints of the budget process.

  Some of the most effective leadership has been developed through BOB and OMB providing technical assistance in attacking management problems. By exerting influence through cooperation, rather than through budget pressures, agencies accept guidance in troubled areas more readily, and through a greater sense of ownership in the resulting solutions, the improvements have a much greater likelihood of lasting.

- **Access to Government.** There was a time when state and local officials, and business and non-profit associations looked to the management staff in BOB and OMB when they were having problems with overall government management policies and practices. This level of access provided a positive channel for government-wide issues. I would suggest that this type of access is more difficult in a budget focused organization.

OMB GENERAL OVERSIGHT

The capacity of OMB to monitor departmental operations has declined considerably over the past two decades, and familiarity with field operations has all but disappeared. The requirements of GPRA should be of assistance in the future, and OMB should be commended for the extent to which outcome measures are now being integrated into the budget process. I think this is important.

I would caution, however, that not too many of the agency management weaknesses which contribute to poor performance are evident through the budget. And the budget process is not a particularly good mechanism for addressing most of the deficiencies in agency management that emerge. Neither do most of the inspectors general offices have this capacity, particularly for detecting problems at an early stage before much damage has been done. It is not a function that Mr. Koskinen can perform alone or with only two or three assistants. What is needed is the restoration of a staff of men and women with strong general organization and management experience who work with the agencies on an informal and collegial basis to the extent possible. This staff needs to be concerned with field operations as well as headquarters.

EXECUTIVE BRANCH LEADERSHIP

I believe that the front office of OMB is exercising relatively strong personal leadership in the executive branch at the present time. But the current structure greatly handicaps the Director and the Deputy Director for Management in translating personal leadership into institutional leadership insofar as the "M" mission of OMB is concerned.

Uncertainty regarding the respective roles of NPR and OMB has contributed to problems we have seen in implementing a number of excellent NPR objectives, but I think the limited management strength in OMB to address crosscutting issues is the more basic problem. The fragmented budget approach to so many management issues, combined with the pressures of the annual budget cycle, creates serious problems in addressing fundamental government operations from either a presidential perspective or that of communities, businesses, and citizens.

I am struck by the fact that it is only in the last year of this presidential term that OMB has begun to address so many important management problems. By contrast, in 1969, with staff assistance from a somewhat autonomous Office of Executive Management in the Bureau of the Budget, actions moved very rapidly immediately after inauguration of the president. Within weeks after taking office, President Nixon issued executive orders and BOB issued other instructions to implement major decisions made on organization and management issues. I would stress that these were change actions, not announcements of studies to be made. Eight months after taking office, the president devoted much of a cabinet meeting to reviewing actions that departments had already taken in such management reforms as streamlining program and administrative processes (some of which were dramatic), and restructuring of field operations. Two years into that administration, a series of important reorganizations had been successfully negotiated with Congress, including establishment of the Postal Service, EPA, and OMB. By then, the president had also submitted to Congress legislation proposing the most comprehensive plan for reorganizing the domestic departments and agencies ever put forth by any president.

Equipped with a management staff capability comparable to the 1969 OEM, under the able leadership of someone like Mr.Koskinen, I believe that an energetic president such as Mr. Clinton could have moved far more rapidly to address many of the most critical restructuring issues posed by the downsizing of government. The last year of any administration is the wrong time to initiate the more basic restructuring needed for a leaner government.

OFFICE OF FEDERAL MANAGEMENT

Better than restoring the OEM within OMB, however, I support most strongly the Committee's recommendation that an Office of Federal Management be established within the Executive Office of the President to provide the leadership we have not been able to sustain in the budget dominated OMB, a concept first urged a dozen years ago by a panel of the National Academy of Public Administration.

IN CONCLUSION

Because of its narrow scope, the GAO review did not address the issues discussed above, yet they are vital to determining our future course of action. These issues are among those that might be addressed in a more comprehensive review by GAO, or some other respected organization, of how our Federal Government can be best equipped to provide leadership for government improvement and reform. The hearings of this committee have addressed other topics that should be included. Such an effort should be of help in moving forward with the establishment of an Office of Federal Management that could provide a structural framework for the development of this increased capacity.

With so many proposals for restructuring likely to surface over the next two or three years, the need for action is urgent.

Mr. HORN. I am delighted to have Dr. Harper here. We have heard about the alphabet soup of Government agencies. Dr. Harper, by experience both after and before, ought to be knowledgeable in that area. He is a former executive vice president and chief financial officer of the Campbell Soup Co. So Ed, you should be able to understand this Government very clearly.

He is now president, chief executive officer of the Association of American Railroads. So having spent a few years as Deputy Director of OMB under President Reagan, we are interested in your perspective on this.

Mr. HARPER. Thank you very much. I am honored to have the opportunity to present my personal views to the committee, and if it is all right I will quickly summarize the statement I presented for the record.

The GAO report. I think the report is to be commended for identifying the critical issue: Must the management function be specifically institutionalized within OMB or the Executive Office of the President for it to survive as a force?

It is intriguing to me that in my career with five different major corporations, debates over whether or not to institutionalize a central management improvement function never came up. It was never an issue. We were always focused on what are the results.

The data in the GAO report suggest that the leadership that Director Rivlin and Deputy Director for Management Koskinen have provided to management issues makes it clear the M in OMB has not been lost, even if the M has a less institutionalized structure than before.

The GAO study was unable to tell us very much about what resources we need to have available to promote improved management. A longitudinal study might be done, tracing the relative size and structure of the management function in the Executive Office of the President, and juxtapose that data with evidence of management improvement or management failure over the years.

Capacity. Ever since the Brownlow Committee declared in 1937, "The President needs help," the President has had some institutional staff to help him in exercising his management responsibilities. The institutions have changed over time and the staff resources have gotten larger and smaller but it seems that whenever a President set his mind to a management task, he brought together the resources in OMB to do the job.

The OMB 2000 reorganization by the Clinton administration essentially distributes the management resources among the RMOs which replaced the budget examining groups. The job descriptions of program examiners have the right words, but the words will turn into actions based on the President's priorities and on the leadership of OMB. Today that leadership seems to have management as a priority.

The manpower resources allocated to the management function are probably inadequate. I say this because in addition to specific management resources, historically OMB has dedicated budget examiners' time, in whole or in part, to management projects. The smaller staffing for OMB overall, the less staff there is available for management projects.

OMB staff has been cut in the past because Congresses, and to some extent, administrations have made OMB staffing levels a political issue. I hope the President and the Congress will have the courage to provide adequate staffing for OMB because I think it is in the interest of both branches of Government.

The statutory duties: Since there is some variability in the workload required for OMB to fulfill its statutorily required duties in a timely manner, OMB can reallocate its resources to focus them on those projects OMB assigns its highest priority.

As long as there is some flexibility to put the resources where they are needed in financial management, OFPP or OIRA projects, the staffing levels are probably adequate. However, I think OFPP could be strengthened by being specifically given the final authority on all procurement regulations in all agencies, including the Defense Department. This does not mean that OFPP has to do all the regulations, but rather it would have the authority to have the final sign-off for major changes in procurement policy.

Policy leadership for information technology I think should be a special concern, and it is vital.

The Government's ability to recruit and retain the caliber of people we need in the information technology area is a problem because, in the private sector, having just been in the business of recruiting people in this area, a person with appropriate skills is paid more than most Cabinet officers, than all the Cabinet officers.

Finally, there is a need for these offices—is there a need for these offices to be statutorily mandated? Perhaps there is, but if we are to focus on outputs and outcomes as a management improvement measure, why not start here? Give the President the authority, the responsibility to produce the desired outcome by letting him organize the Executive Office of the President as he sees appropriate to achieve those outcomes.

What I might add here is, this committee and the other committees of the Congress might take further steps to define those outcomes. Tell the President, this is good management; if you achieve this, we will give you an A, and if you get halfway there, you are not going to get an A. But let him know what you are expecting in terms of results.

General oversight, OMB has a strong oversight role with respect to the executive branch, but I would agree with the comments earlier today; I believe it is unbalanced. It is too focused on the budgetary and not enough on the management side, and that may be a function of the resources available to OMB at this point.

I think it should be serving the President, that is, OMB, as a chief financial and administrative officer, as would an executive vice president with that title serve his CEO in a corporation. You bring it all together. To do this would require the kinds of changes that this committee has recommended in its report, specifically the residual policy and oversight functions of the OPM and GSA should be transferred to OMB, and with these transfers of responsibility should come the appropriate transfer of resources.

OMB's leadership, realistically, OMB's ability to provide direction and leadership depends on its relationship to the President. Regardless of institutional structures, if OMB is not seen as acting on the President's behalf, it is going to be ignored.

I suggest three considerations: One, all elements of administrative management—personnel, administrative policies on purchasing and the like—be brought together in a single place.

Second, the person responsible for management on behalf of the President should have Cabinet rank, but we cannot have more than one Cabinet-rank officer in the EOP.

And that drives me to my third consideration, that management ought to stay in the OMB, but perhaps recast the role of Director of OMB—and maybe we are reinventing the wheel here, but from time to time reinvention elevates the attention people give to it—and make it Secretary, Chief Financial and Administrative Officer of the Federal Government.

Finally, there are two things that I would add from your report that I do not think the Executive Office of the President does need, and particularly OMB. We do not need more political appointees in the Office of Management and Budget. In my special view, OMB would be strengthened by having fewer, not more, noncareer staff.

And second, creating an Inspector General in the Executive Office, I think borders on bureaucratic bloat. The integrity of the financial systems in the EOP can be easily ensured by an annual audit done by an outside audit team from agency inspectors general or perhaps public accounting firms.

I guess, to summarize my view, let us put more "M" in OMB, but not set up more organizational restrictions. Thank you.

Mr. HORN. I appreciate both of your very helpful statements. You bring fascinating perspectives to this problem.

[The prepared statement of Mr. Harper follows:]

Testimony
of
Dr. Edwin L. Harper
before the
House Subcommittee
on
Government Management, Information and Technology
February 7, 1996

Mr. Chairman, members of the Committee, I am honored to have the opportunity to present my views to the Committee. My name is Edwin L. Harper; the views I present here today are my personal views based on my experience as a teacher of political science, a senior government official in two administrations and as a corporate CEO. My government experience included daily involvement with the Bureau of the Budget for almost 6 and a half years over a 15 year period. During 15 months of that time I served as Deputy Director of OMB.

Before I begin I want to commend the Committee and its staff for a truly outstanding report analyzing and summarizing the problem of making government work in today's complex environment. Since I concur with most of the subcommittee's recommendations contained in its report, I am especially enthusiastic about the report. You will see, however, that I have made a couple of additional recommendations and demur in a couple of matters.

GAO Report on OMB 2000 Reorganization

The GAO's report on the OMB 2000 Reorganization identifies the critical issue and presents some data, but does not deal with the issue. The issue is: must the management function be specifically institutionalized within OMB (or the Executive Office of the President) for it to survive as a force.

The report notes the study was designed to be descriptive rather than evaluative. The data collected from interviewing OMB personnel and reviewing recently prepared documents generally show some increased attention to management issues, but the data are mixed. Beyond the mixed data, the study's coming so quickly after the reorganization when the theory behind the changes is still fresh in everyone's thought suggests that the phenomena may be skewed by the fact that it is being studied (the Hawthorne effect). Thus, I would suggest that the GAO study can offer us little basis for resolving the critical issue of institutionalizing the management function.

The report alludes to the fact that the debate over the management function has stretched over at least the last two decades. I would argue that the creation of the Office of Management and Budget in July, 1970, was the zenith of the pro-institutionalizers and OMB 2000 announced in March, 1994, is the nadir of the pro-institutionalizers. Whether management will get better or worse remains to be seen.

There is a bit of irony we must deal with. The debate we are involved in pits management against budget. Is budget a surrogate for financial performance that we would find in the private sector? If it is, here is the irony: In the public sector we talk of financials driving out management and in the private sector we talk of good financials being good management!

The famous book **In Search of Excellence: Lessons from America's Best-Run Companies** defines excellence in terms of six financial indicators. The only reference to non-financial indicators of success is that the companies have a good reputation. (In Search of Excellence: Lessons from American's Best-Run Companies, Thomas J. Peters and Robert H. Waterman, Jr. Harper & Rowe, New York, 1982., p. 22)

Before returning to our discussion of management in the public sector let me make one last private sector point. Debates over institutionalizing management improvement functions in the private sector are unheard of. Based on my experience debates over whether or not to institutionalize a central management improvement function is unique to government.

If we posit that good management in government is defined as the efficient use of resources in pursuit of specific policy objectives, then we can not deal with improving management until we can measure government program outputs related to policy objectives.

For example, the government has many programs which regulate industry in the name of safety. Few of these programs are yet defined in terms of performance standards--i.e., accident rates, casualty rates, or fatalities. Until performance standards are established it will be very difficult to measure the quality of the management of these programs.

Returning to OMB 2000 and the institutionalization issue it is important to acknowledge that OMB Director, Alice Rivlin, and Deputy Director for Management, John Koskinen, have prepared formal job descriptions for all OMB staff which explicitly define their management responsibilities. The leadership that the Director and Deputy Director have provided to management issues makes it clear that the M in OMB has not been lost even if the M has less institutionalized structure than before.

Finally, if the current GAO study does not have much to offer us, what kind of a GAO study might be useful. I suggest that a longitudinal study be done which might identify the relative size and structure of the management function in the Executive Office of the President and juxtapose that data with evidence of management improvement.

Capacity available to the President in OMB to reform or improve management

"The President needs help." This was the ringing introduction to the Brownlow Committee's report in 1937 which created the Executive Office of the President. This was the first time the President had any regular capacity to deal with management issues.

The Brownlow Committee saw the President needing help in two ways: 1) a staff and 2) recognition of the President's power. In fact the report declared that "the Constitution places in the President and the President alone, the whole executive power of the Government of the United States." A "thoroughgoingly Jacksonian." concept of the Presidency according to Constitutional scholar Edward S. Corwin. (Edward S. Corwin, The President: Office and Powers 1787 - 1957. 4th ed. New York University Press, NY 1964, p. 96)

Recognition, particularly by the Congress, of the President's power to improve the management of the federal government has waxed and waned. The changing nature of that relationship should be taken into account when designing institutions intended to last for long periods of time. As President Nixon reached for ways he felt might improve management--e.g., the impoundment of funds--the Congress reacted by limiting the flexibility the President thought he had.

How much staff capacity does the President need to have available? There is no objective answer to the question, but looking back at some of the major management initiatives that have been taken may give us some insights.

When I first worked for the Bureau of the Budget at the end of the Johnson Administration, the Bureau was engaged in at least two major management improvement initiatives. One was the implementation of the Planning, Programming and Budgeting System (PPBS). Another was a series of studies and experiments to improve the delivery of services at the state and local level, including a reorganization of the federal field offices into regions. The teams working these projects were basically Bureau of the Budget staff members supplemented by employees loaned from other federal agencies, such as the Civil Service Commission, as in my case.

President Nixon was driven by his conviction that federal program management was failing the American people. The priority he placed on management and his initial lack of understanding of what the Bureau of the Budget did probably were factors contributing to his decision to appoint the Ash Council which designed the creation of the Office of Management and Budget. The President wanted the capacity so he created it.

And he used it aggressively to design programs which he felt would improve the management of federal programs. The revenue sharing program, block granting of categorical grant programs, the reform of the regional commissions he proposed were all viewed by him as ways to improve the delivery of services to citizens. All of these programs were designed by the OMB working closely with the White House Domestic Council Staff.

While his proposal to shrink the cabinet into four super Departments failed, there can be no question that he was concerned about management and OMB had the capacity to respond to that concern.

President Carter was a detail manager. He may be most remembered for his Personnel Management project, but in fact the OMB in the Carter Administration had developed a couple of very important projects--debt collection and cash management-- which had not yet been launched by the end of the Administration.

President Reagan found a strong capacity at OMB to launch these important projects and combine them with several others in an all out attack on the Federal government's management problems. It was OMB's leadership that at the President's direction reinvigorated the Inspectors General program and expanded its scope to all major agencies and in the process created the President's Council on Integrity and Efficiency in Government. This Council staffed by OMB was a key element in President Reagan's attack on fraud, waste and abuse. The Grace Commission staffed outside of OMB joined the management improvement effort.

President Clinton has led his Administration to place a high priority on the National Performance Review's management improvement activities. In an era of scarce resources he reorganized OMB in a manner that essentially distributed OMB's management resources among the new Resource Management Offices which replaced the budget examining groups. The job description of the Program Examiners in the RMOs have the right words--"plans, conducts and completes analyses and studies on financial management and procurement." "revises reorganization proposals." Will the words turn into action?

It depends. It depends on the President's priorities. If management improvement is a Presidential priority, the words probably will turn into action, but if the President is consumed with a fierce budget debate with the Congress, they probably won't And it depends upon the leadership at OMB. If they push management issues, they will be addressed.

Are the manpower resources adequate? Probably not. As I look back over the past 27 years three points occur: 1) 27 years ago examiners felt that the quality of the bureau's work had deteriorated because they did not have enough time to investigate programs. 2) the number of OMB examiners has dropped significantly, and 3) manpower was generally fungible as to whether it was placed on budget or management projects. This suggests that any increment in OMB personnel probably adds to OMB's capacity to serve the President's interest in improving management.

I would hope that the President and the Congress would have the courage to allocate adequate resources to OMB. I don't know what the number is, but would hope that the OMB and the Congress could agree without making it a political issue. Because of OMB's having to play the bad guy in a lot of budget negotiations, it is often an unpopular institution which members of Congress want to punish by slashing its funding. This in itself might be one reason to separate the management from the budget function.

Ability of OMB to Fulfill its Statutorily Required Duties Relating to Laws and Regulations in a Timely Manner

Since there is some variability in the workload required for OMB to fulfill its statutorily required duties in a timely manner, OMB can reallocate its resources to focus them upon those projects OMB assigns its highest priority.

The only concerns the GAO's OMB 2000 survey elicited with respect to the Office of Federal Financial Management had to do with agency specific reviews of audited financials and with who would be responsible for cash and credit management issues. The first does not require a rocket scientist and the second simply requires a decision being made.

The Office of Federal Procurement Policy (OFPP) underwent a staff reduction, but more than half of the staff loss remains available to OFPP working part-time in a matrix management arrangement from their new positions in the various Resources Management Offices. Based on my experience with OFPP I believe that this is a viable arrangement recognizing that OFPP may need more help if it undertakes a special project. One change which would be helpful in OFPP's doing its job would be to give OFPP the final authority on all procurement regulations in all agencies including the Defense Department.

The Office of Information & Regulatory Affairs (OIRA) had virtually no reductions in staff. While I don't claim special knowledge in this area, the relatively few complaints I have heard about slow turn around times on regulatory matters I suspect are more a function of the complexity of the issue than staffing levels.

Information technology is becoming one of the most vital management tools available to the CEO of any organization. Given the speed with which the field is changing, its complexity and importance, this is one of the most difficult functions in the Executive Office of the President to keep staffed with the technological, strategic, business and interpersonal skills necessary to move the government forward in a timely manner.

Without a detailed analysis it is a fair presumption that these areas probably have enough people to get the job done. With no reflection on the incumbents I would have an ongoing concern about the government's ability to maintain and recruit the caliber of people we should have in the information technology area. In the private sector a person with the appropriate skills would be making considerably more than a cabinet officer.

One last issue I would raise in this area is this: Is there a need for these offices to be statutorily mandated. If we are to be focused on outputs and outcomes as a management improvement measure, why not start here and give the President responsibility to produce the desired outcome and let him organize the Executive office of the President as he sees appropriate to achieve those outcomes.

OMB's General Oversight of the Executive Branch

OMB has a strong oversight role with respect to the Executive Branch, but it is unbalanced. It is too focused on the budgetary and not enough on the management side. OMB's oversight role I believe should be in serving the President as would a Chief Financial and Administrative Officer would serve his/her CEO in a corporation. To do this, however, will require some changes.

OMB lacks the kind of personnel policy role that the CF&AO would have in a corporate setting. Thus, I recommend that the residual policy and oversight functions of the Office of Personnel Management be transferred to OMB.

OMB lacks the kind of control over administrative policy that the CF&AO has in a corporate setting. Thus, I recommend that the policy functions of the General Services Administration procurement policy functions of the Defense Department be transferred to the Office of Procurement Policy in OMB.

With respect to these transfers of responsibility an appropriate transfer of resources should be made.

These transfers would for the first time put in OMB's hand all of the tools necessary to exercise properly a management oversight responsibility on behalf of the President.

OMB's Ability to Provide Direction and Leadership to the Executive Branch

Realistically OMB's ability to provide direction and leadership depends upon its relationship to the President. Regardless of institutional structures if OMB is not seen as acting on the President's behalf it will be ignored. The value that OMB can add to the management process is knowing the President's philosophy and priorities and being able to apply those as he would if he had the time for detailed management and budget issues.

Knowing the President's "mind", OMB's leadership can propose management initiatives that will provide more specific and detailed direction and leadership than the President has time to give. OMB has worked and can continue to work closely with the White House staff and the Cabinet Secretaries to set the detailed agenda after the President has set the direction.

Institutional structures having been put in perspective it is now time to come back to the issues of 1) whether or not there ought be a separate Office of Management and 2) whether that office ought be in or outside of OMB.

First I believe that all of the elements of administrative management --personnel, administrative policies on purchasing and the like-- ought be brought together in a single place. In fact, the three statutory offices in OMB are important elements of administrative management. Thus, I would create an Office of Management and put into that office all of the management elements outlined above.

Second I believe that the head of the Office of Management should have cabinet rank. However, I think it is inappropriate to proliferate the number of persons of cabinet rank in the Executive

Office of the President. Thus, I would put the Office of Management in the OMB.

Third, in recognition of the fact that the new Office of Management has been combined with the Resources Management Office I would recast the post of Director of OMB as Secretary and Chief Federal Finance and Administrative Officer This would make the post more directly analogous to that of an Executive Vice President, Chief Financial and Administrative Officer of a major corporation.

OMB, even if recast as I have suggested, does not need some accouterments it has or some proposed for it.. First, it does not need a proliferation of political appointees. There is a need to develop career employees and give them more opportunities for upward mobility. The record of many of those who have been placed at the senior most levels is outstanding. Thus, I would suggest that those political appointive jobs below the Assistant Director level with only a couple of possible exceptions be canceled and filled with career employees who have at least nine years of federal service.

The other thing OMB does not need is an Inspector General. During my tenure as Deputy Director of OMB I led the charge to expand the Inspector General program to all major agencies. However, I believe the proposal to "establish an Office of Inspector General in the Executive Office of the President" is inappropriate. The creation of another Presidential Appointee with Senate confirmation in a relatively small agency seems another sign of needless bureaucratic bloat. The integrity of the financial systems in the agency could readily be assured by an annual audit done by an outside private audit team or by a team of auditors from other IG staffs.

Mr. HORN. Let me begin with Dr. Harper.

You mentioned the administration which you served—just in general; you did not pin it to your administration—where if the President does not have faith in the kind of work product he is going to get out of BOB or OMB, they are likely to be ignored and they will figure out some other way to get the job done.

Now, I think under the Reagan administration, there was a dipping down into the organization, as I remember, and making political appointees in more of those resource allocation jobs.

Mr. HARPER. I cannot remember when the law was changed that allowed those additional political appointees in the Office of Management and Budget, but if you go back to the era of when Mr. Stans was Director, I think there were three or four, if that many, weren't there, Dwight?

Mr. INK. If I could add to that.

Mr. HORN. Sure.

Mr. INK. The real change came with the establishment of the Office of Management and Budget. That was the big change in adding political appointees. And that is one of the reasons that I say that having drafted that study and that reorganization, I think it is the biggest mistake I made in my years in public service.

Mr. HORN. Well, as I said earlier, confession is good for the soul.

Was it permissible then under that act that you could reach down and reorganize some of these positions?

Mr. INK. Yes. Once you had political positions in these posts, then you could do what you wanted, really. And, of course, what so often happens is that you have special assistants to the PAPs. There are a number of ways you can increase the number of political appointees.

Mr. HARPER. Dwight has had some of these same experiences, but my first full-time assignment in the Bureau of the Budget was at the tail end of the Johnson administration, when I was there, detailed from the Civil Service Commission where I was a postdoctoral fellow, to work on a major management improvement project of the Johnson administration, the Program Planning and Budgeting, or PPBS, System. There we brought together the resources. It was staffed by career people from around Government and in the Office of Management and Budget, and I think it worked pretty well.

Mr. HORN. Yet you feel, Dr. Ink, that some of that has not worked very well in terms of the political appointees. Is that just a lack of experience?

Mr. INK. It is lack of experience. It also has tended to be a filter for the views from the careerists. I think it is very important that a President have information and views and judgments coming from both the political and the career perspective.

The Joint Chiefs of Staff provide that career in the national security area, which the President balances against the political leadership. We used to have that in the Bureau of the Budget. We still have it, but to a lesser extent because, as I say, the career views now are filtered through several political levels.

Mr. HORN. Let me ask you about the Director's role. It seems to me when a President goes about selecting a Director to head OMB, given the great time it takes to put a budget together to administer three budgets, to have to respond to every Member of the House and the Senate that phones up and is worried about something, that the emphasis will be on getting somebody that knows the budget inside out and backward.

Dr. Rivlin has a rich experience on Capitol Hill. She is an economist. She has headed CBO. She knows all the corners and closets of the budget, and ordinarily, that is exactly the type of person you are going to pick.

Mr. Panetta, who was the President's first nominee there, he chaired the Budget Committee, he knew as much about the budget as any single Member of Congress in either party. So you are picking somebody there that comes in with budget understanding, budget experience.

Do they come in with any interest in management?

Mr. HARPER. The first Director of the Office of Management and Budget, if I am not mistaken, was George Shultz, whose strength was not budget but rather general policy. And specifically coming from the post of being Secretary of Labor, he came to the directorship with a great deal of personal confidence of the President that he knew about management, because President Nixon was extraordinarily concerned about the poor quality of the Government's ability to deliver services in the field to American citizens. And although there is evidence on the record that the President, when he initially came into office, had relatively little understanding about what the Office of Management and Budget was about, he looked to that institutional staff to help him deal with the management issue.

Mr. INK. He actually looked to that staff when it was the Bureau of the Budget, and then that staff carried over for a time in the Office of Management and Budget.

By the way, you mentioned Mr. Panetta. When he was on the Hill as a Member of Congress, as you may recall, he strongly recommended setting up an Office of Management separate from the OMB.

Mr. HORN. I do remember that, and if we get the bill through, I intend to remind him of it, just in case he has forgotten.

Let me just ask some general questions here to get it on the record. In your experience, has any reform initiative succeeded in putting the "M", the management part, back into OMB?

Mr. INK. Do I think any?

Mr. HORN. Any reform initiative. They come and go. I heard about PPBS. I thought back fondly to that era, as Dr. Harper described it, but these fads come and go and yet nothing happens.

How about the "M" part? We have apparently tried to make it happen in a couple of different ways. Has it?

Mr. INK. I do not think that we have been successful, and I was part of trying to make it successful, in putting the "M" back into BOB.

There have been individual initiatives which have been useful. I think in the Reagan administration—I mentioned some areas of financial management which moved forward, although I was very concerned because it tended to move separate from program management. So there tend to be, from time to time, individual initiatives which I think are useful.

But with respect to the broader capability of serving as an arm of the President, to see that the executive branch is managed effectively, I do not see that having occurred under OMB.

Mr. HARPER. If I could, I think one of the problems we have throughout the discussion is, what is management? How do you measure that? If you cannot measure it, can you really identify it and say there it is, it is better or worse, it is bigger or it is smaller?

Thus, in my tenure as Deputy Director, I said, all right, how can we make a difference? How can we bring a result to the efforts here? So we picked up on some things that OMB staff had been working on—debt collection, for example, the travel projects and some others.

I mean, computer matching does not send this down the spine of the average American unless he is a delinquent dad who has not—whose pay is being garnished because he is not paying what he owes. To a certain extent, that is real management, and that happened and those were the things that OMB took some leadership on; that political appointees in the Reagan administration, careerists, the Inspectors General all worked together to make those things happen. That is real management and I think that is real improvement.

Mr. HORN. Some of the experts, such as yourself, have suggested that a better approach to enhancing the management capacity in the Federal Government is to set up this office of management, which you have recommended, Dr. Ink, reporting to the President outside of the budget process.

How would you counter the argument that an office of Federal management would be simply isolated and ineffective, since the actions over there are on the budget side; and what would need to be in place for such an organization to be successful in achieving desired objectives, as Dr. Harper sort of described?

Mr. INK. Hearing Dr. Rivlin address this issue, I wrote down the kinds of points that I think are important.

First of all, some access to the President is essential, but management initiatives do not require the constant kind of access that the budget process does, for example. And I have found in a number of management assignments I have had, from Presidents, that you are often more effective if you are not in the position of trying to see the President all the time. But you do have to from time to time.

It is very important that such an office of management be a part of the Executive Office of the President. It needs to be armed with functions, of course, that will keep it in the mainstream of activities. Key to this, for example, is the drafting of Executive orders, which was something that the Office of Executive Management used to do when it was in the Bureau of the Budget, but had a fair amount of autonomy.

The responsibility for circulars that are issued in the areas of management, whether it is dealing with decentralization or procurement or financial management or what have you, that would be in this office.

The White House personnel office should consult with the Director of the management office on management appointments in agencies, as was done at one time.

Drafting of legislation that is concerned with management, of course, should be done by that office, but in addition to that, that office should review other legislation for the practicality of implementation in all fields, in all areas.

Technical assistance is important. And it is important so, in separating it, it is no longer regarded as a back door for budget cutting, which is one of the things that has limited the effectiveness in the past of the Bureau of the Budget.

Monitoring of agency performance, including the field, is an important tool of such an office; and it would have, if it were separated from the fragmented budget process, the capacity which it does not have today, of looking at the total aggregate impact of regulations and processes on local governments, on families and on businesses.

Participation in the daily White House staff meetings, I found very, very important; and that would be, of course, an important part of the role of the director of the management office.

Periodic stock-taking with Cabinet members and agency heads I found very useful in terms of raising the image of management as something important in the role of a Cabinet member.

The chairing of interagency groups, the President's Management Council and so forth, of course, would be a part of it. The office also needs to be involved in the design of new programs.

I recall—Ed, you may remember this—when President Nixon was developing his proposals for welfare reform, the BOB management staff played a very important role. Matter of fact, the first draft of that, the management staff said will not fly, it will not work. They sent it back to the drawing board.

I think it would have been very useful to have that kind of management capability when President Clinton was moving forward with health reform proposals.

I certainly agree with Mr. Harper that there should be very few political appointees in that office. There are too many in the Office of Management and Budget today.

So these are some of the reasons and some of the tools that I think are important and which I feel confident would enable it to function very well, in many respects much better than being merged with the budget process, which has very serious constraints.

Mr. HORN. Dr. Harper, do you want to comment?

Mr. HARPER. I guess—let me make this comment. When you look at successful corporate experiences, one of the things you find is that corporations tend not to ossify themselves into a strict organization that is set and does not change with time.

I think one of the things that we have seen as we go back, I think when you look at the history of what has happened with management improvement projects over the years, they have waxed and waned. I think the PPBS exercise, in some ways, was a precursor of the Government Performance and Results bill. And that is all to the good. But one of the problems is, President Nixon came in, the Director of the Bureau of the Budget did not know what PPBS was, he was not particularly interested in it or concerned with it. He was a finance man, a banker, and the President was not interested, and he kind of thought all that was irrelevant.

So when the chief says, we are going this way, you do not have many people saying, well, what about PPBS? He says, well, I am over here, we are going over here and we are going to reorganize things. That is today's agenda. And that is where everybody goes.

So I think, being flexible—I think, as I have stated, the management function is very important in the Office of Management and Budget, but the shape of it, the amount of resources that it has any particular day or year, I think, is in the end realistically going to be a function of the President's priorities and the priorities of the Director of the Office of Management and Budget.

I think to set up a structure might be good for the short time and it may be exactly what we need today. In 5 years, it could be something else. So those would be my suggestions.

Mr. HORN. I think, as was noted earlier, that the one thing you can say for it, if the President has an institution in which he appoints the director, and now subject to Senate confirmation, you would pick somebody that has some experience, some credentials presumably to be director?

Mr. HARPER. Right.

Mr. HORN. Whereas, if you pick the Director of OMB, it is probably a nine-to-one shot the person will have very little experience in management. There might have been a chief financial officer somewhere, which means they have, in essence, no Government experience. And who knows to what degree they have really grappled with the management problems of a large human organization. Very complex.

I think at least you would have the focus at that point in time, somebody in whom the President would have trust, since the President's the one nominating him or her, as the case may be.

Mr. HARPER. Right.

Mr. HORN. I think that is the first thing that can be said for it, to at least get it on the agenda. I do not know.

Dr. Ink, what else would you say in support of it? You have said some things, but is there anything else that comes to mind?

Mr. INK. I support Mr. Harper's recommendation, which is in line with the committee's recommendation, that the human resource policy, which is languishing in a very ineffective OPM, be brought into this organization, provided it is separate from budget.

I would hesitate to make that move if it were part of an OMB, however, because I think it is too budget-dominant. But if there were a separate office, then I strongly agree, bringing in the policy from both GSA and OPM.

I would go further than that. I think the operations of OPM might be broken up and given to other agencies so that you no longer have an OPM. Again, I am the one that recommended the Office of Personnel Management. I chaired the task forces that led to the 1978 reforms that established OPM. But it is not working today.

Mr. HORN. Any other comments anyone would like to make before we close the hearing?

Mr. HARPER. I think the hearing is wonderful, in that I think you really have surfaced a tremendous number of issues that need to be addressed, not only today but on an ongoing basis.

And I guess the place I would leave my remarks is that I would hope this committee would continue its leadership role, perhaps being more directive in the sense of saying, here are the results that we are looking for, and not just limit the performance and results criteria to individual agencies; but perhaps have a top-level report and say, Mr. President, we are the committee concerned about a Government management, here are the kinds of outcomes that we would like to see in the next year or the next 5 years.

Mr. HORN. Well, obviously, a number of Members in the other body, as well as in this body, have suggested that there be a Hoover-type commission to take that kind of look, which President Hoover did take in the late 1940's and early 1950's with the two commissions.

And some have even argued—I do not know if I am too keen on this one, having been a victim of it—that we might have a base closure-type process. That, I think, scares more Members than it gets a majority of votes, but it would be a way to get at some of the problems we have when we try to change an organization to see if it is in tune with the needs of the times.

And as you look at the evolution of Cabinet departments in America, usually they have lagged about 10, 20, 30 years behind when it became an obvious point that Government was involved in this area one way or the other, and then often they have lived past their time—I think that is what we face—different portions of different departments.

As you know, they started out, one group in the Congress this year with, let us end four departments. Well, we have not ended any department yet, to my knowledge, although we certainly have homed in on the Department of Commerce, which is only about 2 percent Commerce anymore, mostly weather and a few other things.

Mr. HARPER. I am just hoping that if there is another Hoover Commission or something like that, its scope and mind-set goes beyond reorganizing the organizational chart and printing new organizational charts but saying, rather, here is what we are demanding the executive branch do in terms of management, Mr. President. How are we going to do that?

Mr. HORN. Well, this is in essence what Oregon is doing in saying, what is it the consumer wants? And that is the whole reason Government exists is to serve people.

Mr. HARPER. Yes, sir.

Mr. HORN. And we do not spend much time on how we serve them and how we know how well we have served them. That is what you are seeking. I think you are absolutely correct. And by what do we measure that and are these measurable things?

I have cited before in these hearings, when I was on the board of the National Institute of Corrections as chairman we got an idiotic report from the Department of Justice on the agency. They had never consulted with us. They found a few things that were quantitative and decided they would use that as their measurement. Well, nothing in, nothing out, as the saying goes; and that is what that report was.

So that is a very real problem, how do you assess the effectiveness of an organization? I think it needs to be given some focus and some full-time attention if you are going to have the measuring things that mean something to Members of Congress that are ultimately appropriating the money and something to a President who has to decide, do we slow this operation, do we speed up this one, do we eliminate this one, and why? And do you have any good evidence as to what the agency is doing right or wrong and try to imbue that.

Now, you have seen that, as your examples note, in the corporate world. I have seen it in the university world. And Dr. Ink has certainly seen it in all worlds. His familiarity is very broad. I think you would say that there is no magic number or bullet in how you evaluate an agency, except ultimately the provision of services at the least.

It is a utilitarian principle: the least amount of money to get the greatest amount of quality, certainly. But how do you capture that at a point in time so you have something? Oregon is trying to do it, New Zealand is doing it, and so forth.

Mr. INK. I think we know how to manage a lot better than we do manage. I think there are many aspects of managing Government agencies that we could do far better than we do.

An area in which, in my judgment, we really have not developed effective mechanisms is in the field of evaluation. We have been unable, in my judgment, to find a way that evaluation can be done by people who know the territory, but yet do not have such a vested interest that that knowledge distorts their conclusions.

One of the problems I have with the Inspector General is that it has emerged that there has been a tendency to move Inspectors General into an area which I think they are not capable of doing, and I think it is counter to the environment in which the Inspectors General function. I think there are other functions in which that independent investigative capability is absolutely essential, but we have not done well either in the Congress or in the executive branch in developing that. And as Mr. Harper is saying, we should move in that direction.

I would say, first of all, I strongly support the notion of a commission. It would approach things differently than the Hoover Commission, but the basic concept is very important.

I think there are three dimensions that are involved in any effective governmental activity: One is the structure, in its broadest sense; two, are the systems; and three, are the people, the human resources. And how do you mobilize those ingredients in a way that can best achieve the objectives that you and Mr. Harper are talking about is a somewhat broader concept than we have ever done before.

And I would hope that if some kind of commission were set up, it could be done very carefully rather than on a 6- or 8- or 10-month basis, which I think would do more harm than good.

Mr. HORN. Dr. Harper, any other comments on that?

Mr. HARPER. I find myself agreeing with Dwight, as I have done many times over the years.

Mr. HORN. Good. And on that happy note, we will thank the staff and thank you.

The majority staff director, J. Russell George, is back there watching this whole proceeding, but as staff director and counsel, he makes sure it happens. Anna Miller, to my left, is the professional staff member directly involved in setting up the hearing; and our faithful clerk, Andrew Richardson, is here somewhere, in and out.

On the minority staff, we had a troika today of David McMillen, professional staff member; Matt Pinkus, professional staff member; and Mark Stephenson, who is assistant to Representative Maloney, the distinguished ranking minority member.

And as our official reporters, we had Pam Garland and Rebecca Eyster, and we thank you all.

And with that this hearing is adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

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