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NOMINATION OF SEAN O'KEEFE

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON THE

NOMINATION OF SEAN O'KEEFE TO BE DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

FEBRUARY 27, 2001

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NOMINATION OF SEAN O'KEEFE TO BE DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

TUESDAY, FEBRUARY 27, 2001

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:38 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Fred Thompson, Chairman of the Committee, presiding.

Present: Senators Thompson, Stevens, Voinovich, Domenici, Bennett, Lieberman, and Levin.

OPENING STATEMENT OF SENATOR THOMPSON

Chairman THOMPSON. The Committee will be in order, please. This morning we are holding a hearing to consider the nomination of Sean O'Keefe to be Deputy Director of the Office of Management and Budget. OMB has responsibility for implementing a number of statutes, aimed at ensuring the efficiency and effectiveness of government operation. As deputy director of OMB, the person who assists the director daily in his many responsibilities, you can have a great impact in this area. As I mentioned to Mitch Daniels when he was before the Committee, I believe that OMB's responsibilities for the management of the Federal Government have been neglected.

I was gratified by his February 14 memo to agency heads, asking that they set goals for achieving major government-wide management reforms in their fiscal year 2002 performance plans. That same memo made the point that agencies should have goals for achieving any reforms that will significantly enhance the administration and operation of the agency. That is a very good start. As you know, this Committee is the recipient of endless agency, inspector general, and General Accounting Office reports that detail the poor state of management in today's Executive Branch. This mismanagement is not outrageous just because it wastes scarce resources. Mismanagement means that those resources are diverted from the purposes for which they were appropriated.

When a benefit program makes improper payments the intended beneficiaries suffer. When major information technology products are mismanaged, not only are tax dollars wasted, but we miss opportunities to benefit from greater efficiency and increased productivity. The financial management woes that befall most Federal

agencies mean that we cannot even say with certainty that the American people have gotten what they paid for.

The information technology area is a particular problem with the Federal Government. The Federal Government finds it extremely difficult to use information technology to enhance its efficiency and effectiveness. The Federal Aviation Administration spent $4 billion on an air traffic modernization program that did not work and was shut down before completion. The Internal Revenue Service spent $7 billion on its tax systems modernization project before they had to scrap it.

I recently met with Commissioner Rossotti to discuss reform efforts at the IRS and he reported that after 3 years they have just completed the consolidation of its major systems, which is just the beginning of the IRS' modernization program. This Committee's investigation also uncovered weaknesses in government information systems that make them vulnerable to computer attacks from international and domestic terrorists, crime rings and everyday hackers.

As a result, Senator Lieberman and I worked to enact the Government Information Securities Act, a bill to provide a new framework for protecting the security of the government's computers from outside attacks by hackers. These weaknesses jeopardize government operations and threaten the privacy of our citizens and I hope that OMB will help to ensure that the bill is implemented properly.

Human capital is also an area where the government has fallen short. In recent years, the Federal Government reduced staffing without cutting back on anything it does. Workforce downsizing became just a numbers game carried out randomly, rather than strategically. Consequently many agencies now face severe shortages of employees with the necessary skills and expertise to carry out agency missions. It is quite clear, based on the work of this Committee, especially Senator Voinovich, that there is mounting evidence that workforce deficiencies are an impending crisis for the Federal Government.

I believe, Senator Voinovich, you have told us that within the next 5 or 6 years, half of the workforce today is eligible for retirement. We need your expertise, Mr. O'Keefe, and input in crafting solutions to these problems. Over the last decade Congress enacted a number of laws designed to change how Washington works. The Government Performance and Results Act, which seeks to change the mind set of Washington from what government does, such as spending money, and issuing regulations to what actual results and activities those actions produce.

Now, more than 7 years later, we still find that most agencies have difficulty explaining what results they are trying to achieve in measuring how well they are performing. Integrating budget and performance information would be a step in the right direction of finding out just how well the government is doing. That is something obviously we could spend a lot of time just listening to you and Senator Stevens discuss.

I think it is becoming more and more apparent that until we integrate some of these performance measures into the budget submissions and then we, in our appropriations process, take that into

account, nobody is going to take the Results Act seriously. I think we are on trial. I think OMB is on trial and Congress is on trial as to whether or not this is our last best chance to get a results-focused government.

I am heartened by the management experience, Mr. O'Keefe, that you bring to this position, especially the exposure that you have had to some of the government's management statutes, and I am particularly interested to learn how you will leverage the power of the purse to obtain some of the management improvements that we are seeking. The only answer to these problems is strong leadership, and I hope you will bring that to your stewardship of the budget process and that we will see a marked improvement in the efficiency of government operations under your watch.

Mr. O'Keefe has filed responses to biographical and financial questionnaires, answered pre-hearing questions submitted by the Committee, and had his financial statements reviewed by the Office of Government Ethics. Without objection, this information will be made a part of the hearing record with the exception of the financial data, which is on file and available for public inspection in the Committee files.[1]

Gentlemen, I am amenable to proceeding however you wish. I do not know what the schedules of Senator Stevens and Congressman Walsh are. Senator Lieberman, I do not know what your schedule is. Would you care to make your statement now?

Senator LIEBERMAN. Well, Mr. Chairman, operating on the rule that I learned early in my time in the Senate, that it never hurts to do a favor for the Chairman of the Appropriations Committee, I would ask Senator Stevens if he is in a hurry. I am going to be here awhile. You are welcome to go forward.

Chairman THOMPSON. Senator Stevens.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Well, thank you very much. As a matter of fact, I do have some problems. I have already told my friend Sean O'Keefe that I will have to leave soon, but gentlemen, I think one of the most gratifying parts of serving in this institution that I have had for more than 30 years now is to observe and share in the advancement of someone that you really care about; 12 years ago, I introduced Sean O'Keefe to the Senate Armed Services Committee when he was nominated to become the comptroller of the Department of Defense.

I said then that Sean has the integrity and dedication to public service that it takes to move into a position like this. I also observe that if there is anyone who knows how to crunch numbers and make them meaningful to the people who try to understand them, Sean can do that. It is a privilege to be here with Sean, who is now the nominee to become Deputy Director of the Office of Management and Budget. There is a lot I could say about him this morning.

I think you know he was staff director of the Defense Subcommittee when I was chairman of that Subcommittee, and he

[1] The biographical and financial information appear in the Appendix on page 29.
Pre-hearing questions and responses appear in the Appendix on page 40.
Post-hearing questions and responses appear in the Appendix on page 70.

served as comptroller at DOD and also as Secretary of the Navy, and as Senator Thompson has indicated, you have a lot of materials now. He has provided the answers to questions that we all have available to us as members of this Committee, but I am here for one purpose, and that is to tell you that I not only have worked with Sean and I recommend him as a person I know and personally trust, but I can also tell you that while I worked with him on the Committee, I have also fished with him at 5 a.m. on the Nacdec River in Alaska. You get to know a man when you are out on trips like that, and I can tell you Sean's word is more than his bond; it is a real commitment, and I think it is a great thing to see a person who has come through both positions in the Executive Branch—and worked here as long as he did, here in the Senate—take this position.

Let me make sure that we understand each other. I do not think each one of us here will agree with Sean every time. I know I will not. But he has got a job to do and he will do it. The difference between Sean and others I have known is that when you disagree with him, he will look you in the eye and tell you why he did what he did, and you can trust his answer will be truthful. He will not evade and he will not try to duck the problems of confrontation, as you will probably see this morning.

But I do think that he has the background and the ability to do just what the Chairman said, make some difference at the Office of Management and Budget. I hope as a Member of the Committee that the Committee will see fit to consider this appointment and report it out as quickly as possible so that someone will be down there who does understand this. I am a little bit worried about some of the things I am hearing already. Maybe the Chairman of the Budget Committee can take that on, but I do believe that there ought to be more understanding of the process of the Congress in terms of reviewing some of these changes in the budget, and Sean has that ability.

What the total impact of that will be remains to be seen, but he is a good man for the job and I am pleased to recommend him to the Committee, and I thank you very much. I thank you, Congressman, for allowing me to go first, and I will go back to my Committee, if I might, unless you have some questions, George.

Chairman THOMPSON. He will submit them in writing. Thank you very much.

Senator VOINOVICH. I am afraid of the answers.

Chairman THOMPSON. Congressman Walsh, thank you for being with us.

STATEMENT OF HON. JAMES T. WALSH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. WALSH. Thank you, Mr. Chairman, Members of the Committee. I am here this morning with Senator Stevens to lend my support to Sean O'Keefe and his candidacy for the position of Deputy Director of the White House Office of Management and Budget. I think it is interesting that two appropriators are here to introduce him before your Committee. Obviously, we have an interest in our relationships with OMB, and we are delighted that he will, with your assistance and your affirmation, be joining OMB. Sean

is currently the Louis A. Bantle professor of Business and Governmental Policy at Syracuse University's Maxwell School of Government and Citizenship—Public Affairs. Prior to his arrival in Syracuse, my hometown, he was professor of business administration and assistant to the dean of the graduate school of Penn State University.

As you know, he served as Secretary of the Navy and comptroller and chief financial officer for the Department of Defense during the first Bush Administration. He also has significant experience on Capitol Hill. As Senator Stevens mentioned, he served as staff director of the Defense Appropriations Subcommittee. It is hard to believe that Sean and his family are interested in relocating to Washington at this time of year, especially considering Syracuse's balmy temperatures and snow-free skies, but in spite of that questionable judgment, I felt it my responsibility to be here to offer my enthusiastic support for his nomination.

Throughout his previous public service to our Nation, Sean has conducted himself with the utmost integrity and respect for the institutions that define our government. He unquestionably possesses the experience and background necessary to be successful in this position. His even temperament will hold him in good stead as he works closely with members of the Senate and House to develop our budget allocation and appropriate those funds.

It has been reported that Professor O'Keefe's imparts a vigorous work ethic to all of his students, an attribute that he has maintained throughout his professional life, and I believe that, too, will serve him well here. I know I speak for my colleagues on the House Appropriations Committee when I say that I am looking forward to working with Sean O'Keefe in his new capacity at OMB for years to come, and I encourage your affirmative and timely consideration of his nomination and I thank you very much for your time and attention.

Chairman THOMPSON. Thank you very much, Congressman Walsh.

Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thanks, Mr. Chairman. Thanks, Congressman. Welcome, Mr. O'Keefe, good to see you. Welcome back, I suppose I should say, after the years you have been on the Hill—probably should keep this a secret, because it might affect your confirmability, but I had the pleasure, Mr. Chairman, of working with Mr. O'Keefe on a task force on defense national security awhile ago and I was really most impressed with your service. Overall, you have a very impressive resume. Your background in navigating the ins and outs of the Federal bureaucracy and your experience in teaching executive leadership seems to me to be extremely well-suited to the position for which you have been nominated, a position that demands at the very least knowledge of fiscal and budgetary affairs, but also preferably an understanding of the broad implication of Federal policies on the lives of average Americans.

As you well know, OMB has authority over a vast domain; that is, how every Federal dollar is spent and how every Federal program is managed, no doubt few people outside of the beltway are

aware of the power vested in the agency, not just to manage the money, but really to help shape the core policies of the administration. I have some concerns about the budgetary core policies of the administration.

This is not really the place to go into them in detail, but I want to come to one part of it, and my concerns are, as you have probably heard from others, if not from me, the tax cut is too large. I fear it will crowd out our ability to spend on other priority programs and perhaps take us back into debt. But based on your background in national security, I do want to make this appeal to you.

I think you have, from that background, the credibility to be an advocate within the inner circles of this administration for adequate funding for our national security. Some of the steps that Secretary Rumsfeld has taken in recent weeks to initiate strategic review are quite heartening to me. Obviously this is only the beginning. We do not know what it is going to produce, but I think he is turning to people such as Andy Marshall and others, who are independent and fresh thinkers. So I am hopeful that we are going to have some innovative and bold recommendations here.

We know that change is going to be difficult, both because of resistance to it from within the Pentagon and from within Congress, but I hope we can make that happen. What I want to stress here is, I think, that not only do we need more funding to take care of our military in terms of quality of life of the people in uniform, in terms of maintenance and operation and repair parts, and the systems and equipment we are depending on now, but if we embark on a bold course of transformation of our national security structure, as is at least suggested by some of the steps that Don Rumsfeld has taken, personally I think that is going to cost money, too.

In other words, I think, its money well-spent, depending on how we spend it, but that, too, will cost. So my appeal today, based on your experience in defense appropriations here and your service as Secretary of the Navy and your previous experience as comptroller and chief financial officer at the Pentagon, is that you be a vigorous advocate within the counsels of the administration for exactly that kind of support.

I want to mention briefly one other matter, and that is OMB's oversight of the Executive Branch regulatory process. The new administration's intentions as expressed in the so-called Card memo, which is Andy Card's memo to delay already finalized Federal regulations, I fear, could jeopardize a number of health, safety, worker, consumer and environmental protections. This Committee was actively involved in sorting out problems in the early years of regulatory review, problems that genuinely did undermine public trust in the fairness of the process.

So I wanted to ask you as you go forward to be vigilant and oppose those who would use the process as a conduit to influence rule-making off the record and without disclosure, which is something we on this Committee are very concerned about. As you may know, along with several colleagues, I have written to OMB Director Mitch Daniels seeking information on the administration's plans in this regard, because I think it is very important that regulatory agencies be able to do what Congress asked them to do in order to protect the public interest, and I hope in your role you will

encourage cooperation at OMB to help us conduct our oversight duties of this serious matter.

Bottom line, you are extraordinarily well-prepared for this position. I thank you for being willing to take it. You have your adorable lovely family with you. I thank them for being willing to support your interest and service here. I just want to ask you one question. You can answer it now or on the record later. Did Stevens or you catch the bigger fish?

Mr. O'KEEFE. He always catches the bigger fish.

Senator LIEBERMAN. That is the right answer. Thank you.

Mr. WALSH. Mr. Chairman, if there are no questions, I will excuse myself and return to my office.

Chairman THOMPSON. Thank you very much. Senator Domenici, I know you have a Committee to chair, so with Senator Voinovich's indulgence, I will call on you.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Thank you, Mr. Chairman. I will not take long. Sean O'Keefe, it is great to see you here in this position. I wish you the best of luck. I might observe for you and perhaps for this Committee that your biggest job is based on the following that has already occurred. For the last 2 years in a row, the appropriated accounts of our government have grown 8 percent and 9 percent respectively. Prior to that we had 3 years when we grew at less than 4 percent. The only thing I can find that distinguishes the 3 years or 4 years is that we spent 8 percent because we had a surplus, and we spent 9 percent because we had a surplus.

It seems to me that you will not be able to spend 9 percent. Obviously, if you spent 9 percent, and I am talking about growth year over year, if you spent 9 percent each year, there would be no surplus for anything at the end of the decade. You would have eaten almost all of it up. So obviously that is not the right thing to do, and it is not right to grow at 9 percent a year just because there is a surplus. That is the challenge. We must decide around here that there are some other things to do with the surplus, besides end-of-the-year ballooning budgets.

I think you are up to that challenge. It is obvious that right off the bat, while you did not prepare this budget because you are not over there doing it, what I am describing is going to present the most difficult case for explanation by the OMB Director and the President, because you could not even grow the accounts at 4 percent if in fact you let the whole budget increase at 4 percent and have a number of increases, which the President has asked that we do. Some will go down below that level and some will be partially eliminated, and that will be the tough part to explain to those who would like the President's plans not to work.

For some, perhaps even including this Senator, there will probably be decisions made that in some areas you are not spending enough and that we cannot quite live with it. But I think you are experienced enough to work with us in that regard and understand the situation. You are aware of the facts that I just told you; are you not?

Mr. O'KEEFE. Yes, sir.

Senator DOMENICI. And you know that is a very difficult problem to bring something down from growing at 9 percent to less than that, but you understand you are going to have to do that; right?

Mr. O'KEEFE. Indeed.

Senator DOMENICI. Let the record reflect that he is nodding.

Mr. O'KEEFE. I am sorry. Yes, sir.

Chairman THOMPSON. He is not under oath yet, but I think we will get him on that later.

Senator DOMENICI. Thank you very much. I look forward to working with you first on the budget resolution and you will be very important to us as we try to put it together—finish it. Thank you, Mr. Chairman.

Chairman THOMPSON. Thank you very much. Senator Voinovich.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Good morning and welcome. We are pleased that you have brought your family with you today and I want to thank them for the sacrifice that they are going to make, of their time with you, so that you can serve your country. I told Mitch Daniels when he appeared before this Committee last month that he was going to have his work cut out for him, because the Director of the Office of Management and Budget is one of the most important positions in Washington.

With the state of the economy, I think that was an understatement. Since you will be Director Daniels' right-hand man, that means you will have one of the most important jobs in Washington, and I hope that the deputy director for management, when he or she is found, can match the exceptional quality and experience that you possess, because as I mentioned to you when you were in my office, the observation I have made is that there is no M in the Office of Management and Budget, and that individual is going to have to get up early in the morning and go to bed late at night to make sure that we deal with the human capital crisis that we have. The comptroller general was here to talk about it and it is now on the GAO high-risk list, and I think you are aware that human capital has to have renewed emphasis in the Office of Management and Budget.

Mr. O'Keefe, as you probably know, for the past 2 years in the Senate I have been a debt hawk. One of the reasons I ran for the Senate was to bring fiscal discipline to Washington, just as I tried to do as Mayor of Cleveland and Governor of Ohio. The 106th Congress, my first as a Senator, was a mixed bag in terms of fiscal discipline. Senator Domenici made reference to that. We did not use the Social Security surplus in 1999, 2000, and 2001 budgets, and in 2000 and 2001 we did not use the Medicare surplus.

We have in effect lock-boxed Social Security and Medicare. We took the money off the table and used it to pay down the debt. However, the downside of the 106th Congress is that we spent too much money. I am sure you know the numbers, but non-defense domestic budget authority for the year 2001 rose 14.3 percent over fiscal year 2000—14.3 percent—this despite an inflation rate of less than 3 percent. Alan Greenspan, in his testimony before the Budget Committee, politely stated that he hoped it was an aberration. I refer to it as Congress spending money like drunken sailors.

According to the latest report by the Congressional Budget Office, legislative changes made in the waning months of the 106th Congress reduced the 10-year surplus budget projections by $598 billion. That is over one-half trillion dollars over 10 years. This is the hangover I said the incoming President would inherit as a result of Congress' spending. Unfortunately, most people are unaware of what happened because the media did not highlight this fact, but when I tell people these figures they go absolutely nuts.

I can tell you that as a governor or a mayor or a county commissioner, if I had spent money like this, they would have run me out of office. Even with all the spending that Congress did, thank God we were able to put $87 billion in fiscal year 2000 on-budget surplus, straight to debt reduction. We cannot take credit for most of our good fortune on the fiscal front. We owe it to terrific economic growth because of significant increases in worker productivity which resulted in tax revenues far beyond what was expected.

While our economy has been strong, there have been numerous signs lately that it is weakening. The Dow and the NASDAQ have slid. Consumer confidence is down and unemployment is up, and people, I can tell you, are skittish. In addition, high energy costs have dampened consumer spending and negatively impact on America's competitiveness and are threatening the least able in our society.

I had a meeting in Cleveland to hear from Catholic charities, Lutheran housing, and other groups, and the impact that these high energy costs are having on ordinary citizen. Business people are up in arms about those costs and are losing money and are less productive. It is impacting agriculture. Federal Reserve Chairman Alan Greenspan said in recent testimony that the economy has stalled and we are at zero growth. Many of us agree that to stave off a recession and maintain fiscal discipline, we need a three-legged stool approach to the budget, along the lines of what Chairman Greenspan proposed; that is, reduce the debt; implement real, effective limits on Federal spending and provide a reduction in taxes.

Like a three-legged stool, all three aspects of a plan must be of equal importance. Too much or not enough on one leg or even two legs and the stool just does not stand. It is important that we have all three of those things. While a tax cut is now needed to stimulate our economy and prevent a recession or reduce its length, in my view it must fit into a larger budget plan that controls spending and ensures debt reduction. Congress and the White House must hold the line on new spending. I think Senator Domenici underscored that.

I want to cap spending in a real way to get Federal programs and agencies under control. That way we will have the money around to provide a tax cut that we can keep in place over time and continue to pay down our national debt. I am hopeful that given our present economic situation, the new administration and this Congress will hold down spending, make a substantial reduction in the debt and, yes, reduce the tax burden on hard-working Americans.

If we can get on a glide path to doing all three in a real and substantive manner, the future should be bright. In addition, this ap-

proach will help us address the current economic situation. Many of us on Capitol Hill are very concerned about the growing signs of recession in our Nation. Over the past 10 days I have visited with business leaders from across the country, and they tell me we are in a recession. I know it is not good to use the R-word, but they have said we are in a recession.

Mr. O'Keefe, I have been through two major recessions in the past 20 years, and I do not want to go through another one, a deep one. A lot of people are not aware of the fact that I was mayor of Cleveland during the recession of 1981 and 1982. It was devastating. Just remembering those tough times makes me pleased that the administration is giving consideration to jump-starting the economy through a marginal rate income tax reduction this year.

Over the past 2 years, I have advocated using every dime of our on-budget surplus for debt reduction, and I am one of the only Republicans that voted against the reduction on the marriage penalty and on estate taxes, because I thought, with the robust economy that we had, that we ought to use that money to pay down the debt. However, as Chairman Greenspan has pointed out, we are on the road to pay down the debt much sooner than any of us anticipated, and we might find ourselves unable to redeem additional debt without paying large premiums.

Therefore, in order to fend off a deep recession like the one we had in 1981 and 1982, I think it would be prudent to use the non-Medicare portion of the projected 2001 $125 billion on-budget surplus to reduce tax rates this year, and to have the rate reduction reflected in this year's withholding tables. It may be hard to do that, but I think people have to see it this year. Based on recent Treasury reports, I am confident that the 2001 on-budget surplus will also exceed earlier projections.

We need a psychological boost for the American people, something that will make them understand that there will be a tax reduction coming not next year, but this year, and they need it now. We must remember that consumer spending makes up 68 percent of our gross domestic product and it is essential that we turn consumer confidence around in a positive direction. We really need something very significant.

Mr. O'Keefe, tomorrow the White House will submit its budget blueprint to Capitol Hill. I hope that OMB presents a budget that will adopt the three-legged stool approach that I have outlined, and will work with Congress to develop a bipartisan budget resolution, one that is respected by the financial markets, the opinion makers and the American people. I am hopeful that some of the people on the other side of the aisle will be willing to work on this, and it will require some compromise, and I think it is essential that we do have a bipartisan approach to this, because if we do not, I think we will spoil it. We need to restore people's faith. If Congress can demonstrate that it has worked something out and people can say they are putting their country first, that they have worked out their differences, it will be a positive stop. We should not end up with people throwing bricks at one another. We have had too much of that around here.

If you couple that with an immediate marginal rate cut, another cut in interest rates, and some real possibilities that energy costs

can come down, it will give a gigantic boost to consumer confidence and hopefully a return to economic growth. I cannot stress enough we must do what we can to avoid the economic scenario that plagued us in 1981 and 1982.

Mr. O'Keefe, you, Mr. Daniels, Mr. O'Neill, Larry Lindsey, the President, have to work together with Congress, and what we do together is going to have an enormous impact on the future of our country. I was impressed with you at our meeting in my office and appreciate the time you spent with me. You bring a wealth of government and non-government experience to this position. I hope that it is going to teach you how to deal with those appropriators.

Chairman THOMPSON. All right, sir.

Senator VOINOVICH. You appear to have the interpersonal skills that will make you a great member of the team. You have your work cut out for you, but I have faith that you will succeed, and I just want you to know I look forward to working with you in the future.

Mr. O'KEEFE. Thank you, Senator.

Chairman THOMPSON. Senator Bennett.

OPENING STATEMENT OF SENATOR BENNETT

Senator BENNETT. Thank you, Mr. Chairman. Mr. O'Keefe, welcome to the Committee, welcome back to government service. You are a glutton for punishment to keep coming back to this, but the country is grateful to you, that you would be willing to do this. I remember when your agency was called BOB, or the Bureau of the Budget, and it was Richard Nixon who changed the name to Office of Management and Budget, and it took a long time for some of us to get the new nomenclature, and we kept calling it BOB.

Some others have mentioned this, but I have not seen a lot of change since the name was changed; that there has been that much focus on management. The budget process dominates everything, takes all of your time. You just get it done when you have to do another one, to get ready for next year, and the kinds of skills that you bring to this position get subsumed in the activities with respect to the budget. Can you talk to us a little bit, or to me anyway, about anything you might be able to do to improve the management style in the government?

We do not automatically think of the Federal Government as the place to go when we are looking for heroes of management skills.

Mr. O'KEEFE. Indeed. No, I look forward to having the opportunity to dialogue with you about how that could be approached. There are number of things, I think, could be initiated on that front. Appreciate it.

Chairman THOMPSON. We have not sworn the witness in yet. Do you want to swear him in now and ask your questions?

Senator BENNETT. Oh, this is not a question time?

Chairman THOMPSON. No, just if you have any preliminary statements.

Senator BENNETT. I do not have any preliminary statements. I am for the tax cut. Thank you.

Mr. O'KEEFE. Thank you, Senator.

Chairman THOMPSON. Our Committee rules require that all witnesses at nomination hearings give their testimony under oath, so

Mr. O'Keefe, would you please stand and raise your right hand? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. O'KEEFE. Yes, sir.

Chairman THOMPSON. Thank you and please be seated. At this point I would like to give Mr. O'Keefe an opportunity to introduce any family members he may have in the audience here today.

Mr. O'KEEFE. Thank you, sir. A brief opening statement will accomplish that task, if you would permit me, sir.

Chairman THOMPSON. All right. Proceed.

TESTIMONY OF SEAN O'KEEFE,[1] NOMINATED TO BE DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. O'KEEFE. Thank you, sir. Good morning, Mr. Chairman and Members of the Committee. It is an honor and a pleasure to be here. This is a very special occasion for me and my family, made all the more memorable by your opening statements, and the most thoughtful introductions just offered by two distinguished members. We are fortunate constituents of Congressman Jim Walsh, a gentleman of the House who serves his district with great distinction and integrity, but I also count myself among his legion of admirers and friends who are the beneficiaries of his distinguished public service.

To Senator Ted Stevens, I am forever in his debt for the extraordinary friendship he has shown me and my wife Laura for more than 20 years. He has been my mentor, career counselor, and advocate throughout my professional life, and he has set me straight on more than one occasion and always with my best interest in mind. I am honored and particularly grateful to him for his presence and the time he spent to support me here today.

Mr. Chairman, I also want to express my gratitude to the Committee for the expeditious consideration of my nomination. Having received the formal paperwork just before the scheduled Senate recess and now turning your attention to the matter immediately upon your return, this is an extraordinary courtesy and I am most grateful to you, Mr. Chairman, and to you, Senator Lieberman, for that consideration. During the break the Committee staff and the personal staff expended a lot of effort in preparing for this particular hearing.

They very helpfully met with me just after the recess began to familiarize me with the process, policies and issues which are of importance to this Committee. Having served in the Senate staff in my previous public service experience, I know what a sacrifice it is to expend precious time during rare periods when the Senate is out of session, so I am particularly grateful to them for their helpful and dedicated effort. I thank you.

It is indeed a privilege and an honor to be the President's nominee for this challenging post. Few are afforded the opportunity to participate and contribute in such appointed capacities, much less for a third time. I am filled with great anticipation and a very sub-

[1] The prepared statement of Mr. O'Keefe appears in the Appendix on page 27.
The biographical and financial information appear in the Appendix on page 29.
Pre-hearing questions and responses appear in the Appendix on page 40.
Post-hearing questions and responses appear in the Appendix on page 70.

stantial dose of humility for what I know will be the important challenges ahead. Public service is never to be taken lightly and particularly so given the challenging portfolio, I think as Senator Bennett referred to, in the Office of Management and Budget itself.

But having spent the last several years teaching graduate students who are aspiring public servants at the Maxwell School at Syracuse University, the Nation's top-ranked school of public affairs, this is a responsibility to step up and do what I have been preaching.

Explaining the stakes involved to my children has been a difficult and different kind of challenge. I am so pleased that they are all here this morning. Our oldest, 14-year-old daughter Lindsey, who possesses the intellectual maturity of twice her age, appreciates the significance and understands that I am afforded an exceptional privilege. For our two sons, 11-year-old Jonathan and Kevin, who will turn 10 tomorrow, explaining this has required a little more imagination. As active youth program athletes in our community, they took aboard the significance when I likened this particular experience to go to fantasy baseball camp with the New York Yankees.

Indeed, the President has assembled the public service equivalent thereof, by his leadership selections. I am excited with the prospect of working with such a distinguished group, most particularly for a gentleman with the professionalism and intellectual capacity of Mitch Daniels. It promises to be a great challenge and an even greater opportunity for me to learn from him as we forge our partnership in advancement of the President's agenda.

Explaining the significance of this opportunity to my wife, Laura, my partner and my best friend, was perhaps the easiest of all because she is so thoroughly supportive of the President and the policy he plans to champion. She understands the historic significance of this time and shares my commitment to the importance of public service. But she also fully appreciates the hardships and the sacrifice this profession entails. Her willingness to be a part of this public service odyssey yet again speaks volumes for her love and extraordinary tolerance, far greater than I deserve in both instances.

This is an important time and important work lies ahead. My fitness for this office is of course for this Committee to judge, and for the U.S. Senate to decide. But if I am fortunate to be confirmed, I will do my best. I thank you, Mr. Chairman and Members of the Committee, for the opportunity to be here. I look forward to what I hope will be the first of many opportunities to dialogue with you. Thank you.

Chairman THOMPSON. Thank you very much. As I indicated earlier, the Committee submitted some substantive pre-hearing questions to the nominee and the nominee has also met with Committee staff to discuss a variety of issues. I will start with the questions that we ask of all nominees, Mr. O'Keefe. Is there anything that you are aware of in your background which might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. O'KEEFE. No, sir.

Chairman THOMPSON. Do you know of anything personal or otherwise that would in any way prevent you from fully and honorably discharging the responsibilities of deputy director of OMB?

Mr. O'KEEFE. No, sir.

Chairman THOMPSON. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted Committee of Congress, if you are confirmed?

Mr. O'KEEFE. Yes, sir. I do.

Chairman THOMPSON. All right. I appreciate your appearing here today. With those questions out of the way, I would like to start the questioning by weighing in on the subject that is on all of our minds today, and that is the President's budget message and the President's budget. There is just one thought that I would like to leave with you from one Senator's vantage point, and that has to do with the mandatory side of the ledger. We are still focusing on the tail of the dog instead of the dog. We constantly are crunching and arguing over the discretionary side of the budget, which is getting smaller and smaller. We have to do that. I think obviously the President's budget is going to have some increases in some areas on the discretionary side. It apparently is going to have some cuts in some areas on the discretionary side and probably more likely some reductions in the increase on the discretionary side.

But now, with the mandatory side taking up almost 70 percent of the budget, we have to ask ourselves if we are going to really make any difference and where are we going to make that difference up? The fact of the matter is that although the statements that were made here earlier today certainly are true in terms of the dollar amounts of the discretionary spending and that we do have to do a better job on that, the fact of the matter is that discretionary spending as a percentage of GDP is at a historical low.

As a percentage of GDP, my figures indicate for the year 2000, it was 6.3 percent, and this chart goes back to 1962. It is the lowest that I see on the entire chart as a percentage of GDP. So we cannot keep squeezing in that area alone, because the most conservative of us must acknowledge that we have got some chickens coming home to roost in terms of our infrastructure, such as our national laboratories, which in some cases are physically crumbling.

If there is one document I would ask you to read, if you have not already, is the U.S. Commission on National Security, 21st Century's latest report, known as the Hart-Rudman report. This is their latest iteration. I do not know if you have had a chance to look at that or not, but they make a very good case that we have to do some things better and differently from the standpoint of our national security, not a matter of what we wish, but things that we have to do.

It talks about the science and education, for example, and how we are falling behind in basic research. They recommend that we double the NIH budget, but we have not yet addressed the thing that underlies, in their estimation our national security, and that is the basic science and education budget. They are recommending doubling R&D in those areas by the year 2010. They talk about our national laboratories and what is happening to them and they go on in other areas.

So as I say, the most rabid conservative, I think, has to acknowledge we have to build the bridges, our national parks, and things that the Federal Government properly ought to be doing. We all have to acknowledge that there is a role for the Federal Government and that these are certainly things that ought to be done. We are now coming to the conclusion that education has become a national security issue also. So does all of that mean we cannot afford a tax cut? Not in my estimation.

I think unless we have long-term economic growth, we are not going to make our numbers in any of these areas. I think that is essential for long-term economic growth, but we are going to have to do something on the mandatory side. We are going to have to have Social Security reform. We are going to have to have Medicare reform or none of the rest of this stuff is going to matter. We cannot tax our way out of this problem.

We cannot even grow our way out of this problem, especially when the baby boomers start retiring. We all know that. We all keep talking about it and we do nothing about it while we still focus more narrowly on the tip of the dog's tail, on the little details of the discretionary spending side. That is a long-winded non-question. I would just ask you, although and a lot of this you do not really have jurisdiction over, you have a bully pulpit, and I would ask of you the same thing I asked of Mr. Daniels, to use that bully pulpit to speak the truth, and that is until we get a handle on the dog, as well as the tail, we are going to have big problems in this country and we are not going to be able to keep our commitments to the American people with regard to the entitlement programs themselves. Further, in the process we are not going to be able to keep our commitment to the vital national security requirements of this country.

Mr. O'KEEFE. I agree, Mr. Chairman. I agree with you wholeheartedly. As a matter of fact, just sorting through the issues that you have raised here as it pertains to mandatory versus discretionary spending in particular, I could not help but think that 20 years ago, about exactly this period of time, when Ronald Reagan was submitting his very first budget to the Congress in the late winter of 1981, the percentages of discretionary to mandatory were precisely reversed.

It was about 70 percent, 65 to 70 percent discretionary spending at the time relative to about 30 to 35 percent mandatory, versus today's percentage, which is exactly opposite. In the span of 20 years, that has taken effect. So as a consequence the focus and attention that you have referred to on the discretionary side of the equation positively has been one of the more focused endeavors, certainly in the last 20 years, with Gramm-Rudman-Hollings and every attempt at budget enforcement acts and so forth. Nonetheless, I am impressed by, I guess, the effect that occurs, to the extent that there is not a constraint on discretionary spending that I would otherwise consider one of the very best things that the Congress has done. I think, in the last few years, and I certainly have been part of that in the last Bush Administration, in dealing with the Budget Enforcement Act at that time and the omnibus budget reconciliations that went on at that point, was to establish some limitations, caps on spending, so as to avoid those kinds of

issues. Because just a simple projection, the reference that Senator Domenici made and a point that Mitch Daniels has talked about repeatedly, is that in the last 3 years the average growth has been on the order of about 6 percent of discretionary spending.

If that were to be left and just continued along for the next 10 years, that equates to $1.5 trillion right there. As a consequence, that growth in the overall discretionary spending, if not constrained or at least managed—moderated to some point, could have the effect each year of building on the base. It is a phenomenon I think the President has referred to on several occasions in which he has talked about the consequences and the approach that is typically taken in examining budget alternatives in Washington; that is unless there is an increase commensurate with expectations, it is considered a cut. So as a result that has the exact opposite view. So that kind of mind set is one that certainly we need to work with, we have to sort through. You are right. There is more attention to it in the last 20 years, but the focus on the mandatory side of the equation, I agree with you, requires every bit as much of the attention, and we hope to implement the kind of objectives to make that happen over the course of this next year.

Chairman THOMPSON. Senator Voinovich.

Senator VOINOVICH. I would like to focus on GAO's recently released high-risk list, which included human capital. We have 22 high-risk areas in the Federal Government. Some of them, such as DOE and NASA contract management, DOD inventory management, student financial aid programs and the Medicare program, have been on the high-risk list since 1990. From my perspective very little was done to address these high-risk areas by the past administration.

Are you familiar at all with that report?

Mr. O'KEEFE. I have a very specific recollection of having signed off on those, as comptroller and CFO at Defense, at the beginning of some of these reporting periods, under the Federal Financial Management Integrity Act compliance requirements for reporting material weaknesses. Having signed off on a number of them and reporting that there were material weaknesses in accounting systems, in the inventory process, in a range of different things, I share your concern that that does not appear to have altered dramatically since those reporting requirements were issued better than 10 years ago.

So I guess it is the equivalent of being asked to watch a bad movie yet again, to look at precisely the same kinds of issues, but that appears to be the case and it is one that I have got to focus some attention on. I understand that.

Senator VOINOVICH. How many of them can we count on being removed during the 4 years of the Bush Administration and what do you intend to do to make sure that some of them are not on this list 4 years from now?

Mr. O'KEEFE. My fondest hope is that the answer is all of them, in order to sort through that. I guess my concern in a lot of the areas of dealing with FMFIA—the Federal Managers' Financial Integrity Act—is that there is a tremendous amount of effort that is poured in on the administrative side with compliance, with trying to attempt to determine where the material weaknesses exist, how

to describe them best, understand exactly what the limitations are, and not nearly as much attention placed to trying to correct or implement means to correct those kinds of problems.

So as a result it is a repetitive cycle in which we are awfully good at reporting compliance failures, but not particularly great at figuring out what the solutions are. If we put as much attention to the implementation side of the equation on the management side of the arguments that are necessary, as the Federal Government typically is, on the reporting requirement side, I think we would be able to lick this in fairly short order.

Senator VOINOVICH. How high a priority is it going to have in your operation?

Mr. O'KEEFE. I think it has to have a very high one. In my view, until you get, first and foremost, the financial systems to the point where they are in compliance with the CFO Act and that we can get clean, auditable statements each year, until we can say that with success across the board for every department across the Federal Government, we are going to continually be into the situation of trying to put band-aids on problems. So I see that as a very high priority and one that requires the earliest and most concentrated attention; trying to deal just with that one focus alone. There are so many others that are included within the material weaknesses report that you have referred to, that to include all of them simultaneously is something I am not sure how that would shake out, but certainly on a financial systems side of it, that is the first order of magnitude issue that I think would get focused on.

Senator VOINOVICH. How about the human capital side?

Mr. O'KEEFE. I share your deep concern there, in part as a consequence of some very recent experiences that I have had in the last couple of years, chairing a commission that dealt with looking at the human resource, human capital kinds of difficulties and challenges that the Defense Department is about to encounter in that area. I came to find, as a result of that endeavor and by working very closely with the National Academy of Public Administration, who are doing some very similar things across the Federal Government, that I know you are aware of from our conversations, looking at the civilian piece of this equation, the problems are identical. As a result, the statistics that you have talked about and the effort that you put into raising the standing of this particular question and issue, is one that I think is a matter that has to be at the very top of the management agenda we have to take on. Because if we do not, the consequences are, as you have suggested. The retirement rates are going to dissipate the preponderance of the competence of the force very quickly and in a very short period of time the middle management layers that are there, primarily vacancies, not folks who have spent a lot of time in grade, and as a result of that the experiences that the Federal Government is having across the board, particularly in technical skill areas, is failure to compete successfully with industry and other kinds of comparable circumstances where they would otherwise be recruitable.

So the findings we came up with and the reports that we were able to put together to try to deal with that cover a range of management agenda issues that I think can be taken on administratively; some of which will require very close cooperation with Con-

gress. But by and large the authorities exist to deal with a number of those issues right now. I will seek to pursue those in a larger context in resurfacing some of these issues from the national academy.

Senator VOINOVICH. One of the things that I am going to be looking at in this budget is the commitment of the administration to funding those things. For example, as I mentioned to you, there is no government-wide number on training. There are many incentives that are available to maintain and recruit people in the Federal Government, but the budget has not been available to the departments to do it, either because the administration had not suggested it or the departments did not ask for it.

In addition to that, we worked very hard last year to pass a Department of Defense civilian workforce reshaping bill, for fiscal 2001, and we had it funded, but we will be looking at whether or not the administration funds the authorities for 2002 and 2003. We have some crucial challenges in Defense civilian workforce, and without the money, they are not going to be able to continue with the workforce reshaping effort.

Mr. O'KEEFE. Senator, my guess, though, is that the fiscal year 2002 budget that is going to be presented before Congress, if there are very close relationships between the budget requirements and the numbers that are presented and the kind of performance characteristics that you have just talked about in terms of linkages between training, education and so forth for the career force, it will be purely coincidental, because the mechanics of how this process has been put together this year, as best I have observed, is one in which the imperatives are very focused.

For fiscal year 2003, with a period of time where we have the opportunity to develop it over a period of time, I think the chances—well, at least it will be a more deliberate expression of exactly the points you are raising. Throughout the course of the development of that budget which will begin in earnest late this spring and summer, throughout the fall, to be presented this time next year—that is when the opportunity, I think, of this administration to put a very strong imprimatur on it. If I am fortunate enough to be confirmed, that is one of the areas that I think will be a very high focus, of trying to establish those linkages on exactly the points you are raising. This time around, it will be coincidental, is my guess.

Chairman THOMPSON. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman, and again I apologize for getting out of sync.

Chairman THOMPSON. We were proceeding a little out of sync this morning anyway.

Senator BENNETT. Let me go back to the line of questioning I started about management, and the question arises of whether or not there is any real management discipline imposed from the White House. You are an agency of the White House—on the various departments. Let me give you an example of what I consider to be the most egregious mismanagement that we have seen just recently—HCFA, Health Care Financing Administration.

We have had the experience up here, as appropriators, of dealing with what HCFA insisted was Congress' fault with respect to home health care, HMOs and teaching hospitals. Everywhere I went, I

ran into people that were in serious trouble in those areas and they all blamed it on the Balanced Budget Act, and it was Congress that has taken this money out of us and is threatening to shut these things down.

I could give you solid examples out of my own State of real hardship. Now, the amount of money, if we are talking on the budget side, that was projected to be saved by the Balanced Budget Act in this area, turned out to be roughly one-fifth of the amount that HCFA in fact took out of the area by virtue of their administrative actions. Former Secretary Shalala has defended HCFA on this, and said we acted properly and there was that much waste, fraud and abuse.

I would like to take her to some folks in my State that lost their health care because of HCFA's actions. We lament here in the Congress that we do not exercise our oversight ability. It is a little difficult when the Congress is in one party and the Executive Branch is in another and so you are fighting each other, but this became a real political issue, with members of the former President's party saying, if you do not have decent health care and home health care, and if you are seeing the research on the medical hospitals cut back, go blame the Congress because they are the ones who did it by passing that terrible Balanced Budget Act, which, by the way, the President signed.

As nearly as I can tell, this was entirely administrative overreach on the part of HCFA, and they were acting on bad data. They were going off of information that was 2 and 3 years old and cutting back on the basis of that information, and ignoring the devastation that they were creating out there in the real world. We finally had to fix it in the last Congress with an appropriation that added significantly to the increased percentage in discretionary spending that Senator Domenici talked about, to virtually order the administration to do what we thought we had told them to do when we passed that act.

Now, I give you that example, is there a watchdog function that OMB can play where you could call HCFA and say wait a minute, you are going way beyond what you should be doing, or do you just say, well, that is the jurisdiction of the agency and we are busy getting up next year's budget, so we do not really have any management role? I give you that real-life example to have you tell me what you see, and hopefully your director sees, as the management function of OMB.

Mr. O'KEEFE. Sure. Well, there is no question that the Congress in my judgment, in the last 10 years, has significantly strengthened the hand of the Office of Management and Budget on the management side of the equation. With the enactment of the CFO Act, the Government Performance Results Act, the string of efforts that have been put into this in the last 10 years are very clearly focused on that objective.

First and foremost, I think the requirement then on the part of the Office of Management and Budget, in sorting with these particular management kind of initiatives, is to look at the applicability of best standards, practices, etc., across the Federal Government in a uniform manner, in the way that tries to implement those in a way that can transport what the best experiences have

been, as well as deal with, and I think to your example, to your very human analogy that you have raised with HCFA, to look at those cases where it clearly is failing as a consequence of either systemic or failure of compliance to respond to the law in a way that is appropriate.

So that becomes an important function of OMB, again, not to be a micromanager, and I learned a long time ago that the best definition of a micromanager is whatever the person or organization right above you does, and that is the usual descriptor. As a consequence, we really need to steer clear of that kind of concept, in trying to intrude on those who are charged by the President to be the appropriate administrators for those kinds of programs and certainly in this kind of case, Governor Thompson, now Secretary Thompson, will have a very strong interest and influence, and I cannot imagine him being a wallflower about issues like this one in the future.

So as a result that is going to be the best relief or best opportunity to implement and see that kind of management attention faced. Having said that, there is nonetheless, I think, ample tools that the Congress has seen fit to bestow upon OMB, to strengthen the kind of oversight and enforcement role that we can play or could play within the management arena, to look at standard function best practices across the board and to find those cases in which it is failing, to identify what the solutions may be.

Senator BENNETT. One quick observation. A slightly different area, but it may be related. It is my understanding that a number of agencies have been unable to pass an audit for years, and the cry is raised, why give them more money if they cannot tell us what they did with the past money, if it just gets lost and you cannot come in and audit them? Does OMB perform the function of an outside audit? Is that GAO's function? GAO is a creature of the Congress and so they go wherever we tell them, and this Committee is the primary Committee to tell them, but do you have any sense of what do you do with a department, a cabinet level department, that at the end of the year says we cannot really tell you what happened to all the money because we could not pass the kind of audit that, say, General Motors would have to pass, or go to jail?

Mr. O'KEEFE. Well, the CFO Act very specifically, as I remember the mechanics of this, in part, I guess, it impressed me most because I had the great fortune, circumstance or just being in the right place at the right time or whatever, to be the very first CFO to be appointed under the act in January 1991. Having been in a position of being the comptroller as a result of the act having been passed, it was therefore conferred, that responsibility. The act is very specific. The General Accounting Office is—and the comptroller general is the auditor of record for the independent audit finding and for examining the financial statements and the annual reports thereof.

The problem I always found with this, and again I am really looking forward to getting a little more updated on where this has moved in the last several years. But the problem I remember very specifically of dealing with this question, and have since had a stronger view of why, as a consequence of some corporate experi-

ences, is that, in and of itself, a corporate, private sector financial statement imposed on a public agency as a reporting requirement, while it should be done and is an appropriate kind of way to translate or transfer the information, is used for entirely different purposes.

There are the quarterly statements and the annual statements of any corporation, having served on boards of directors, on audit committees of those companies in several instances here over the last few years, that becomes the governing management information tool that outside independent directors can use for the purpose of judging performance and capability of the company, independent of what the internal management may be offering or providing.

It does not serve the same purpose on the public sector side. It is prepared by the same people. As a consequence it is all being dealt with as a different kind of arrangement, and so it has a different standing in that respect. The second one is it is more again developed—and again I am prepared to be corrected on this one once I get a chance to dig into it a little more—but my recollection of it is this was viewed as a compliance or reporting requirement as opposed to a management tool, for the purpose of giving the senior management, as well as the equivalent of the board of directors in Congress, an understanding on a routine, regular basis of exactly what the financial performance has been of the agency or department involved.

That is exactly the purpose that it serves within any corporation, and it does not have that requirement at all. It is more of a reporting challenge to go deal with and try to figure out how to reconcile. So until that mind set changes and until we can find, in each of those agencies and departments, a means to make it an important management information tool, for exactly the same or at least similar purposes that you would see in any corporation, its utility and its completeness are always going to be questionable in my view. But again, digging into how this has changed in the last few years, I am really looking forward to seeing, by department, what the alterations are, because in many respects the ones that still seem to fail the clean statement requirement from GAO are the same ones that had trouble organizing and getting ready for this kind of stuff 10 years ago.

Senator BENNETT. That is the point.

Mr. O'KEEFE. There is a correlation there.

Senator BENNETT. I agree completely that it is a different circumstance, because I am not planning to invest in HUD, so I do not really care about their audited statements, but on the other hand, if an agency cannot get its act together sufficiently well to tell GAO where we are, I really think that is something you ought to be looking at. I have run a business and I have watched the difference between a comptroller who simply says to the outside auditor, "Well, here are our books, audit them," and the comptroller who says, "The auditors are coming and I had better have everything lined up." You have the second kind of comptroller, you have a much tighter ship and a much firmer grip on management, and quite frankly you have a lower audit bill when you pay the outside auditors.

Mr. O'KEEFE. Indeed.

Senator BENNETT. So I think if you are the head of—you and your director are the head of management throughout the Executive Branch, you ought to pay attention to that and I am delighted with your answers. Thank you.

Mr. O'KEEFE. I appreciate it. Thank you, Senator.

Chairman THOMPSON. Thank you very much. Just to continue with that a little bit, I will be interested in seeing your assessment a little bit later on about how all these various laws we passed in the last few years, Clinger-Cohen, Paperwork Reduction, and all those have worked. Apparently they have not worked very well, and we need to see whether or not we need to change them or whether or not it is strictly a management issue.

The reason you are getting so much from the management side when we are right on the eve of the budget is because we have been seeing, day after day after day in this Committee, the evidence of mismanagement. We get GAO reports as high as an elephant's eye on our deficiencies on one thing or another. It is amazing to me, coming into government like this for the first time, how many warnings and reports and terrible reports and analyses of problems it takes before it gets anybody's attention.

We have seen, on the financial management side, great deficiencies. Not being able to pass an audit is certainly a part of it, but you get into the waste, fraud and abuse, and our Committee came up with $220 billion worth the other day, $30 billion in 1 year alone, sending out payments to dead people and things of that nature. But the real story is we have no clue because these were just voluntary reports that certain agencies made. Most of them are not even required to make reports along those lines in terms of how much has been lost because of waste, fraud and abuse.

Regarding information technology, we are way, way behind and vulnerable in so many ways. GAO has told us that in definitive terms over and over again. There are computer systems that do not talk to each other; billions of dollars spent and they still do not work; an infrastructure like the one in IRS, are in trouble. They are doing the best they can over there. I think they have good management now. We have given them some flexibility in terms of hiring some people over there and I think they are putting it to good use. But they are having to start from scratch; terrible infrastructure problems over there.

Regarding human capital, as we were talking about earlier today, we are needing, as industry is, more and more people in the high-tech areas, specialized areas. Though we downsize, we pay no attention to retaining those type of needs, and therefore we are not meeting them, plus government service altogether is going downhill. There is this report that I referred to awhile ago. I saw a survey recently which stated that over 70 percent of young people that were interviewed said they would never consider government service. So that is the reason you are getting this, and I know you are going to OMB and spend just about all your time on the budget, just like everybody else does. And I know that your life is probably, in most regards, going to be determined by the priorities of the director. That is the setup and that is understandable.

But between the two of you, please keep these things in mind. We cannot continue to go down this path where we are behind the

curve so badly in terms of not only private industry, but what a lot of other countries are doing. We have got people coming in here from New Zealand, trying to tell us how to do better. So I would just urge you to keep that in mind and think of ways where the OMB staff could be more dedicated to the management functions of the job.

I have one more area that I would like to touch on, and that is getting back to the question of ensuring that agencies and OMB factor in performance data and results in their budget submissions. We have the Results Act on the books now. That is another law that was passed, about 6 or 7 years ago, and the jury is still out in terms of whether or not it is going to mean anything. It is not going to mean anything until those people out there in the agencies feel like somebody is watching them or feel like there is going to be some reward or some detriment based upon performances.

If we continue to fund the same programs that are not working at the same levels in the same ways that we are funding programs that are working, then the act is going to be meaningless. For it to mean something, it seems to me like you need to incorporate the results of what these agencies are doing or are not doing into the budget submissions and let them know that is going to happen, and then we in Congress have a responsibility to take that and incorporate that into the appropriations process. Do you acknowledge that?

Mr. O'KEEFE. Yes, sir; absolutely. As a matter of fact, the distinction here, and it is along the same lines as Senator Voinovich raised, too, on the issue of material weaknesses and reporting requirements and so forth, is that the attention and the focus, if it is on the issue of either comply or there will be a penalty, always has mixed results. If you are really brutal about the penalties or if you are really brutal about enforcing the compliance, it is astounding how much more focus and attention can be there. But that means you are also then ignoring a range of other things as you look at that particular set of issues.

If instead you design the requirements, and this is what I find so interesting about the Results Act itself, in terms of how to organize this as a way to, now that it has been in currency for 7 years since its enactment and has gained some standing and understanding, is to try to demonstrate to agencies and departments how it can be revealing management information system and an information tool for the purpose of managing differently and looking at performance as a primary criteria therein.

One of the projects that was conducted at the Maxwell School at Syracuse in the last 4 years is a Government Performance Results Act-oriented kind of effort in looking at State and localities, and their performance on a variety of different fundamental, basic public services. The provisioning of passing or very exceptional grades got great headlines, and for places like my home city of New Orleans, Louisiana, which failed on every count, made front headlines in the newspaper and raised the interest of the business community in forcing the city management and the mayor to consider what the deficiencies were in those public services and identify how those corrections were going to be obtained.

So as a consequence the efforts to organize and to focus the way GPRA has in so many different areas, to include, I am delighted to tell you, on the State and local front, as a result of this particular project that the Maxwell School did, it has a very sallying effect in many respects on public service agencies and departments that are having difficulties, but I think the most effective way is to make it an incorporated management information or management tool for the purpose of improving performance, and that is when you really have achieved success.

Chairman THOMPSON. Let me tell you, if you do not know what you are walking into now—you know the Results Act has been on the books several years now, and we have gone back and forth with the plan. As you know the basis of all of it is setting goals, and we, in our review of agency performance plans, found that some agencies had set no goals, not just bad goals or improper goals, no goals for any of the management problems that we identified; GSA, AID, SBA, NRC, no goals. What do you do about it? That is just somebody does not feel accountable. Somebody does not feel that they are going to be held accountable when they send something like that up to us.

We do not have enough hearing days to get every one of them up here and spend a day chastising them over what they are supposed to do. Maybe you feel the same, but somebody over there needs to ride herd on it.

Mr. O'KEEFE. Yes, sir, Mr. Chairman.

Chairman THOMPSON. Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Mr. Chairman, thank you and let me add my welcome to Mr. O'Keefe and my congratulations to him and his family on this nomination. First, you and I have had a chance to talk about the role of the OMB in reviewing rules, and I want you to comment on that issue for us, and let me ask you this question. Since one of the important offices in the OMB is the Office of Information and Regulatory Affairs, or OIRA, and under every President since President Reagan, the office has had the responsibility to review proposed and final rules of significance, and given the fact that after some very difficult negotiations, we have achieved an agreement for the last three administrations, I believe, on a number of disclosure procedures which have gone a long way to keep the public informed as to the OMB's involvement and who is lobbying OMB, would you recommend that those disclosure rules be kept in place?

Mr. O'KEEFE. Well, I thank you for your comment, Senator, and since the opportunity to visit with you, I have looked into that a little bit, and again my personal disposition and leaning in these kinds of circumstances is toward full disclosure. There is just no question that that is a far more prudent approach in any context, in any approach involved here, and at this juncture I see no reason to alter the procedures you have described. I again asked for, and you were kind enough to grant to me, the opportunity to dig into it a little further to figure out where we are on this, and I have just had a passing opportunity here to do that lately.

I do not see anything that would change that procedure at this time, and I will certainly be in touch to the extent that we discover or come across anything that would otherwise suggest to the contrary.

Senator LEVIN. If there is a proposal to amend those executive orders that have been in place now for some years, to change that procedure, would you alert this—or would you at least recommend to the OMB Director, that he alert this Committee prior to any change in the executive order, so that the Committee could take whatever action it saw fit, relative to weighing in on that subject?

Mr. O'KEEFE. I see absolutely no reason whatsoever why we should not, on all matters, this one in particular, consult with the Committee and determine where those interests lie. To do something that will fundamentally put us at odds with the Committee over a procedural set of questions, I do not think is in anybody's best interest.

Senator LEVIN. As you know, I support the OMB review of rules. I think it is important for accountability that we have basically the elected officials of this country, be it in the White House or here in Congress, be accountable for regulations. I came to this town believing passionately in that requirement and I have hung on to that for dear life ever since. So I just welcome your comments on that and your assurances on that.

Mr. O'KEEFE. Thank you, sir.

Senator LEVIN. A number of Committees are involved in the issue of contracting, and one of those issues is the contracting-out process. Do you believe that Federal employees should be given the opportunity to fairly and fully compete with the private sector when there is the possibility of contracting out government work?

Mr. O'KEEFE. I do indeed.

Senator LEVIN. Just one question on the budget. We have a Budget Act, which requires—that is the Budget Enforcement Act of 1990—which says that the Social Security trust fund shall not be counted relative to budget authority, outlays, receipts, deficit or a surplus, for purpose of the budget of the U.S. Government as submitted by the President. Are you familiar with that requirement?

Mr. O'KEEFE. No, sir, I am not. I have to become more so.

Senator LEVIN. It is very important that you do so, because there are a lot of words out there and rhetoric that we all use about protecting Social Security, and I want to be sure that we do not count the Social Security surplus for any purpose. It is by law dedicated to Social Security, for that fund, and this law is very explicit that it must not be used as part of new budget authority, outlays, receipts or deficit, or a surplus for purposes of the budget of the U.S. Government as submitted by the President.

Would you agree that we should not count that surplus?

Mr. O'KEEFE. The unified budget concept that I have always grown up with in this process makes no distinction with the notable exception of a very small number of funds, and as a consequence, revenues received, general revenue by the Federal Government and disbursed as amended herein, which is the reason I need to very specifically go do my homework on the matter you have just raised in terms of the specific provisions of the law which now are contrary to what my understanding has been, typically has

been controlled by a unified budget process, and so absent any argument to the contrary, the principles that govern a unified budget are the ones that I think are most useful.

Senator LEVIN. Well, I want to make sure you look at this section. This is a pretty important piece of law, Section 13.301 of the Budget Enforcement Act of 1990, and I am going to read it to you. It says: "Off-budget Status of OASDI Trust Fund, Off-budget Status, A, Exclusion of Social Security from all budgets," that is the heading. "Notwithstanding any other provision of law, the receipts and disbursements of the Federal Old Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall not be counted as new budget authority, outlays, receipts or deficit or surplus, for the purposes of, one, the budget of the U.S. Government as submitted by the President; two, the congressional budget; or three, the Balanced Budget or Emergency Deficit Control Act of 1985."

If you would submit for the record your answer to my question about whether or not Social Security surplus should be counted in calculations, and if so, how, or if so, why, given this law, I would find that answer for the record very essential and useful and hopefully helpful.

Mr. O'KEEFE. Yes, sir. I would be pleased to do that.

[The information follows:]

INFORMATION RECEIVED FROM MR. O'KEEFE

Question from Senator Levin: "If you would submit for the record your answer to my question about whether or not Social Security surplus should be counted in calculations, and if so, how, or if so, why, given this law, I would find that answer for the record very essential and useful and hopefully helpful."

> The President's budget blueprint presents the Social Security trust funds in the same basic manner as in prior years—that is, the trust funds are off-budget and are not included in the on-budget totals, consistent with the budget process laws cited.
>
> The administration does not believe Social Security's status as off-budget should be changed at all. In fact, the budget ensures that all $2.6 trillion of the surpluses in these trust funds are reserved just for Social Security and debt retirement and cannot be used to offset other spending or tax relief.

Senator LEVIN. Mr. Chairman, I want to thank you. I am done with my questions.

Chairman THOMPSON. Thank you very much. Mr. O'Keefe, thank you very much for coming today and your forthright responses. You have already a long history of public service. I know you will continue in that same fine way. I look forward to bringing this nomination to the Committee's attention in the near future. Thank you very much.

Mr. O'KEEFE. Thank you, Mr. Chairman. I appreciate your courtesy.

Chairman THOMPSON. We are adjourned.

[Whereupon, at 12:03 p.m., the Committee was adjourned.]

APPENDIX

STATEMENT OF SEAN O'KEEFE, NOMINATED TO BE DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET – FEBRUARY 27, 2001 BEFORE THE UNITED STATES SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

Good morning, Mr. Chairman and Members of the Committee. It is an honor and a pleasure to be here. This is a very special occasion for me and my family made all the more memorable by your opening statements and the most thoughtful introductions just offered by two distinguished members. We are the fortunate constituents of Congressman Jim Walsh, a gentleman of the House who serves his district with great distinction and integrity. But, I also count myself among his legion of admirers and friends who are the beneficiaries of his distinguished public service. And to Senator Ted Stevens, I am forever in his debt for the extraordinary friendship he has shown me and my wife, Laura for more than twenty years. He has been my mentor, career counselor, and advocate throughout my professional life – and he has set me straight on more than one occasion – and always with my best interest in mind. I am honored and most grateful to him for his presence and support here today.

Mr. Chairman, I also want to express my gratitude to the Committee for the expeditious consideration of my nomination, having received the formal paperwork just before the scheduled Senate recess and now turning your attention to the matter immediately upon return. This is an extraordinary courtesy and I am most appreciative. During the break, the Committee staff and personal staff expended a lot of effort to prepare for this hearing. They very helpfully met with me just after the recess began to familiarize me with the policies and issues which are of importance to the Committee. Having served on the Senate staff in my public service past, I know what a sacrifice it is to expend precious time during the rare periods when the Senate is out of session. As such, I am particularly grateful to them for their very helpful and dedicated effort.

It is, indeed, a privilege and an honor to be the President's nominee for this challenging post. Few are afforded the opportunity to participate and contribute in such appointed capacities, much less for a third time. I am filled with great anticipation and a very substantial dose of humility for what I know will be an important road ahead. Public service is never to be taken lightly, and particularly so given the challenging portfolio at the Office of Management and Budget.

Having spent the last several years teaching graduate students who are aspiring public servants at the Syracuse University Maxwell School, the nation's top ranked school of public affairs, this is a responsibility to step up and do what I have been preaching. Explaining the stakes involved to my children has been a different challenge. I am so pleased that they are all here this morning. Our oldest, 14 year old daughter Lindsey who possesses the intellectual maturity of twice her age, appreciates the significance and understands that I am afforded an exceptional privilege. But for our two sons, 11 year old Jonathan and Kevin who turns 10 tomorrow, explaining this has required a little imagination. As active youth program athletes in our community, they took aboard the significance when I likened this to the chance to go to "fantasy baseball" camp with the New York Yankees. And indeed, the President has assembled the public service equivalent thereof by his leadership selections. I am excited with the prospect of working for such a distinguished group, most particularly for a gent with the professionalism

and intellectual capacity of Mitch Daniels. It promises to be a great challenge and even greater opportunity for me to learn from him as we forge our partnership in advancement of the President's agenda.

Explaining the significance of this opportunity to Laura, my partner and best friend, was perhaps easiest of all because she is so thoroughly supportive of the President and the policies he plans to champion, she understands the historic significance of this time, and shares my commitment to the importance of public service. But she also fully appreciates the hardships and sacrifice this profession entails. Her willingness to be a part of this public service odyssey, yet again, speaks volumes for her love and extraordinary tolerance – far greater than I deserve in both instances.

This is an important time and important work lies ahead. My fitness for this office is, of course, for this Committee to judge and for the United States Senate to decide. But if I am fortunate to be confirmed, I will do my best.

Thank you, Mr. Chairman and members of the Committee, for the opportunity to be here. I look forward to what I hope will be the first of many opportunities to dialogue with you.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. **Name:** (Include any former names used.)
2. **Position to which nominated:**
3. **Date of nomination:**
4. **Address:** (List current place of residence and office addresses.)
5. **Date and place of birth:**
6. **Marital status:** (Include maiden name of wife or husband's name.)
7. **Names and ages of children:**
8. **Education:** List secondary and higher education institutions, dates attended, degree received and date degree granted.
9. **Employment record:** List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)
10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.
11. **Business relationships:** List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.
12. **Memberships:** List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.
13. **Political affiliations and activities:**
    (a) List all offices with a political party which you have held or any public office for which you have been a candidate.
    (b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
    (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of $50 or more for the past 5 years.
14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.
15. **Published writings:** List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written.
16. **Speeches:** Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated.
17. **Selection:**
    (a) Do you know why you were chosen for this nomination by the President?
    (b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?
2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.
3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?
4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense?

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

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Biographical and Financial Information Requested of Nominees

A. Biographical Information

1. Name:
   Sean Charles O'Keefe
2. Position to which Nominated:
   Deputy Director of the Office of Management and Budget
3. Date of Nomination:
   February 2001
4. Address:
   Residence: ----------
   Office: 215 Eggers Hall, The Maxwell School of Citizenship and Public Affairs, Syracuse University, Syracuse, New York 13244
5. Date and Place of Birth:
   January 27, 1956; Monterey, California
6. Marital Status:
   Married to Laura O'Keefe (formerly Laura McCarthy)
7. Children:

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8. Education:
   Master of Public Administration, The Maxwell School of Citizenship and Public Affairs at Syracuse University, 1978
   Bachelor of Arts, Loyola University, New Orleans, LA, 1977
   Program in National Security and International Affairs, Kennedy School of Government, Harvard University, 1985

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9. Employment Record:

Louis A. Bantle Professor of Business & Government Policy, and Director, Maxwell-SAIS National Security Studies, Maxwell School of Citizenship & Public Affairs; Syracuse University, Syracuse, New York, 1996-present

Professor of Business Administration and Special Assistant to the Senior Vice President for Research and Dean of the Graduate School, Pennsylvania State University, University Park, Pennsylvania, 1993-96

Adjunct Professor, Naval Postgraduate School, Monterey, CA, 1993-present

Secretary of the Navy, 1992-93

Comptroller and Chief Financial Officer, Department of Defense, 1989-92

Staff Director, United States Senate Committee on Appropriations, Defense Subcommittee, 1986-89
Professional Staff Member, 1981-89

Budget Analyst, Naval Sea Systems Command, Department of the Navy, 1980-81

Presidential Management Intern, inaugural class of 1978-80

10. Government Experience:
Advisor to the Director, Congressional Budget Office, 1999-present
Chair of the Secretary of the Navy's Personnel Task Force, 1999-2000
Counselor to the Secretary Defense Quality of Life Commission, 1995
Vice Chair of Pennsylvania Governor Tom Ridge's Base Closure and Realignment Advisory Committee, 1995-96

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Staff Member to the Louisiana State Senate Committee on Highways, Transportation and Public Works, 1977.

11. Business Relationships:

Member of the Board of Trustees, The CNA Corporation, 1995-present
Member of the Board of Directors, Tesoro Petroleum Corporation, 2000-present
Applied Research Laboratory, Pennsylvania State University, 1994-present
Chairman, 1999-present
Member of the Raytheon Company Strategy Advisory Board, 1999-present
Member of the Northrop Grumman Corporation Advisory Board
for the Integrated Systems and Aerostructures Sector, 2000, present
Member of the Sensis Corporation Board of Directors, 2000-present
Member of the Board of Directors, J. Ray McDermott, S.A. 1997-99
1993 – 1995, Member of the Naval Postgraduate School Advisory Board
1995, Honorary Chairman, Marine Corps League Toys for Tots Campaign, Nittany Leathernecks Detachment

12. Memberships:

Member of the Information Technology Commission, Center for
Strategic & International Studies, 2000-present
Member of the Defense Acquisition University Board of Visitors, 1996-2000
Chair, Military Investigative Practices Study, National Academy of
Public Administration, 1999-2000
National Academy of Public Administration Fellow, 1996-present
Member of the Bohemian Club of San Francisco, 1996, present

13. Political Affiliations and Activities:

a. Registered Republican, RNC
b. Member of the Central Pennsylvania Republican Party 1993-96;
Member of the Eastern New York Republican Party, Onondaga County 1996-present; National Policy Forum, 1994-95

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c. Itemize Contributions:

Senator Chafee Committee (PAC) 1994	$100
George W. Bush for Governor Committee 1994	$500
Republican National Committee, 1994	$250
Alliance for American Leadership (Dick Cheney PAC) 1994	$2,000
Santorum '94 (Senator Santorum campaign)	$250
Ted Stevens for Senate (campaign) 1996	$2,000*
Joe McDade Legal Defense Fund 1995	$250
Peggy Wilson for City Council (campaign) 1997	$500
Bob Livingston for Congress (campaign) 1994	$1,000
George W. Bush Exploratory Committee, 1999	$2,000*
George W. Bush for President, 2000	$2,000*

(*contributions by myself and my wife, Laura O'Keefe)

14. Honors and Awards

Distinguished Public Service Award presented by President George Bush and Defense Secretary Dick Cheney, January 1993

Fellow of the National Academy of Public Administration, elected 1996

Visiting Scholar, Wolfson College, University of Cambridge, UK, 1994

Visiting Lecture, Strategic Studies Program, Pembroke College, Oxford University, UK, July 1994

15. Published writings:

Keeping the Edge: Managing Defense for the Future, contributing author, edited by Ashton B. Carter and John P. White. MIT Press, October 2000.

The Defense Industry in the Post-Cold War Era: Corporate Strategies and Public Policy Perspectives with Dr. Gerald Susman, Elsevier Science. Oxford, UK, January 1999.

"Breaking the Market or Preventing Market Breakdown: The Technology Reinvestment Program" with Dr. Volker Franke. Maxwell – SAIS National Security Studies Case number 1197-05, November 1997.

"An analysis of the Technology Reinvestment Program as a Method of Defense Conversion and Industrial Policy and its affect on Shareholder Wealth," Smeal College of Business Administration, Pennsylvania State University, April 1996.

"The Orange County Financial Crisis: The Maxwell School of Citizenship and Public Affairs, Syracuse University, case file, October 1997.

"A World Lit by Lightning," *Proceedings*, Naval Institute Press, Annapolis, Maryland, January 1995.

"Planning without a Plan: A Review of the Fiscal Year 1994 Clinton Defense Budget," *American Defense Annual*, Mershon Center Ohio State University, Lexington, Books, New York, New York, February 1994.

"Clinton's Stealth Weapon: The Federal Budget," *The Los Angeles Times*, Los Angeles, California, February 21, 1994.

"The Alpha and the Omega," *Vital Speeches of the Day*, Volume LIX, No. 11, Random House Publishing, New York, New York, March 15, 1993.

"On Tailhook, Drop the Other Shoe," *The Los Angeles Times*, Los Angeles, California, March 1, 1993.

"Despite Tailhook, Navy on Path to Gender-Neutrality," *The Times Picayune*, New Orleans, Louisiana. April 27, 1993.

"The Port of Heaven," *Vital Speeches of the Day*, Volume LIX, No. 2, Random House Publishing, New York, NY, November 1, 1992.

"From the Sea: Preparing the Naval Service for the 21st Century," *Proceedings*, Naval Institute Press, Annapolis, Maryland, November 1992.

16. Speeches: None published beyond previous list.

17. Selection:

a. Do you know why you were chosen for this nomination by the President?

Yes. Based on my previous federal experience and understanding of the President's and Vice President's policy agenda, I am honored by the President's confidence to be entrusted with this important resource management portfolio should the Senate advise and consent affirmatively in the President's nomination.

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b. What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

The combination of eight years experience on the staff of the US Senate Committee on Appropriations and the privilege of serving as the first Chief Financial Officer to be named under the terms of the CFO Act of 1990 during my more than three year tenure as Comptroller of the Department of Defense provides a legislative and executive branch perspective on the federal resource management process. Since leaving the federal service, my university faculty and private sector activities have broadened that perspective.

B. Future Employment Relationships

1. Yes, for all business relationships. However, I have been granted a leave of absence from the Maxwell School at Syracuse University as the Louis A. Bantle Professor of Business and Government Policy which I hope to resume at the conclusion of my public service, should the Senate confirm the President's nomination.

2. No.

3. Yes. I have been granted a leave of absence from the Syracuse University Maxwell School to resume a faculty appointment as the Louis A. Bantle Professor Of Business and Government Policy upon conclusion of public service.

4. No, aside from the aforementioned leave of absence from Syracuse University.

5. Presidential appointment orders specifically qualify service at the pleasure of the President "for the time being." As such, that will determine the duration of my service should I be confirmed.

C. Potential Conflicts of Interest

1. Aside from a limited number of stock options for McDermott International and Sensis Corporation stock associated with my service on the Board of Directors which may be exercised, there are no financial arrangements which would continue during my government service. All Tesoro stock options will not mature in sufficient time to be exercised if Senate confirmation is achieved expeditiously.

2. All investments are in deferred annuity mutual funds an should not pose a conflict of interest. There are no obligations, liabilities, or other relationships which could involve potential conflicts of interest to the best of my knowledge.

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3. None that I am aware of.

4. In my official public service capacity as Comptroller and Chief Financial Officer of the Department of Defense and as Secretary of the Navy, I was routinely I involved in the disposition of legislation affecting the administration and execution of public policy.

   Since departing the public service in 1993, I have had no material involvement in the disposition of legislation. In the part-time public service capacity as Counselor to the Secretary of Defense Commission on Quality of Life and as Vice Chair of the Base Closure and Realignment – Pennsylvania Action Committee (previously listed) my involvement in such matters has been peripheral and indirect.

   In my capacity as the Chairman of the National Academy of Public Administration study of Military Investigative Practices, the panel recommended, among other things, a change of law to permit arrest authority to officers of the military criminal investigative organizations. I had several discussions with members of the House Armed Services Committee who requested further information on the panel's findings in this regard. The fiscal year 2001 defense authorization act included the expanded arrest authority provision. To the best of my knowledge, this is not likely to pose a conflict of interest.

5. I do not anticipate the requirement to resolve conflicts of interest, but to the extent that any matter were to emerge which may call into question my objectivity, I would recuse myself from consideration and decision of any alternatives or options which could affect the outcome of the issue and delegate the mater to the next level of management responsibility. This was routinely my practice in each public service capacity I was privileged to hold. The Department of Defense General Counsel has retained all previous correspondence to this effect in my prior capacities.

6. Yes.

D. Legal Matters

1. I have never been disciplined or cited and have not been the subject of a complaint to the best of my knowledge.

2. Yes. In July 1977, I was arrested in New Orleans, Louisiana outside a

neighborhood tavern, along with a dozen others, for violating a local ordinance against "obstructing a sidewalk." I was released within hours, the charge was dropped a few days later, the case never raised before the municipal judicial authorities, and no fine levied or rendered. This incident has been detailed in every security clearance, personal background investigation, and appointment background review I have ever completed over the past 23 years!

3. As an outside, non-management Director of J.Ray McDermott, S.A., I was named in a class action suit of investors/shareholders of the company attendant to a proposal to merge J. Ray McDermott, S.A. with another company and subsequently delisted from the NY Stock Exchange. The merger was completed in August 1999 and the civil action was dropped with no further action or settlement required.

4. No
5. None.

E. Financial Data

Financial Data maintained on file with the
Committee of Governmental Affairs

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AFFIDAVIT

Sean Charles O'Keefe being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided herein is, to the best of his/her knowledge, current, accurate, and complete.

Sean O'Keefe

Subscribed and sworn before me this 6th day of February 2001.

Bessie M. Jones Nesmith

Notary Public
Washington, District of Columbia

Commission Expires: August 14, 2004.

PRE-HEARING QUESTIONNAIRE FOR SEAN O'KEEFE NOMINEE FOR DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President nominated you to serve as Deputy Director of the Office of Management and Budget (OMB)?

   I believe he nominated me because of my background and experience in management and budgeting at senior positions in the Executive and Legislative Branches, my related background in academics, and my participation in numerous Boards and Commissions dealing with aspects of budgeting and management in the public and private sector at senior levels. More specific information is provided under question 3 below.

2. Were any conditions, expressed or implied, attached to your nomination? If so, please explain.

   No.

3. What specific background and experience affirmatively qualifies you to be Deputy Director of OMB? (Please describe your background and experience in relation to OMB's many and various roles, which, as you know, extend from budget development and execution to a host of management responsibilities.)

   I believe that I bring experience from careers in the government and private sector. I have served as Comptroller and Chief Financial Officer of the Department of Defense, as a staff member of the Senate Appropriations Committee and Staff Director of the Defense Appropriations subcommittee, and most recently as Louis A. Bantle Professor of Business and Government Policy, an endowed chair, at the Syracuse University Maxwell School of Citizenship and Public Affairs. My primary management experience stems from prior service as Secretary of the Navy and as Defense Comptroller and Chief Financial Officer. More recently, I have Chaired the Secretary of the Navy's Task Force on Personnel, and the Board of Advisors of the Pennsylvania State University Applied Research Laboratory; been a member of the Board of Trustees of the CNA Corporation, and the Information Technology Commission at the Center for Strategic and International Studies; and participated in a number of other important public and private sector Boards and Commissions.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as Deputy Director of OMB? If so, what are they and to whom have the commitments been made?

Other than a general pledge to faithfully implement the President's agenda, I have made no other commitments.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification.

On February 9, 2001, I sent a recusal letter to Darrell Johnson, the OMB Designated Agency Ethics Official. A copy of this letter is included in this submission. (Attachment A)

II. Role and Responsibilities of the Deputy Director of OMB

1. How do you view the role of the Deputy Director of OMB?

My role is to work closely with the OMB Director to ensure that OMB's mission is fulfilled. OMB's strategic plan has a mission statement that defines OMB's role:

MISSION STATEMENT

The Office of Management and Budget serves the President by preparing the annual United States Budget and carrying out other statutory requirements, developing integrated fiscal, budget, program and management policies, leading government-wide coordination in policy making, and ensuring, through management oversight, government-wide effectiveness and consistency in policy implementation, in accordance with Presidential priorities.

As with the OMB Director, my role begins with ensuring that OMB serves the President. I see this as requiring that OMB provide support for the President in policy making from budget to regulatory policy development. In that capacity, I serve as a key advisor to the Director and the President and members of the cabinet. I also will work closely with heads of other agencies and Congress to achieve results. My role requires that OMB establish policies for and coordinate improvements in Federal management, and satisfactorily fulfill any number of statutory requirements, the most prominent of which is to prepare the Budget of the United States Government each year.

2. What challenges currently face OMB? How will you, as Deputy Director, address these challenges and what will your top priorities be?

As Director Daniels indicated in his testimony, we view the greatest challenge for OMB as the development and management of the Federal budget during a period of record budget surpluses. There was ample pressure for higher spending during periods of Federal deficits. That pressure clearly has been compounded with the arrival of budget surpluses. In this surplus environment, I think it is imperative to ensure taxpayers' dollars are spent efficiently and programs are increased due to some high priority and not simply due to the availability of funds.

Director Daniels and I also believe OMB and other Federal agencies face a number of challenges to implement better program planning, performance, management, and accounting for Federal spending.

I think OMB's management responsibilities are critically important. Once a new Deputy Director for Management (DDM) has been appointed and confirmed, Director Daniels and I will be working closely with that person to address OMB's statutory management responsibilities, and to more broadly set an agenda for identifying areas that need improvement, and improving them.

Finally, we believe it is important to ensure OMB provides high-quality and timely work products. As part of that process, we need to ensure we retain and hire high-quality people at OMB and we need to ensure they have the necessary resources to meet their responsibilities.

3. How do you plan to communicate and work with Congress to improve management in the Federal government and carry out OMB's other responsibilities?

If confirmed as OMB Deputy Director, I look forward to developing a productive, bipartisan working relationship with Congress, in keeping with President Bush's intention for his entire Administration.

We will be communicating our management priorities and goals to the Congress through a variety of hearings, statements and informal contacts to seek the views of Senators and Representatives. In particular, we look forward to a continuing dialogue with the Chairman, Ranking Member, and other members of this Committee on issues associated with improving management.

III. Organization, Planning, and Management of OMB

1. Do you have any plans to reorganize OMB or to reorder its priorities or to assess whether reorganization or reordering of priorities is needed?

If confirmed, I plan to review, with Director Daniels, the effectiveness of OMB's organizational structure periodically to ensure that OMB is as effective as possible.

2. What is your opinion of OMB's own strategic and performance plan and planning processes? What improvements do you think are needed?

OMB is a staff agency whose primary reason for existence is service to the President. Its unique role in the Executive Office means that strategic and performance planning more closely resembles planning that policy offices in cabinet agencies and in large corporations undertake, as opposed to line operating functions. Notwithstanding OMB's special status, Director Daniels and I believe that strategic and performance planning are important, and we

plan to work closely with OMB policy officials and senior career staff to communicate goals and objectives, and ensure that those goals are achieved. We would like to have a chance to review OMB's strategic and performance planning processes in more detail before addressing this issue with the members of the Committee. I look forward to a continuing dialogue with the members of this Committee on OMB strategic and performance planning.

3. How would you view your own role in achieving the goals set forth in OMB's strategic plan? How do you plan to hold yourself and OMB's other senior executives accountable for implementing the goals and objectives set forth in OMB's strategic and performance plans?

If confirmed as OMB Deputy Director, I would be accountable to the OMB Director, the President, the Congress and the American public for achieving OMB's strategic goals and objectives. Director Daniels and I plan on using OMB's Senior Executive Service (SES) performance appraisal assessment in making decisions on SES performance, including promotions and award determinations.

4. What will you do as OMB Deputy Director to assure effective leadership and management within OMB itself? Please address such areas as results-oriented management, financial management, information and technology, and human resources. What specific background and experience will you bring to this task?

If I am confirmed as OMB Deputy Director, I am committed to providing strong and ongoing leadership to effectively manage OMB. With Director Daniels, I will recruit experienced managers in filling key policy positions at OMB, such as the DDM. Performance-based management, a priority government-wide, will be a priority in leading and managing internally at OMB. My experience and background is described under I.3. above.

IV. Budget and Economic Policy

1. When do you plan to release the President's budget for FY 2002? How do you anticipate that the President's budget will differ from President Clinton's budget proposal?

Our current plan is to release a summary budget outlining the President's major policy proposals and giving aggregate budget totals in late February. We plan to provide budget detail in early April. The budget will fully describe the President's budget proposals and will be consistent with the principles on which he campaigned.

The "FY 2002 Economic Outlook" document that President Clinton published on January 16, 2001 presented current services baseline projections; it did not make proposals for the FY 2002 budget. The FY 2002 Budget that President Bush will submit will fully describe his budget proposals.

2. OMB has released a preliminary set of baseline projections for 2002-2011, with projected unified budget surpluses of approximately $5 trillion. CBO has also recently revised its budget outlook, and projected a $5.61 trillion over the same period. Such projections are

based on baselines that assume a specific rate of economic growth, level of interest rates, and domestic discretionary spending. As you prepare your budget, do you intend to modify one or more of these baseline estimates to reflect the economic slowdown that the President has projected? Are there any other significant adjustments you intend to make to these estimates?

We have reviewed the economic assumptions behind the January baseline, and made some changes to them. Those assumptions were completed last November. Since then, evidence has accumulated that the economy has slowed more than was expected at that time, and most private economic forecasters have been marking down their near-term growth projections. We have asked Government agencies to update their estimates to reflect these new assumptions and to incorporate any significant technical revisions that may be necessary at this point.

3. OMB's recent budget projections are based on the assumption that much of the improvement in the economy in recent years (particularly, the increase in the rate of growth of productivity) is permanent, rather than transitory. Because the economic outlook and the budget projections in recent years have gotten consistently better with each new report, there is a tendency to assume that things always will turn out better than OMB and the Congressional Budget Office (CBO) assume. But in fact, just a decade ago we had a period of several years in which each new report provided worse news than had been projected. How confident are you that the actual performance of the economy and the size of the surpluses that would occur with no changes in policy will not turn out to be less favorable than is currently being assumed?

We will be releasing our updated economic assumptions at the end of the month. Both OMB and CBO assume that a portion of the recent productivity growth advance will continue. This concurs with the views of the Blue Chip economists and Federal Reserve Chairman Greenspan. Thus, while the economic outlook may be souring near-term, there appears to be broad consensus that the economy's long-term prospects remain solid.

4. The current cap on discretionary budget authority for fiscal year 2002 is nearly $90 billion below the 2001 level of spending. Do you anticipate that your budget submission will contain a new recommendation for a 2002 cap on discretionary spending? Do you intend to propose caps for any subsequent years, and if so, for how many years, and at what levels? Do you believe that it makes sense to subdivide the caps into categories, such as defense and transportation?

It's my understanding that enacted 2001 discretionary budget authority will exceed the original FY 2002 cap by $85 billion, which means the appropriations process starts above the FY 2002 cap by about the same amount. While it is premature to talk about the specifics of the President's budget proposals, the President's Budget will address this issue. We are committed to working with Congress to find an acceptable solution to this problem.

5. In recent years, our budget process has been driven by the goal of a balanced budget. However, we have reached that goal, and further, we have achieved a budget surplus. What are your views on the wisest use of this budget surplus? What policies will you promote to achieve them?

It is important to maintain the budget discipline that led to the current budget surpluses. While it is premature to discuss the President's Budget, I believe there will be sizeable debt reduction in his budget proposal. I think the primary goal of fiscal policy should be to ensure long-term economic growth. Debt reduction can and should be a major part of that policy.

6. The retirement of the baby-boom generation marks the beginning of a major demographic shift towards fewer workers per retiree. The so-called "graying of America" will have a significant impact on the costs associated with entitlement programs such as Social Security. What guidance will you provide the President in addressing long-term solvently for the Social Security program? What impact would the costs associated with any partial-privatization of Social Security have on the Federal budget over the next 20 to 30 years?

During the campaign, then-Governor Bush laid out 6 principles for Social Security reform:

- Modernization must not change Social Security benefits for retirees or near-retirees.
- The current Social Security surplus should be dedicated to Social Security (and not spent on other programs).
- Social Security payroll taxes must not be increased.
- Government must not invest Social Security funds in the stock market.
- Modernization must preserve Social Security's disability and survivors components.
- Modernization must include individually controlled, voluntary personal retirement accounts, which augment the Social Security safety net.

Until a complete plan is developed, it would be premature to discuss the budgetary impacts of a reform plan. OMB will work with other agencies in the Administration to address Social Security's long-term issues. In addition, OMB will provide the President with thorough budget and policy analysis of the issues regarding Social Security's long-term viability.

7. The Center on Budget and Policy Priorities, the Concord Coalition, and other groups have noted that the current services baseline assumes a level for future discretionary spending that is far below what would be projected based on current spending trends. Do you believe that the current services baseline surplus estimates are overstated? If so, should they be corrected?

Discretionary spending has grown markedly since 1998, in part as unmet needs from the prior period of deficit-reduction were filled. However, few would argue that such growth rates should continue indefinitely. The President is committed to working with Congress to temper the rate of growth in discretionary spending while still ensuring that priority spending

needs are met. As such, the current services baseline appears a reasonable tool to use for budgeting purposes.

8. Many economists do not believe that fiscal policy is an effective way to deal with a short-term economic slowdown, and that the Federal Reserve Bank is in the best position to cushion any downturn through reductions in interest rates. What is your view on this issue, and would you please cite supporting evidence for the effectiveness of short-term fiscal stimulus?

   The Federal Reserve has an advantage in being able to move quickly with interest rate reductions to head off signs of economic weakness. However, as Chairman Greenspan noted in recent testimony, implementation of tax cuts now could have a beneficial effect should the economy deteriorate more in coming months than is currently projected. As such, near-term tax relief should be a complement to recent Fed easing and should also help to strengthen the economy's long-term outlook.

9. The Congressional Budget Office estimated last year that relatively modest differences between the actual outcomes and the assumptions it makes about the performance of the economy and the path of health care entitlement spending can produce swings in the surplus that total close to $3 trillion over 10 years (the swings could go either direction -- either increasing or reducing surpluses). Thus, if the economy doesn't perform as well as we hope, or the rate of growth in Medicare spending accelerates more than is anticipated, we run a real chance of returning to large deficits. Some believe that such uncertainty suggests that we should avoid committing most or all of the surplus projected for the next 10 years to pay for permanent changes in policy enacted this year, much less to just one type of policy change -- tax cuts. And, if the economy does perform as hoped and Medicare and other entitlement spending remains under control, some would suggest using the larger surplus to pay down more debt and coming back in future years to enact some further policy changes. What is your view on this?

   The Federal Government can afford to undertake some initiatives and provide significant tax relief with the current budget outlook. Of course there is the possibility of forecasting limitations over a long-time period. The best way to avoid unwelcome surprises is by preserving a healthy economy. That requires appropriate tax policy along with fiscal discipline. We must also tackle the long-term problems posed by Medicare and Social Security, and the President has made clear that these are two of his priorities.

V. Budget Process

1. Do you advocate any changes in current budgetary laws, rules, or procedure to improve budget discipline? What provisions, if any, of the Congressional Budget and Impoundment Control Act of 1974, the Balanced Budget and Emergency Deficit Control Act of 1985, and the Budget Enforcement Act of 1990 would you advocate amending, how, and for what purpose?

The Budget Enforcement Act's requirements expire at the end of fiscal year 2002. The Act's discretionary caps and pay-as-you-go requirements have provided needed discipline to the process. However, these budget enforcement mechanisms were enacted under substantially different circumstances, so we need to work with the Congress to determine what changes should be made. These changes would be reflected in the Balanced Budget Act and may require commensurate changes in the Congressional Budget Act.

President Bush has specifically supported measures to enhance budget discipline which should be explored: a joint budget resolution, an automatic continuing resolution to prevent Government shutdown, and a constitutional alternative to the line-item veto law that the Supreme Court struck down.

2. During the 106th Congress, the Committee heard testimony and reported legislation affecting the federal budget process, including legislation providing for an automatic continuing resolution and reforming the treatment of emergency spending. Do you have a position on the following budget process reform proposals that are frequently discussed as solutions to specific budget problems:

   a. Automatic continuing resolutions?

      Under the President's proposal, if an appropriations bill has not been signed by the beginning of the fiscal year, a permanent law would provide funding for the programs covered by the bill at a level that is the lower of either the amount proposed in the President's budget or the amount enacted by Congress for the previous fiscal year. The threat of a government shutdown has become a prominent feature of the annual appropriations process. I believe a measure of this kind is needed to ensure that the continued operations of government programs are not threatened by procedural disputes. Moreover, I believe the President's proposal would remove the incentive for the President or the Congressional leadership to use the leverage of shutting down the government to achieve spending objectives or to attach extraneous measures they could not otherwise obtain through the normal appropriations process.

   b. Restricting the designation of "emergency" for spending which evades the budget caps?

      The term "emergency" should be limited to circumstances that are urgent and unforeseen, for example, an outbreak of war or an extremely destructive hurricane, not as an escape mechanism to provide funding for routine, ongoing programs. In my view, characterizing predictable or routine spending as an emergency can only increase the public's (and Congress') cynicism about the budget process.

   c. Reforms to our pay-as-you-go requirements?

      The pay-as-you-go requirements were reasonably effective in the era of continuing budget deficits. However, with the emergence of substantial budget surpluses, the

pay-as-you-go and discretionary caps budget enforcement mechanisms have been routinely ignored by both the Legislative and Executive Branches. Fiscal discipline is just as necessary in times of surplus. We would like to work with the Congress to determine what changes are needed to assure that reasonable budget discipline is restored. These changes would be reflected in the Balanced Budget Act and may require commensurate changes in the Congressional Budget Act.

3. During the campaign, President Bush supported enactment of biennial budgeting and appropriating. Further, this Committee has twice reported legislation providing for a biennial budget and appropriations process. What efforts will the Administration put forth to muster further support for biennial budgeting and appropriating?

   Biennial budgeting is a sound concept to improve the budget development phase of the process. But it also poses two significant challenges with regard to budget execution. First, the budget is only as good as the forecast, and the closer the forecast to the point of execution, the more reliable the budget estimate will be. As such, a biennial budget would require developing estimates at least a year before the beginning of a fiscal year which would apply throughout execution – up to three years from the point of estimate. Inevitably, the frailties of the estimates would create a repeated need for adjustment – and with each amendment to the budget, the advantages of the biennial budget concept would erode. To mitigate against this circumstance, considerably more flexibility needs to be built into the budget execution authority to make the biennial budget concept work. Which leads to the second challenge. Congress should reasonably expect the budget estimates presented to be reliable and accurate. Repetitive amendment or supplement to the budgets would obviate the utility of the concept for Congress. This skepticism seems to have tempered Congress' enthusiasm for acting on biennial budgets previously presented. I would welcome the opportunity to work with the Committees of jurisdiction to explore alternative concepts and procedures to address these concerns.

4. The enforcement procedures of the Budget Enforcement Act (the pay-as-you-go and discretionary spending caps) have been ineffective since surpluses began to emerge in 1998. The BEA will expire at the end of 2002. Do you think we need some kind of restraints on congressional and presidential behavior in the future? What form should this restraint take?

   Yes, restraints should be re-introduced. The Administration looks forward to working with Congress in the hopes that we can reach a new consensus on the nature of budget enforcement mechanisms.

5. During the campaign President Bush supported legislation that would require a joint Budget Resolution, signed by the President, to promote early agreement on an overall budget framework. What are the arguments for this legislation? In what sense would the resolution be binding on appropriators and other affected congressional committees or on the Congress overall?

As you know, the current budget resolution is an agreement within Congress and not a law. The joint budget resolution would represent an agreement between the President and Congress on the broad components of the budget: the overall level of appropriations, mandatory spending, taxes, the surplus and debt reduction. Issues would be surfaced earlier in the process and an agreement would be achieved at the beginning of the year. As a joint budget resolution, the agreement would have the force of law and, therefore, more difficult to breach.

6. Are there any changes in the Federal budget process that you believe should be pursued that have not been mentioned in these questions?

I've mentioned the measures that we are particularly interested in pursuing: joint budget resolution, automatic continuing resolution, and a modification to make the line-item veto law meet constitutional muster. Undoubtedly there are other good ideas for improving the budget process, and I would be interested in exploring them with the Committee.

7. During the campaign President Bush supported legislation to prevent government shutdowns through automatic continuing resolutions. How would this work, and what are the arguments in favor of this approach? Why is this legislation needed? What effect would this legislation have on congressional budget discipline?

Consistent with my response regarding Question 2.a. of this section, under the President's proposal, if an appropriations bill has not been signed by the beginning of the fiscal year, a permanent law would provide funding for the programs covered by the bill at a level that is the lower of either the amount proposed in the President's budget or the amount enacted by Congress for the previous fiscal year. The threat of a government shutdown has become a prominent feature of the annual appropriations process. I believe a measure of this kind is needed to ensure that the continued operations of government programs are not threatened by political disputes. Moreover, I believe the President's proposal would remove the incentive for the President or the Congressional leadership to use the leverage of shutting down the government to achieve spending objectives or to attach extraneous measures they could not otherwise obtain through the normal appropriations process.

8. Under the Bush campaign proposal, if an appropriation bill is not signed by October 1st of the new fiscal year, affected programs would continue to be funded at the level of the President's budget, or the previous year's level as approved by Congress - whichever is lower. Wouldn't this allow the President to unilaterally impose lasting spending cuts, by submitting low budget proposals and refusing to sign congressional legislation?

First, our objective should be to pass all regular appropriations bills by the beginning of the fiscal year, obviating the need for any continuing resolution. The automatic CR is intended to be a stop-gap measure only. Since it would apply to all programs covered by the bill, including those the President proposes to increase, as well as those he wishes to reduce, it would be very difficult for him to use the automatic CR to exact his budget policy.

9. The Budget Enforcement Act provides that spending caps can be waived in the event of an emergency declared by the President and the Congress. What is your definition of an "emergency" for the purposes of the Budget Enforcement Act?

Consistent with my response regarding Question 2.b. of this section, the term "emergency" should be limited to circumstances that are urgent and unforeseen--for example, an outbreak of war or an extremely destructive hurricane, not as an escape mechanism to provide funding for routine, ongoing programs. In my view, characterizing predictable or routine spending as an emergency can only increase the public's (and Congress') cynicism about the budget process.

10. During the last Congress, legislation was proposed to take the Medicare Trust Fund off budget. Do you agree that the Medicare Trust Fund should be taken off budget?

I think that, in general, it is better to count all government spending in the budget, unless there is an extraordinary reason for doing otherwise. This is especially important if a fund is largely supported by the general fund, not by earmarked receipts from the public. The end goal should be a Medicare program that is fiscally sustainable in the long run.

VI. Government Management

1. A 1994 reorganization of OMB eliminated most of the agency's positions dedicated to management and transferred the management staff to the budget side. The theory was that this would make management more important by integrating it with funding decisions. Some, including members of the outgoing Administration, believe that the merger of the management and budget staffs at OMB has resulted in a dilution of the effectiveness of OMB's management responsibilities.

   a. Will you review this organization change at OMB and consider whether that discussion has had the intended effect?

   I am aware that over time a number of questions have been raised about OMB's effectiveness in pursuing its management responsibilities. This Administration takes very seriously the need to improve management across the Government and to achieve program results. I expect that all parts of OMB - both the Resource Management Offices that deal with the agencies and the Statutory Offices that focus on management - will be increasingly engaged in this effort.

   Director Daniels and I, if confirmed, plan to review the effectiveness of OMB's organizational structure, working with the DDM, to ensure that OMB's management responsibilities are as effective as possible.

2. Do you propose any changes to enhance OMB's ability to lead and coordinate agencies' implementation of statutory management efforts (such as those under the Government Performance and Results Act (GPRA), the Chief Financial Officers (CFO) Act, and the

Clinger-Cohen Act) and improve management practices generally? Describe what in your background and experience will prepare you for leading and coordinating such efforts.

OMB plays an extremely important role in supplying government-wide leadership to the statutory management efforts, and to a number of other efforts. This role involves working with the departments and agencies as well as a broad range of interagency councils, such as the President's Management Council, the Chief Financial Officers Council, and the Chief Information Officers Council. The role also involves working closely with Congress on a variety of management issues. My background on the staff to the Senate Appropriations Committee, as Comptroller and Chief Financial Officer of the Department of Defense, as Secretary of the Navy, and recently as Director of National Security Studies at Syracuse University have given me a familiarity and an appreciation for the importance of good management. I expect to work closely with the next DDM, and look forward to engaging the OMB branches dealing with each agency more deeply in management issues. I also look forward to a continuing dialogue with the Chairman, Ranking Member, and other members of this Committee on ways in which OMB and the Congress can work together for management improvement.

3. Some Members of Congress and others have criticized OMB in recent years for not doing more to sustain and encourage agencies' incorporation of performance management principles into everyday decision-making. What do you see as OMB's role in fostering performance-based management and accountability at the agencies? Do you regard the implementation of performance management by agencies as a high priority objective for the new Administration? What specific goals do you have, and how will you measure the success of your efforts in fostering a more performance-based approach to management and accountability.

I view performance management as a high priority objective. My goal is to require identification and reporting of output and outcome program performance measures for each major Federal program. Success should be measured by actual results for Federal dollars expended. The time has come to better integrate a performance orientation into budgeting and everyday management. Better integration requires wide agreement among the agencies, the Executive, and the Congress that performance management is a priority, and a review of how authorities and resources can best be aligned and managed to achieve results. I understand that OMB has asked agencies to integrate performance planning with budget justification, and we will be assessing their progress and how it could be accelerated.

4. Should the information generated by annual agency performance reports be better integrated with the budget process? For example, should agency strategic and annual planning be better integrated with OMB's budget reviews? And do you believe OMB should play a role in encouraging use of this information in the Congressional budget process? If so, what will OMB do to encourage Congressional authorizing and appropriating committees to use this information? Are there other steps that should be taken, in your view, to help achieve this goal? How do you believe agency performance reports should be used in making appropriations decisions? If funding decisions are more heavily based on agency

performance information, would you be concerned that this linkage may create an incentive for goals to be set too low?

Performance reporting can be better integrated with the budget process, including OMB's budget reviews. An agency performance plan sets forth what the agency would like to accomplish, and the budget estimates what resources would be necessary. Performance measures have long informed budget decision-making; GPRA has provided more and better performance measures. But planning and budgeting should naturally be integrated in support of good management. Agencies are moving toward integration, but have far to go. OMB and the agencies need to consult with Congressional authorizing and appropriating committees on their ideas for integration of the process, the documents, and the "matching" of resources with results in the analyses, and in the budget itself. Increased integration would make performance information more accessible and relevant for budget decision-making and much more supportive of performance-based budget execution and management.

Regarding the last part of your question, whether a target was achieved or missed is not all one needs to know to decide on next year's resources; the importance of the goal, the external factors affecting the program, and the potential for program reforms are all key factors in the decision.

5. While some progress has been made in addressing problems identified on GAO's high-risk list, many of the items on the original list remain there today. How would you, as OMB Deputy Director, work with other officials at OMB and the agencies to speed the process in eliminating these serious problems?

I believe that sustained, high-level attention is needed by the agency heads and Congressional committees. Director Daniels and I are committed to providing strong, government-wide leadership toward achieving real and sustained improvement to high-risk problems that are costing the Government billions of dollars. We need to ensure that high-risk problems are discussed during the budget process, that agency plans include measureables and milestones, that agencies regularly report on their progress, and that budget resources are requested to make needed improvements.

6. The Clinton Administration used Priority Management Objectives to identify and track its government-wide performance goals. Progress on these objectives was overseen and coordinated by OMB. Do you envision continuing, or improving upon, this effort? Would you add specific performance commitments and measures to these Priority Management Objectives? What do you see as the most important objectives requiring your attention?

I anticipate that the Administration will have a system that: (1) formulates a response to critical management issues and problems; and (2) engages the agencies and inter-agency councils on taking the necessary steps to address and resolve these problems.

The time to develop and carry out the Administration's responses to management challenges is at the start of the Administration--at the same time we are refining our legislative, budget

and policy strategies. However, it is too soon for me to specifically identify which issues and problems require a priority focus. Certainly, we will need to look at the Priority Management Objectives that were tracked by OMB last year as a starting point. And I expect that the President's 'blueprint' budget in February and the more fuller transmittal in April will also help us identify those areas where we will want to focus.

I am told that agencies are already required to address mission-critical management problems in their annual performance plans, and that they are increasing their coverage of these problems in their plans. I believe this is a positive step, and a good way to introduce accountability for achieving progress in resolving these problems.

7. In the case of programs and activities at different agencies but with common goals, do you believe the agencies should coordinate with each other to develop complementary performance goals that reinforce each other? Should OMB lead such efforts?

Yes and yes. My understanding is that OMB's instructions for strategic plans and annual performance plans already specify that the agencies should work together to assure that performance goals are consistent and coordinated.

8. GPRA requires agencies to prepare annual performance reports on their accomplishments under their annual performance plans. The Act also requires OMB to prepare annual government-wide performance plans. However, there is no requirement for an annual government-wide performance report to inform the public and Congress on what was accomplished under the government-wide plan. Do you believe GPRA should be amended to require annual government-wide performance reports? If not, why not? In the absence of a government-wide performance report, what mechanism is there to ensure accountability for results under the government-wide performance plan?

The agencies are required to report on and explain the achievement of these goals. Increasingly, the achievements of past years are discussed in the context of setting the goals for the following year, as well as in the agency performance report. Without any change in the GPRA legislation, but within some limit on the size of the budget volumes, additional data on program and cross-cutting achievements is likely to find its way into the President's Budget.

I believe we can also look at the feasibility of a government-wide performance report. A government-wide performance report would need to be based on agency performance reports.

VII. Financial Management

1. What are the major issues and challenges you see currently facing government agencies in financial management generally, and in meeting the requirements of the Chief Financial Officers (CFO) Act in particular? What will you do, as OMB Deputy Director, to help agencies address these issues?

As a former CFO, I am aware that there are many challenges in financial management. As Deputy Director, I would build on my CFO experience to help the CFO community in meeting these challenges by keeping pressure on agency heads to be accountable for progress toward meeting these goals. I think it is important to request and review regular reports on the status of important initiatives, and to leverage OMB's leadership and influence through the various interagency management councils. Improvements in financial management are critical both to improving the actual operations of the Government and to maintaining the public's confidence in the Government itself.

2. Despite rising number of agencies with clean financial statements, many agencies' financial management systems still do not substantially comply with the more important requirements of the Federal Financial Management Improvement Act of 1996, and are therefore unable to provide reliable, useful, and timely information on an ongoing basis for day-to-day management and decision-making. What goals would you set regarding Federal financial management challenges, and how would you, as OMB Deputy Director, set a course to meet those goals? Are there steps you believe Congress should take to help move agencies closer to this goal?

   Our goal must be to ensure that agency heads understand that clean opinions and good financial systems are important for public accountability, making informed program decisions, and maximizing operating efficiencies. As a former CFO, I am aware of the challenges agencies face in obtaining clean opinions and complying with the Federal Financial Management Improvement Act. Although progress has been made, further progress will require sustained resource support, and recognition that reliable, timely financial information is critical to improved Government management.

   I plan to discuss financial management issues throughout the budget process. If confirmed, I intend to ensure that agency plans for improvements are well crafted, and that budget resources are requested to make needed improvements. It is important to let agency heads know that good financial management and information are important to members of Congress. Also, I hope that Congress will promptly authorize and appropriate requested and justified resources for agencies to achieve clean opinions.

3. The Chief Financial Officers Council recently released a statement on the roles and responsibilities of the 21st Century CFO. The statement suggested certain changes in the authorities and responsibilities of Federal CFOs. A key proposal put forward by the Council recommends that OMB take steps to ensure the "preeminent role" of CFOs in all aspects of agency financial management, including budget formulation. Until now, OMB has suggested that CFOs be responsible only for budget execution. Do you agree with the Council's view of an agency CFO's role? If so, what steps do you plan to take to implement these recommendations? If not, on what points do you differ?

   As a former CFO, I am aware that the focus of CFOs is shifting from basic accounting to a more integrated financial management approach. I think the Committee raises important

issues with these questions. However, changing the roles and responsibilities of Federal CFOs is a complex matter that I believe warrants serious consideration and discussion before a final decision can be reached.

4. No one knows how much the Federal government loses each year to erroneous payments and other forms of fraud, waste, and abuse. Such information could be helpful in highlighting major problem areas, establishing benchmarks, and encouraging improvements. Many believe that annual reporting of estimated Medicare overpayments begun several years ago has contributed to the recent substantial reductions in erroneous payments. Do you believe that encouraging reporting of overpayments and other forms of waste is desirable and represents a way of stimulating improvements? If so, what actions will you and OMB take to require disclosure and reporting of overpayment levels?

   I believe disclosure is the first step towards accountability. Estimating and reporting improper payments (underpayments and overpayments) in Federal programs and other forms of fraud, waste, and abuse is an important performance measurement to show progress on addressing this problem and correcting the underlying causes. Of course, preventing improper payments in the first place is the most efficient way of dealing with this problem, and we can only get there by monitoring the effectiveness of current controls.

VIII. Paperwork Reduction and Regulatory Affairs

1. What do you envision as OIRA's role in reviewing proposed regulations? Is the Administration planning to issue a new Executive Order on regulatory review? Will the Vice President be assigned the traditional responsibility over regulatory disputes between the agencies?

   The new Administration pledges to continue a role for OIRA in reviewing relevant proposed regulations. However, I believe that it is premature for me to identify the guiding principles that should govern regulatory review in the Bush Administration and look forward to working with the Committee as we develop these procedures.

2. The regulatory side of OIRA, with a staff of about 20, acts on 3,000-5,000 information collection requests from agencies per year, reviews about 500 proposed and final rules each year, and is responsible for calculating the costs and benefits of all Federal regulations under the recently-passed Regulatory Right-to-Know Act. Does OIRA have sufficient staff to perform its work well?

   Working with the Director, I will review OIRA's staffing needs and welcome the views from this Committee on how to strengthen OIRA's paperwork and regulatory analysis and review functions.

3. In the past, GAO has reported that OIRA did not meet all of its responsibilities under the Paperwork Reduction Act of 1995, and that the Administration did not achieve the paperwork reduction goals of the Act. As Deputy Director of OMB, what will you do to

improve on implementation of the Paperwork Reduction Act? To what extent do you believe the PRA, or OIRA's implementation of it, strike an appropriate balance between the benefits to the public and the burdens on the public that flow from data collection by Federal agencies, and to what extent should the PRA or OIRA's implementation be changed?

The 1995 Act emphasizes that agencies need to strike a balance, collecting the right information to meet their statutory obligations and program responsibilities to the public, while not requiring information that is unnecessary, has little practical utility, or is unreasonably burdensome. OIRA is to review and approve or disapprove agency efforts in this regard. Working with the Director, I will ask OIRA to identify each statutory responsibility under the 1995 Act and the status of OMB's compliance. I will ask OIRA to explain what resources are needed and what is a realistic timetable to achieve compliance.

4. What would you do as Deputy Director of OMB to foster the most productive working relationship between OIRA and state and local governments? What would you do with respect to implementation of the Unfunded Mandates Reform Act?

If confirmed, I think it is important to establish a regular OMB dialogue with the major state and local interest groups, which represent state and local elected officials. Since state and local governments are our partners, I welcome input from these groups not only on regulatory issues but also on budget issues. Among my earliest priorities, I intend to review OMB's annual report to Congress on implementation of the Unfunded Mandates Reform Act of 1995 to assess further steps which may be necessary.

5. Does the new Administration intend to establish a regulatory-relief task force, like the Council on Competitiveness during the first Bush Administration, to monitor agency rulemakings from outside of OMB? Will the Vice President or some other official outside of OMB be assigned responsibility over regulatory disputes among agencies? In either case, what means would you recommend to maintain transparency and accountability, so that the entity or official would not become a "conduit" by which outside parties interested in a rulemaking could affect the regulatory review process at OIRA or the regulatory process at the agency off the record and without disclosure?

As the President's plans to organize the regulatory review function evolve, we will work closely with the Committee to determine the effectiveness and utility of the disclosure requirements and recommend any needed changes.

IX. Procurement Policy

1. What do you view as the major challenges facing Federal government procurement, and what will be your priorities for the Office of Federal Procurement Policy (OFPP)?

Congress has been pivotal in recent years in creating a Federal procurement system that relies on common sense and gives us the potential to reduce costs and improve the quality of the goods and services we acquire to meet mission needs. I will be looking to OFPP to

work with agencies to ensure they are taking strategic advantage of the many acquisition tools that are now available.

2. A regulation finalized at the end of the Clinton Administration would change the way contracting officers make responsibility determinations by requiring them to consider a company's record of compliance with tax, labor, employment, environmental, and other applicable laws before awarding a contract. What are your views and intentions regarding this regulation?

   My limited exposure to this issue leads me to have serious concerns about the possible impact of this regulation. To my knowledge, no decision has yet been made on how to approach this recently-issued regulation.

3. As you know, there have been hundreds of thousands of FTEs identified as performing commercial activities under the Federal Activities Inventory Reform (FAIR) Act. What strategies will you employ to ensure competition of these FTE?

   It is my intention to work with the DDM to take greater advantage of opportunities to allow the private sector to compete for commercial (non-inherently governmental) activities that have been identified on FAIR Act inventories and are eligible for competition (e.g., activities that are not ineligible due to legislation, geographic dispersion and small size, etc.). I will expect agencies to work with us in identifying opportunities for competition.

4. Since 1966, the policy of the Executive Branch with respect to contracting outside the government has been embodied in OMB Circular A-76. A-76 requires agencies to conduct public-private competitions (or cost studies) when a function is being converted from being performed in-house to being performed by the private sector or, on occasion, vice versa. Agencies are required to evaluate their activities to determine whether they are inherently governmental or commercial and, pursuant to the Federal Activities Inventory Reform Act of 1998 (the "FAIR" Act, P.L. 105-270), complete an inventory of all commercial activities. DOD is required by statute (10 U.S.C. 2462) to adhere to this policy.

   a. How will you implement OMB Circular A-76?

      See answer to "d." which provides my answer.

   b. What steps will you take to ensure that whatever service contracting is undertaken results in real, long-term and verifiable savings?

      See answer to "d." which provides my answer.

   c. What is your opinion of the ability of Federal employee unions to have an appeal right that goes beyond that which is provided under A-76?

      See answer to "d." which provides my answer.

d. On December 26, 2000, the Army established a system to track the cost and size of its contractor workforce in compliance with the FY2000 Defense Authorization bill requiring such inventories to be in place no later than March 2001. What are your views of requiring other agencies to produce such inventories?

I appreciate that a variety of changes have been made to the Circular A-76 process since I was at the Department of the Navy, including changes to implement the FAIR Act. If confirmed, I intend to work closely with the DDM to review those changes. I also intend to review the results of the Army program to inventory the contractor workforce that resulted from the FY 2000 Defense Authorization Act. These reviews should better enable me to evaluate how well current A-76 policies and related inventories are working (in terms of savings, burdens, and other factors) and what improvements merit consideration.

5. As you know, President Bush supports the use of performance-based service contracts. How do you propose to deal with the management and oversight challenges of these contracts?

During the campaign, then-Governor Bush did support greater use of performance-based service contracts (PBSCs). I think there is significant potential in this approach and I plan work closely with the DDM to pursue greater use of PBSCs, particularly when they can produce greater output and outcomes at a lower cost.

X. Information Policy and E-Government

1. What steps do you plan to take to focus management attention on important IT issues, such as electronic government and what role will you play in placing qualified Chief Information Officers in the agencies?

Making the transformation to a fully electronic government will be an important priority for OMB and the government, as well as the need for security and privacy in agency information resources as that occurs. OMB has statutory and policy leadership responsibilities in this area, and I expect that the DDM, the OIRA Administrator, and other senior OMB officials will work to ensure that agencies implement the Government Paperwork Elimination Act, which requires electronic options for most agency transactions by October 2003 – including working with the Resource Management Offices to make sound judgments about funding needs through the budget process.

I will look to the DDM to oversee the placement of qualified individuals for CIOs in the agencies. OMB guidance to agencies under Circular A-130 now requires them to notify OMB as to individual they plan to select for CIO, the responsibilities of that individual, and staffing and associated resources that the CIO-designate will have at his or her disposal. The role of evaluating CIOs for possible slots is similar to what the DDM does for the CFO and IGs of agencies. I expect to seek CIOs who have the proper qualifications and experience to advise agency heads on critical technology and electronic government issues, including:

sound capital planning for and management of new technology investments that support agency missions, building privacy and security into e-government, and managing personnel and contracts that do the work of achieving agency goals and objectives.

2. Recently, the Council for Excellence in Government released a poll on electronic government. The poll consisted of 1,003 citizens and revealed that the American public believes e-government initiatives could lead to greater accountability, as well as ease of access to government services and efficiency. Yet, while citizens want the government to provide for an electronic government, poll results seem to show that they are particularly concerned with the government's ability to provide effective information security and privacy protections. What priority will you place on these issues?

   Information security and privacy are a top priority for the Administration. OMB and the agencies take the security and privacy of government programs, and its information, with more than 26,000 computer systems and 2 million desk top computers, very seriously. We rely increasingly on computer systems to support nearly every critical governmental function. We are now more interconnected than ever, operating in a shared risk environment, with growing interdependence. The integrity and availability of systems and, where appropriate, the confidentiality and privacy of information in those systems are today more important than ever.

   The requirements in the recently passed Government Information Security Reform Act of 2000 highlight this importance and reinforce how essential security of federal systems and its information is today.

   I understand that OMB has begun to take significant steps to implement the Government Information Security Reform Act, and, if confirmed, I intend to build on this foundation.

3. How do you plan to link information and privacy issues to the budget process?

   I understand this work has already begun. As part of the FY 2002 budget process, OMB required that agencies provide information on how computer security and privacy are budgeted for as part of agency requests for information technology funding. In this way, agencies think of security and privacy up front as they plan for electronic government, not after an incident occurs. This policy is now part of Circular A-130, and fully integrates security and privacy into the framework of capital planning that the Clinger Cohen Act laid out. As OMB works with agencies to further develop budget materials for FY 2002--particularly looking at new initiatives--the plan is to continue to better integrate security and privacy into the overall budgeting for information technology systems. There is a need to focus on funding and security adequately and responsibly, in a way that enables agency missions and programs and furthers electronic government.

4. As you know, the Deputy Director of OMB for Management also serves as the Chair of the Chief Information Officers Council. Do you think this dual responsibility is practical or are there advantages to creating a "national CIO" position that would report to the Director?

Currently the DDM has general oversight for IT and IRM issues as part of their broad Federal management responsibilities. By establishing the title of Federal CIO and formally vesting these responsibilities with the DDM, the President's proposal ensures a senior level commitment to these issues. This would be similar to the status quo in practice but would create an important leadership role of the DDM as a matter of Presidential policy, i.e., this would increase the DDM's ability to call upon resources across the government with a direct grant of authority from the President.

I think there is general consensus that IT is a critical component to achieving a government that is better managed and more responsive to citizens. In order to accomplish these important goals, IT leadership will be paramount. So regardless of where the responsibilities are placed--whether with the DDM or new position in OMB--we know we have to make a commitment to IT and IRM issues. If confirmed, I intend to look closely at the question of whether the DDM should be reinforced by a new, political-level technology leadership position in the coming months.

5. What are your views on the major purposes of the Paperwork Reduction Act (PRA) provisions to improve the efficiency and effectiveness of government information activities?

The PRA continues to be the backbone of our information policy framework and has been looked to as OMB worked with Congress on the Clinger-Cohen Act, the Government Paperwork Elimination Act, and the Government Information Security Reform Act. In addition, I believe that the premises of the PRA still hold in terms of information policy and dissemination activities. One of the major purposes is to: "coordinate" and "integrate ... Federal information resources management policies and practices as a means to improve the efficiency and effectiveness of government programs." This remains an important goal for agencies to achieve in their own programs, and to strive for in working together on information issues that span across agencies. The PRA also sets as purposes timely dissemination of information and consistency with laws relating to privacy, security, and access all critical considerations as we move to an e-government. Having said that, we need to take a close look at the purposes and provisions of the Act as it relates to information policy and technology oversight, and revise it to address rapidly changing technologies and the transformation to e-government. Since it is due for reauthorization, it will be timely for OMB to work with the Congress later this year toward these ends.

6. What are the major information resources management (IRM) and information technology (IT) challenges facing OMB specifically and the Federal government more generally, and what steps do you plan to take to focus management attention on these issues?

Making the transformation to a fully electronic government will be an important priority for OMB and the government, as well as the need for security and privacy in agency information resources as that occurs. OMB has statutory and policy leadership responsibilities in this area, and I expect that the DDM, the OIRA Administrator, and other senior OMB officials will work to ensure that agencies implement the Government Paperwork Elimination Act,

which requires electronic options for most agency transactions by October 2003, including working with the Resource Management Offices to make sound judgments about funding needs through the budget process.

7. What are your views on the adequacy of policies and guidance issued by OMB to implement the PRA and the need to revise them?

In my view, the adequacy of the policies and guidance previously issued by OMB need to be considered in the broader review of the PRA discussed above.

8. What are your views on ways OMB can assist agencies to institute comprehensive capital planning and investment approaches for maximizing the value of their IT projects, as required by the PRA and the Clinger-Cohen Act (CCA)?

Capital planning and investment control is critically important to getting the most out of the government's IT investments. An agency that implements a capital planning and investment control process provides a framework for sound IT investment decisions based upon the agency's business needs and then assessing and managing the risks so that the systems program and performance benefits are realized successfully.

9. The CCA authorizes OMB to enforce accountability for agency IRM and IT investment decisions through the use of the budgetary process (40 U.S.C. 1413(b)(5)). Initial guidance from then-OMB Deputy Director Franklin Raines provided criteria for OMB's evaluation of major information systems (OMB Memorandum M-97-02, October 25, 1996). What are your views on the use of the budget process to improve IT management?

The budget process is a critical tool to improve IT management. Funding and implementing technology resources must be part of agency and interagency strategic planning up front, and the budget process, both development and execution, is the critical place for this integration to occur. If confirmed, I intend to further this principle.

10. During the campaign, President Bush issued a position paper calling for a digital and citizen-centric government. What do you see as the goals of digital government? What are the principal elements of this vision? How would you help bring them about?

I see the goal of digital government as involving access to government information and services 24 hours a day, 7 days a week, in a way that is focused on the needs of citizens and businesses. Digital government relies heavily on agency use of the Internet and other emerging technologies to receive and deliver information and services easily, quickly, efficiently, and inexpensively. Digital government involves the re-design existing business process around these new technologies to take advantage of their ability to interact with the public quickly and easily.

11. In 1999, Senators Thompson and Lieberman introduced S. 1993, "the Government Information Security Act" which was later enacted as part of the National Defense

Authorization Act for Fiscal Year 2001 (P.L. 106-398). This law provides a comprehensive management structure to ensure the protection of sensitive Federal computer systems and places accountability for this structure at the highest levels of the Executive Branch.

a. Where do information security and privacy fall among your management priorities and what are your specific plans for implementation of the new law?

Consistent with my response regarding Question 2 of this section, information security and privacy are a top priority for the Administration. OMB and the agencies take the security and privacy of government programs, and its information, with more than 26,000 computer systems and 2 million desk top computers, very seriously. We rely increasingly on computer systems to support nearly every critical governmental function. We are now more interconnected than ever, operating in a shared risk environment, with growing interdependence. The integrity and availability of systems and, where appropriate, the confidentiality and privacy of information in those systems are today more important than ever.

The requirements in the recently passed Government Information Security Reform Act of 2000 highlight this importance and reinforce how essential security of federal systems and its information is today.

I understand that OMB has begun to take significant steps to implement the Government Information Security Reform Act, and, if confirmed, I intend to build on this foundation.

b. How do you plan to link attention to information security and privacy issues to the budget process?

Consistent with my response regarding Question 3 of this section, I understand this work has already begun. As part of the FY 2002 budget process, OMB required that agencies provide information on how computer security and privacy are budgeted for as part of agency requests for information technology funding. In this way, agencies think of security and privacy up front as they plan for electronic government, not after an incident occurs. This policy is now part of Circular A-130, and fully integrates security and privacy into the framework of capital planning that the Clinger Cohen Act laid out. As OMB works with agencies to further develop budget materials for FY 2002-- particularly looking at new initiatives--the plan is to continue to better integrate security and privacy into the overall budgeting for information technology systems. There is a need to focus on funding and security adequately and responsibly, in a way that enables agency missions and programs and furthers electronic government.

12. The Information Branch within OIRA, with a staff of about ten, is responsible for implementing vital and far-reaching information laws and policies. These include administering significant portions of the Paperwork Reduction Act and much of the

Director's information technology capital planning and budget review functions under the Clinger Cohen Act, implementing information security responsibilities, and overseeing agency implementation of the Government Paperwork Elimination Act and the Privacy Act. The Information Branch also must implement Administration policies in these areas, such as promoting e-government. Does the Information Branch of OIRA have sufficient staff to perform its work well?

It is true that OIRA has been provided with a number of new statutory responsibilities within the last few years. Working with the Director, I plan on reviewing OIRA's staffing needs and welcome the views from this committee on how to strengthen OIRA's ability to influence agencies on these important matters.

XI. Government-Wide Human Resources Management

1. Management of agency personnel resources has emerged as a high profile issue in recent years. Concerns have been raised that changes in how agencies achieve their mission objectives and that downsizing through attrition and voluntary separations have left some agencies with gaps in necessary skills and many workers who are eligible to retire in the next few years. In fact, human capital management was recently included on GAO's "high risk" list as a major challenge facing the government.

   a. Do you share these concerns about the government workforce?

      See answer to "b." which provides my answer.

   b. What do you foresee as the respective roles of OMB and of the Office of Personnel Management addressing these issues?

      I do share such concerns about the government's workforce management. A lack of good long-term workforce planning, and the integration of that planning with agency mission objectives, is a deficiency that the Results Act highlights and aims to correct. I believe that OMB has made good progress in this area. Last year, for example, OMB established a Priority Management Objective (PMO) to ensure that Federal agencies plan strategically to maximize performance of their people resources in order to achieve program results the American people care about. OMB also revised Circular A-11, its budget formulation guidance, to agencies to require them to address human resource management issues in both their budget submissions and strategic and performance planning documents. I will place a high priority on OMB's role in continuing to ensure that agencies make human capital management an integral part of their executive management responsibilities.

      OPM's role is to continually evaluate existing flexibilities human resources management tools, to develop new and existing flexibilities for agencies to use, and to work with OMB and the agencies in tailoring those tools to address agency-specific workforce needs.

2. OMB has not been satisfied with the level of effort that agencies have applied to linking their human capital planning with their strategic and annual performance plans. Is human capital management an issue that agencies can and should address through GPRA goals and reporting? If so, how can this best be accomplished?

I agree with OMB's assessment and applaud its recent actions to address this issue. Under the sponsorship of both OMB and OPM, a Presidential Memorandum was issued last year to help ensure that human resource management considerations are made an integral part of each agencies' planning, budgeting and mission evaluation processes, and that they be clearly stated in strategic and annual performance plans. Implementing guidance to achieve this was issued in revised OMB Circular A-11 for the FY 2002 budget.

OMB established a Priority Management Objective (PMO) that targets this concern as well: "Align Human Resources to Support Agency Goals." In this PMO, OPM has a central role providing tools, guidance and technical assistance to agencies. It is working to foster successful labor-management partnerships so that employees may work better with agency leadership to improve customer service and get mission results. And it exhorts agencies to make use of existing personnel flexibilities to meet workforce re-engineering needs matched to mission and goal achievement. As a key partner, OMB is working to reinforce OPM's efforts in working with the agencies, both individually and through existing interagency councils.

I will strongly support OMB's on-going efforts to keep human resource management issues prominent in its budget and management oversight activities, and I will consider these in determining agency resource allocations.

3. A number of agencies have sought and obtained personnel flexibilities outside the scope of Title 5, United States Code. OMB is responsible for overseeing the government-wide framework of these systems.

   a. What role do you see for OMB in reviewing agency attempts to obtain personnel flexibilities outside the scope of the current legislative structure as contained in Title 5, United States Code?

      See answer to "b." which provides my answer.

   b. What role do you see for OPM should more agencies be granted personnel flexibilities outside the scope of the current statutory framework in Title 5?

      As central management agencies, both OPM and OMB have major leadership and coordination roles. OPM monitors agency human resources operations to ensure compliance with the merit system principles, which continue to be the foundation of our decentralized Federal personnel system. In addition, OPM administers retirement, health benefits, and life insurance programs for active and retired Federal employees. OMB's responsibilities include monitoring Executive branch spending

patterns, resource allocation, and legislative programs to ensure compliance with applicable law and Administration policies, and to work with Departments and agencies as they strive to better manage their workforces to improve their ability to deliver quality services the American public expects. Through participation in various interagency councils and organizations, OPM and OMB work with other agencies to formulate and implement sound personnel policy across the government.

c. Among the proposals discussed are performance-based pay, pay banding, and performance, retention and relocation bonuses, along with other flexible authority in such areas as hiring, training, and deploying employees. Advocates believe such flexibility is needed to achieve a more responsive human resources management system. Concerns have been raised, however, that such proposals could diminish our merit-based civil service system, particularly by reducing the effectiveness of civil-service protections against discrimination or favoritism, and would enhance the prerogatives of management relative to labor. Do you support granting more flexibility to agencies as to pay and other matters in the manner suggested; and, if so, how, and what is your response to the concerns that have been raised?

In order to deliver high-quality services to the American public, the Federal Government must be able to recruit and retain high-quality workforce. To compete in today's job market, Federal agencies will need flexible tools to attract, hire, and retain top-quality talent, while ensuring appropriate accountability, oversight, and adherence to certain foundation principles of our civil service system such as an open competition system.

With the agencies, OPM is currently examining a range of personnel flexibilities being implemented under the demonstration authority. I look forward to working with OPM and other Federal agencies to review the results of these demonstrations and to formulate and implement additional human resource management tools, which will of course take these concerns into account.

4. In order to close the gap between Federal and non-Federal salaries, Congress enacted the Federal Employee Pay Comparability Act of 1990 (FEPCA). However, the pay adjustments under FEPCA have not been fully implemented, so that Federal salaries have fallen farther and farther behind the comparability with non-Federal pay contemplated in the Act. Some argue that this situation harms agencies' ability to recruit and retain essential personnel and is unfair to Federal employees. What is your view about this, and what would be your goal as to comparability between Federal and private-sector pay scales?

I believe that our pay policy objective for civilian employees should be to set pay at levels that compensate employees fairly for their work and efforts and that will enable the Federal Government to recruit and retain the skilled and dedicated Federal workforce necessary to provide high-quality services to American public. In my view, Federal pay policy has to strike a fair balance between the needs of employees and our management objective of maintaining competitive rates of pay under the constraints on discretionary spending.

Among my early objectives are to develop my understanding of the complex issues surrounding the pay comparability process.

XII. Inspector Generals

1. What support can OMB give the Inspector Generals (IGs)? Regarding OMB's organization and staffing, what steps will you take to ensure positive communications and working relationships with the IG community?

   It is essential for OMB to ensure that the IGs have the support they need to function effectively. I understand there is an ongoing dialogue between OMB and the two IG councils (President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE)) concerning the needs of the IG community and how OMB could best support the councils. I will continue OMB's efforts to support the IG community.

2. IGs, according to the IG Act, are to be selected without regard to political affiliation and solely on the basis of integrity and demonstrated ability. In your view, what are the key qualifications for IGs, and how will you review their qualifications?

   IGs should be individuals of the highest personal integrity, as well as seasoned professionals with proven track records. It is critical that a candidate have an unblemished reputation and appropriate experience for the position for which he or she is selected, as described in the IG Act. OMB will work with the Office of Presidential Personnel to identify potential candidates with experience in IG matters. OMB will also be available to assist agency heads in identifying candidates for selection of designated Federal entity IGs.

3. Last year, with OMB's support, the Department of Justice and the IG community asked Congress to pass legislation codifying existing administrative measures that provided law enforcement authority to IGs. Assuming that DOJ and the IGs continue to support such legislation, will OMB continue to provide its support?

   I ask that the Committee give me time to discuss this specific matter with the new appointees for the Department of Justice once they are in place and the IGs.

4. When there is a dispute between an IG and the head of that IG's agency, OMB can act as the mediator. There are even established avenues for individuals, including agency officials, to file grievances against IGs. Where an IG feels that an agency head is taking action that impinges on the IG's independence, the IG will often look to the Senate Governmental Affairs Committee for help, either through a seven-day letter under the IG Act or otherwise. What help can OMB offer IGs who find themselves in such a situation but are hesitant to bring their complaints to Congress?

   OMB can help to prevent some disputes by ensuring that new agency heads and their senior political appointees thoroughly understand the role and responsibilities of the IGs and by

facilitating ongoing dialogue between agency heads and their IGs. The role of OMB in specific disputes is a matter I would like to give further consideration.

5. What additional steps, if any, do you believe are necessary to preserve or enhance the independence of the IGs?

Independence is the cornerstone of the IG community. The challenge for the IG community is to work with agencies to improve management, while maintaining the objectivity needed to audit and investigate those same agencies. I am committed to working with the IG community in achieving these tandem objectives.

XIII. Relations with Congress

1. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes.

2. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Yes.

XIV. Assistance

1. Are these answers your own? Have you consulted with OMB or any interested parties? If so, please indicate which entities.

The answers are my own. Since receiving the questions from the Committee, I sought background information from the OMB staff.

AFFIDAVIT

I, SEAN O'KEEFE, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Subscribed and sworn before me this 14 day of February 2001.

Notary Public

Commission Expires: August 14, 2004.

Sean O'Keefe
4456 Tree Tops Circle
Manlius, New York
13104-9300

February 9, 2001

Darrell Johnson
Designated Agency Ethics Official
Office of Management and Budget
Washington, DC 20503

Dear Mr. Johnson:

This is to inform you of the steps that I will take in connection with my anticipated appointment as the Deputy Director of the Office of Management and Budget (OMB) in order to avoid any real or apparent conflicts of interest under applicable laws and regulations.

Upon confirmation and appointment to be Deputy Director of OMB, I will take the following actions:

I will resign from the positions of (1) Director, Tesoro Petroleum Corp, (2) Director, Sensis Corporation, (3) Trustee, CNA Corporation, (4) Chair, Board of Advisors, Penn State University, Applied Research Lab, (5) Member, Strategy Advisory Board, Raytheon Company, and (6) Advisory Board Member, Northrop-Grumman Integrated Systems Sector. To prevent any potential appearance of partiality, I will not participate for one year after appointment as Deputy Director of OMB in any particular matter involving specific parties in which, to my knowledge, any of those entities is, or represents, a party unless my participation is approved pursuant to 5 C.F.R. § 2635.502(d).

Additionally, within 90 days of my appointment as Deputy Director of OMB, I will divest my common stock holding in McDermott International and Halliburton, and I will relinquish my stock options in McDermott International, Tesoro Petroleum, and Sensis Corporation. I will not participate personally and substantially in any particular matter that could have a direct and predictable effect upon these entities until the interest has been divested.

Further, since I am on a leave of absence from the Maxwell School, Syracuse University, I will not participate personally and substantially as Deputy Director of OMB in any particular matter that would have a direct and predictable effect on Syracuse University.

Sincerely,

Sean O'Keefe

Attachment A

PRE-HEARING QUESTIONNAIRE FOR SEAN O'KEEFE
NOMINEE FOR DEPUTY DIRECTOR OF
THE OFFICE OF MANAGEMENT AND BUDGET

Additional Questions Submitted by Senator Lieberman

1. CBO has recently projected that the on-budget surplus will total $3.1 trillion over the next 10 years if discretionary spending is maintained at the current level, adjusted for inflation, and there are no changes in laws governing taxes or entitlement programs. If we subtract from the $3.1 trillion on-budget surplus the Medicare HI trust fund, necessary AMT reform, and the cost of tax extenders, we are left with an available on-budget surplus of $2.4 trillion. The Bush tax plan plus the estimated $0.4 trillion cost of interest payments would add up to $2.0 trillion, consuming nearly all of the $2.4 trillion on-budget surplus that is projected for the next 10 years.

   a. Do you think it would be appropriate to allocate all of the projected on-budget surplus to a tax cut?

   b. If nearly all of the projected surplus is allocated for a tax cut, how would you pay for other priorities that President Bush identified in the campaign, such as a Medicare prescription drug benefit, health insurance-related tax breaks (which were not included in the cost of the tax plan), education, and real increases in defense spending?

   c. Where would funds come from to help facilitate Social Security and Medicare reform if the non-Social Security, non-Medicare HI surpluses are totally used to pay for the tax cut?

   d. How much, if any, of the non-Social Security, non-Medicare HI surplus would you dedicate toward debt reduction under this scenario?

   These are all very good questions, but it would be premature to answer them at this point. The Bush Administration is developing budgetary proposals that reflect the initiatives the President advanced during the campaign and other budgetary policy proposals. The Administration will release a summary document in late February with a full budget submission in April. The blue print from which to respond to the questions should be available at that time.

2. In recent years concern has been expressed about the defense budget process within the Pentagon and the Administration, which for decades has produced significant gaps between funding levels and force requirements and resulted in insufficient support for "joint" systems funded by one service but used by another. What do the Administration and OMB intent to do about this? Shouldn't decisions on funding and requirements be made together?

This Administration recognizes that a gap does exist between the current funding levels and the forces required to execute the previous national security strategy. To correct this gap, President Bush has called for a thorough strategic review of our national security commitments and requirements. This review will first develop a national security strategy that is appropriate for the new era and then detail the force requirements to match the strategy. After that review, the President will set the appropriate funding levels. As part of the same review, the Administration will also ensure that "joint" systems are properly supported without individual military services imposing unfunded mandates on other services. Defense funding decisions will be made from the perspective of improving overall military capabilities, not from the perspective of individual service programs.

3. During the campaign the President talked a great deal about the need to "transform" the military and "skip a generation of military technology", but then proposed less additional funding for defense than has been added by the Congress in recent years. Furthermore, none of the additional funding was allocated to procurement accounts. How does the Administration intend to address this disconnect?

The President believes that the Nation's defense strategy should drive decisions on defense resources, not the other way around. As a result, the President has directed DoD to conduct a comprehensive strategy review this Spring that will guide future decisions on military procurements. It would be unwise to prejudice the outcome of that review by making decisions on new procurements now. However, public news coverage suggest that for FY2002 the President will request an increase in the defense budget over the FY2001 enacted level of $14.4 billion. This increase will allow Defense to address its most pressing priorities. Further, in public statements the President has announced that he will include $2.6 billion for a research and development effort to investigate, among other things, "leap ahead" technologies that will allow us to skip a generation of military technology as the President has promised.

4. Recently, several senior U.S. military officials have stated their view that revisions and reductions to the non-military U.S. presence overseas have effectively militarized many foreign policy problems, i.e., forced non-military matters to be handled by our armed forces and regional Commanders-in-Chief (CINCs) because they are the most visible and capable American representatives in the region. Does the new Administration intend to review defense and foreign operations spending with this concern in mind?

President Bush has assembled a seasoned, experienced national security team. The Bush Administration will be developing a new national security strategy that will be framed by the contributions of all of members of the national security team, including DoD, NSC, State, and other agencies and review all aspects of our overseas presence and commitments in the coming months. That strategy will be a key building block as we formulate our foreign policy and defense agendas, and clarify roles for each agency. As part of the overall policy development effort, the Secretary of Defense will lead a strategy review to assess current military strategies, commitments and resources.

Environment

5. The Environmental Protection Agency is entrusted with one of the most critical functions of the federal government, but some have commented that it is increasingly overtaxed and underfunded in pursuing its objectives. What are your plans with regard to funding for the EPA? In particular, what is your commitment to providing adequate resources for the regulatory apparatus of EPA?

   I agree that EPA carries out many critical federal functions and its mission to protect the environment is one that we all support. I cannot comment specifically on EPA funding levels at this time as the Administration is still in the process of developing the FY 2002 budget.

High-technology and science funding

6. President Bush, during the campaign, recognizing the importance of government support for research and development for our future economic growth, security, and health, promised – *(a)* to support a permanent tax credit for R&D, *(b)* to increase the defense R&D budget by $20 billion from FY2002 - FY2006, and *(c)* to double the research budget of the National Institutes of Health (NIH). Do you plan to budget for implementing these commitments and, if so, on what schedule? What about the science budgets at the National Science Foundation (NSF) and at other mission agencies – should these be looked at as well?

   It is premature to discuss the details of the President's FY 2002 budget submission. OMB is examining the overall federal research portfolio to prepare the detailed budget for Fiscal Year 2002, which will include the National Science Foundation and other mission agencies.

7. A growing concern is the imbalance between the amount of government research support for the life sciences, which Congress has been moving to double over the next several years, and the amount for the physical sciences, which has actually been eroding. But these two parts of science are mutually dependent, and advances in the physical sciences have become essential to further advances in the life sciences. Do you agree with this concern, and, if so, will you act to adjust the imbalance between these two sectors of federal research support?

   The federal government has an important role to play in supporting research which the private sector may not otherwise see the need to support. Indeed, the linkage between the life sciences and physical scineces is illustrative of the need for public interest and involvement. OMB will examine the overall federal portfolio of research activity in the context of preparing the Fiscal Year 2002 budget, and will work to develop an appropriately balanced program of federal research.

8. The basic structure of the federal role in science was established over a half century ago, in 1948 - 1949, with the creation of the NSF, the establishment of the President's Science Advisor, and the beginning of major Cold War investment in national security research. Responsibility for science funding was divided among the NSF, the NIH, and a wide variety of mission agencies, with no centralized budget review. The nature of science has significantly changed since then, and is much more dependent on cross-disciplinary (and therefore cross-agency) work, yet there is still no effective mechanism for coherent decisions about cross-agency science cooperation or allocating the federal science budget. Do you agree this may be a basis for concern, and if so, will you address this serious science budgeting and management problem early in your tenure?

Interagency coordination is a challenge within the federal government, for science as well as other areas. My understanding is that OMB has historically played an important role in interagency coordination, and will continue to do so if I am confirmed.

Paperwork Reduction and Regulatory Affairs

9. a. The current Executive Order on regulatory planning and review, E.O. 12866, contains provisions intended to assure that regulatory review is timely, fair, accountable, and transparent. The E.O. sets up a 90-day period for OMB review of proposed rules and creates mechanisms for timely resolution of disputes. The E.O. also establishes public-disclosure requirements for both OMB and the agency. For example, disclosure guidelines apply to substantive communications between OIRA personnel and persons outside the executive branch. OMB must provide a written explanation for all regulations returned to the agency; the agency must publicly identify changes made after OIRA review; and documents exchanged between OMB and the agency must be made public. Do you support the disclosure requirements of E.O. 12866 and the 90-day time frame for regulatory review?

Generally, I support public disclosure, especially of written correspondence between OMB and the agencies. I am not yet certain what time limits, if any, on the review of agency regulatory proposals make the most sense. Becoming more familiar with the Executive Order described and its implementation will be the first step in formulating a judgement on the efficacy of the extra time frame.

Sect VIII, Q 5. As the President's plans to organize the regulatory review function evolve, we will work closely with the Committee to determine the effectiveness and utility of the disclosure requirements and recommend any needed changes.

b. E.O. 12866 also states that one of its goals is to "reaffirm the primacy of Federal agencies in the decision-making process." Do you agree that the regulatory agency to which Congress delegated responsibility for formulating and adopting the rule should have primacy, relative to OMB, in decision-making? If so, what

assurances can you give that OMB will honor the primacy of agencies in the decision-making process?

I believe that agency regulatory proposals need to be responsive to the President's policies and priorities and that the President, not OMB or agency heads, is the key regulatory decision maker. The President has the basic responsibility to take care that the laws of the land are faithfully executed. Both the agencies and OMB, all of which report to the President, as Chief Executive, are performing specified and important roles to help inform the judgements the President makes.

c. Are there other provisions of E.O. 12866 that the new Administration intends to change or that you would recommend should be changed? Will you commit to notifying and working with me and other members of the Senate Governmental Affairs Committee on any changes that the new Administration might consider making in E.O. 12866?

If confirmed, I will be diligent to work with the Committee and consult on any matter to advance the President's policy agenda.

AFFIDAVIT

I, Sean O'Keefe, being duly sworn, hereby state that I have read and signed the foregoing Additional Questions Submitted by Senator Lieberman on the Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Sean O'Keefe

Subscribed and sworn before me this 16th day of February, 2001,

Washington D.C.

Bessie M. Jones-Weaver
Notary Public

Commission Expires: August 14, 2004.

PRE-HEARING QUESTIONNAIRE FOR SEAN O'KEEFE
NOMINEE FOR DEPUTY DIRECTOR OF
THE OFFICE OF MANAGEMENT AND BUDGET

Additional Questions Submitted by Senator Lieberman

Defense Spending

1. President Bush, in his campaign, argued that spending cuts over the past eight years had seriously eroded the capability of our military to operate effectively today and created a morale crisis among the members of our armed services. Though the President has called for, at most, modest increases in recent speeches, he has called for a "top-down" review of the military before proposing specific increases to the overall defense budget. Do you feel that a full "top-down" review of DoD is required prior to increasing defense budget levels? If so, since President Bush has implied he will shift some current money from existing programs to military pay, health care and housing, how will you decide what programs should be decreased now?

   For decades, top defense analysts have bemoaned the phenomenon of budgets driving defense strategy. President Bush, however, believes that the defense strategy should drive decisions on defense resources. That is why the President has directed the Department of Defense to conduct a strategy review that will be used to guide future decisions on military spending. But the current deficiencies are so numerous that significant changes to defense resources at this time would prejudge the outcome of the strategy review. President Bush has said that his FY 2002 budget will, however, address his immediate priorities and include funds to begin to relieve some of the housing problems our troops and their families face, to increase military pay, to expand health benefits, and to begin an initiative to take a fresh look at R&D investments for the future.

2. Again, during the campaign, President Bush pledged increases in the defense budget for pay raises, R&D, and modernization of the military. Do you anticipate increases in defense spending over the next few years, and how do you expect to distribute the increases? In your opinion, how much of an increase should OMB's budget include for FY02 defense spending?

   As previously noted, the President has said that his FY 2002 budget will include funding for increased pay and R&D initiatives. However, it is premature for me to speculate on the level of defense spending over the next few years until the defense strategy review is complete. Once the Secretary makes his recommendations, decisions will be made on the mix of programs and appropriate funding levels consistent with the President's overall national security strategy objectives.

3. Also during the campaign, to further the goal of transforming the military, President Bush emphasized the role of R&D, and promised to commit an additional $20 billion to defense R&D between 2001 and 2006. This week, the President pledged $2.6 billion for fiscal year 2002 as a down payment on the R&D increases. How do you anticipate the additional $17.4 billion will be distributed over the four following years? What specific areas of R&D are critical to U.S. national security?

   The President's public statements last week suggest that $2.6 billion is intended largely to jump-start work on new technologies and capabilities to perform the military mission in new ways. The Administration is still working out the details of the initiative, but previous statements suggest there will be a concentration on "leap-ahead" technologies for new weapons and intelligence systems, improvements to the lab and test range infrastructure that will be needed to lead to or support new development programs, technologies aimed at reducing the costs of weapons and intelligence systems and efforts to counter unconventional threats to national security. Overall spending needs for R&D should be determined by the defense strategy review.

4. Other than increasing the level of defense R&D, how do you propose to budget for transformation of the U.S. military from one based on the Cold War model to one equipped to handle new threats, particularly high-technology threats?

   It would be premature for me to detail specific steps the Administration intends to take at this time until the strategy review is complete. However, to the extent that the review identifies new threats to include high technology ones, DoD should aggressively seek solutions to those threats through the President's R&D initiative as well as changes to organizational structures and doctrine. To incorporate effectively any changes into the current force, future budgets are likely to support experimentation and will encourage innovation and novel approaches to countering future threats.

5. Given that the military commanders-in-chief, based upon their experiences in Kosovo, recommended additional procurement of several joint systems, how do you propose to budget for these systems? What role do you see joint systems playing in tomorrow's military? What priority will you give them in relation to individual service systems?

   Future military procurement decisions will be guided by the results of the defense strategy review that the President has directed DoD to conduct. Thereafter, defense funding decisions should be made from the perspective of how to improve overall military capabilities, and how to best meet military requirements. In this context the Administration will ensure that "joint" systems are properly supported whenever appropriate. The goal is to provide servicemen and women with the very best equipment possible to do the job they are given.

6. Do you support an immediate emergency supplemental for DoD? What functions should receive increases in that supplemental? If there is no supplemental this year, will you have to increase the FY02 budget to "pay back" shortfalls caused by reprogramming?

   The Administration does not plan to submit a supplemental request for FY 2001 at this time. DoD is less than half way through the year. Relative to the appropriation levels funded in the FY 2001 bill, the Department of Defense needs to assess where there may be deficiencies. There are no unforeseen operational requirements on the horizon to justify emergency supplemental funds to cover the costs of a contingency operations like Kosovo, that had not been fully anticipated in the budget. Congress provided $2 billion in reprogramming authority to address shortfalls in the near term. As the Secretary begins his strategy review, current needs, as well as the future direction of our military posture and force structure, will no doubt be identified. At that time the Administration will decide the best means of addressing those needs.

R&D Questions

1. Last year the Senate passed bipartisan legislation (S. 296) to authorize the doubling of non-defense R&D budgets over the next decade. President Bush repeatedly noted the importance of Federal funds for R&D during his campaign. It is my understanding that several technical agencies have received cuts or only small increases in the budget process with OMB so far. While I realize you are still preparing the final budget, can you tell me if the new budgets of technical agencies such as the National Science Foundation, DoE, USGS, NASA, etc. are receiving significant increases along with those of NIH?

   The Administration is currently in the process of preparing the final budget for FY 2002. Details are not yet available. However, the nation currently has a strong investment in research, both from Federally-funded research and from the private sector. Data from the National Science Foundation indicate that the national investment in R&D, from both the public and private sector, continues to increase as a percentage of the Gross Domestic Product, and has reached levels of over 2.8 percent of GDP.

2. President Bush made a commitment to increasing funding at NIH during the campaign. However, we know that improvements in health R&D come from many different fields, including physics, computer sciences as well as basic research in the life sciences. Is the President planning an investment in R&D that will be balanced in terms of funding for various disciplines and defense and nondefense?

   The Federal government has an important role to play in supporting research that is too risky or too long-term for the private sector to support. The Administration will examine the overall Federal portfolio of research activity in the context of preparing the FY 2002 budget, and will work to develop a balanced program of Federal research.

3. President Bush also promised to commit an additional $20 billion to defense R&D between 2001 and 2006. Defense R&D spending is the key to the nation's long term security. What is your view of this important issue and does the President plan to follow-through on increasing R&D spending in both defense and nondefense areas?

   I agree that investing in R&D is important, not only for long term national security, but also for long-term economic security. The nation needs a balanced portfolio of R&D, funded by both the Federal government and the private sector, in both defense and nondefense areas. The President is proposing a $2.6 billion defense R&D initiative in FY 2002, with outyear program needs to be determined by a defense strategy review. Public statements suggest that the President's civil R&D program will show strong support for nondefense R&D as well, with certain areas such as health research receiving particular emphasis.

4. The Federal R&D budget is spread over many different technical agencies including NSF, NIH, NASA, DOE, and DOD to name a few. Many of the newest areas of science and engineering are increasingly interdisciplinary in nature and cross several different agency responsibilities. Traditionally, OMB together with the President's Office of Science and Technology Policy (OSTP) has taken the initiative to develop cross-agency initiatives. Does OMB have a plan in place to work with OSTP to develop and coordinate federal initiatives and encourage cooperation across various agencies? How do you propose to improve the coordination of such initiatives and enhance coordination between the various agencies?

   Interagency coordination is a challenge within the Federal government, for science as well as other areas. OMB has historically played an important role in interagency coordination, and will continue to do so under my leadership, if confirmed. For coordination in science areas, there currently exists the National Science and Technology Council (NSTC), which evolved from the Federal Coordinating Council for Science, Engineering, and Technology (FCCSET, pronounced FIX-IT) in the earlier Bush Administration. If confirmed, I will certainly examine the performance of the NSTC, and work to find ways to improve the coordination process.

AFFIDAVIT

I, SEAN O'KEEFE, being duly sworn, hereby state that I have read and signed the foregoing Additional Questions Submitted by Senator Lieberman on the Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Sean O'Keefe

Subscribed and sworn before me this 22nd day of February, 2001.

Bessie M. Jones Veaux
Notary Public
Commission Expires: August 14, 2004

QUESTIONS FOR SEAN O'KEEFE,
NOMINEE FOR DEPUTY OMB DIRECTOR
FROM SENATOR LIEBERMAN

1. **You have indicated that it is premature for you to speculate on the level of defense spending over the next few years until the defense strategy review is complete. There are two issues here. First, regardless of the review, how much is available for defense if the Bush tax cut is enacted? The second issue concerns when the review will be completed to the point that you will know what to budget. For instance, will you hold a wedge for FY02? If so, how much?**

   The Budget Blueprint includes discretionary budget authority funding of $310.5 billion for the Department of Defense in FY 2002- - a $14.2 billion or 4.8 percent increase in defense funding over the FY 2001 level. This increase will allow DoD to address its most pressing priorities. It includes funds to increase military pay and to improve housing for military personnel and their families. Funding is also included for a research and development effort to investigate, among other things, "leap ahead" technologies that will allow us to skip a generation of military technology as the President has promised. The President believes that the Nation's defense strategy should drive decisions on defense resources, not the other way around. As a result, the President has directed DoD to conduct a major strategy review this Spring that will guide future decisions on the military spending. There will not be a wedge held for Defense in FY 2002, and it would be unwise to prejudice the outcome of the review by making specific decisions regarding current and long-range defense programs and resource requirements at this time.

2. **To date, the President's public statements have suggested increases of $2.6 billion for Defense R&D in FY02 and increases for military pay, health care and housing. If the strategic review is not yet complete, how will you make decisions about implementing these proposed increases from non-defense programs without pulling funds from areas critical to military readiness included in the defense portion?**

   Adequate research and development, pay, health care and housing are essential components of the capability of our military forces to defend the Nation. The President's initiatives will ensure that adequate levels of funding are allocated to those components. The defense strategy review will ultimately determine the specific programs to which those increases will be applied.

3. **In your written responses, you stated that the Administration does not plan to submit a supplemental request for FY01, though Congress provided $2 billion in reprogramming authority to address near-term shortfalls. What specific areas are likely to lose funding due to reprogramming, and would you support increasing the FY02 budget to "pay back" those shortfalls? It seems to me that you have a limited**

number of places from which money may be reprogrammed, mostly readiness accounts. How are you going to let readiness decline?

In my testimony, I said that Administration does not plan to submit a supplemental request for FY 2001 at this time. We are less than half way through the year. There are no unforeseen operational requirements on the near horizon, as in past years, to justify emergency supplemental funds.

As to reprogramming sources, I think the Administration will start with an examination of funding provided by the Congress last year that the Service Chiefs would argue is unneeded at this time. In that way, we can avoid wholesale raids on readiness accounts, a practice that has gone on in the past.

Meanwhile, as the Secretary of Defense conducts his strategy review, we will get a better sense of the significance of the current shortfalls, and determine the best way to address them. Alternatives could include seeking additional reprogramming authority, a supplemental later in the year, or changes in FY 2001 and FY 2002 defense budget priorities.

4. **As co-author of a chapter entitled "Advancing the Revolution in Business Affairs", you recommended both competitive sourcing and infrastructure reduction in DoD. Would you continue to support these policies as deputy director of OMB? In your written responses, you recommended that DoD aggressively seek solutions to new high technology threats, to the extent that the defense review identifies them, and seek changes to organizational structures and doctrine. Specifically, what types of changes to DoD's organizational structures and doctrine would you advocate?**

Regarding the first part of your question: Yes, I will continue to support both expanded A-76 competitions and infrastructure reductions in DoD. More importantly, the Administration supports both these efforts. On February 15, 2001, the OMB Director sent a Memorandum to Agency Heads asking them to reflect several management reforms in its FY 2002 Performance Plans including "Expanding A-76 competitions and more accurate FAIR Act inventories.." Reducing DoD's excess infrastructure will be important to ensuring that Defense resources are allocated to the right priorities. I expect these issues to be addressed by the Secretary of Defense's strategic review. Regarding the second part of your question: It would be premature for me to advocate changes to force structure and doctrine before DoD finishes its review.

5. **Quality of life for the men and women of the armed forces is an important foundation for the readiness of our forces to meet national security objectives. Also, quality of life, or the lack thereof, directly links to the recruiting and retention challenges that have recently evolved. President Bush proposes shifting $5.7 billion in Pentagon spending for increased pay, improved health care, and better housing.**

Of the $5.7 billion, he proposes $1.4 billion for pay, $3.9 billion for health care, and $400 million for housing. These totals fall within the $310 billion budget that former President Clinton outlined for DoD.

- **Do you think this adequately addresses the quality of life issues for our armed forces?**
- **Do you think this is the right proportioning for pay, health care, and housing?**
- **Do you propose future increases in quality of life improvements for our armed forces?**
- **Do you believe there is a pay gap for military members?**
- **Should the next pay raise be across the board or targeted, as in pay for skill?**
- **What do you consider to be the most significant threats ot the Defense Health Plan and the ongoing implementation of TRICARE?**
- **Would you recommend additional funds be shifted to address the housing deficiencies of our armed forces?**

The Budget Blueprint includes discretionary budget authority funding of $310.5 billion for the Department of Defense in FY 2002. The last official budget of the previous Administration contained $295.9 billion for FY 2002 and the level enacted for this year is $296.3 billion.

The President's initiatives for pay and housing and paying the bill for increased health benefits enacted by Congress last year are just the first step toward addressing one of his highest priorities, taking care of our men and women in uniform. Of course, there are funds in the base budget also dedicated to those needs.

The President has directed the Department of Defense and the Veterans Administration to lead a quality of life review, designed to make a careful assessment of the pay, health care, and housing needs of our military personnel and retirees. We expect that review to guide our budgetary priorities as we move through the coming months.

6. **You have indicated that the President's public statements pledging $2.6 billion for R&D are "intended to concentrate on 'leap-ahead" technologies for new weapons and intelligence systems, improvements to the lab and test range infrastructure that will be needed to lead to or support new development programs, technologies aimed at reducing the costs of weapons and intelligence systems and efforts to counter unconventional threats to national security". Is $2.6 billion (in FY02) enough to make significant strides in these areas?**

When combined with previously planned funding for FY 2002, properly restructured as needed to support a coherent defense capability resulting from the Strategic Review, the $2.6 billion will provide a reasonable down payment on the R&D effort that lies ahead. Over the next few years, the Administration pledges $20 billion to this initiative.

7. **You indicated that President Bush has made public statements suggesting strong support for civilian R&D and for prioritizing health research. The President has gone so far as to suggest a nearly $3 billion increase for medical research. As you know, NIH has received significant funding increases in recent years, yet the health community acknowledges that advances in medical research are heavily dependent on advances in other disciplines such as physics and chemistry, whose funding is based primarily in agencies other than NIH. How would you propose to distribute this $3 billion for medical research? Specifically, how much of this will go towards agencies other than NIH? How do you define a balanced civilian Federal Research portfolio?**

Advances in disciplines such as physics and chemistry have contributed to advances in medical research. The President's budget continues to invest in research, both at NIH and at other agencies in basic and applied research. However, this Administration has put a priority on research that advances our understanding and capabilities in medicine and health, so that major increases in our already substantial investment in research will be at NIH for FY 2002.

The Nation needs a balanced portfolio of research, funded by both the Federal government and the private sector, in both defense and nondefense areas, and across fields of science. "Balance" can and should change over time. For example, a "balanced portfolio" of research looked very different during the Cold War era than it does now. Many research areas have received very large budget increases over the last few years. Our budget extends this balance by proposing to permanently extend the R&D tax credit. This will help encourage significant increases in private sector R&D investments. We believe that the current portfolio is balanced, but we expect to further refine this balance as we assess new and ongoing research opportunities in future budgets.

8. **Other than examining the role of National Science and Technology Council, do you have specific ideas on how to increase inter-agency collaboration? How do you plan to work with Office of Science and Technology Policy to enhance the coordination of R&D priority-setting, and R&D funding across agencies?**

Interagency coordination is a challenge within the Federal government, for science as well as other areas. OMB has historically played an important role in interagency coordination, and will continue to do so in this Administration. The President has not yet named a Director for the Office of Science and Technology Policy (OSTP). Once a science advisor has been named, we will be in a position to better define our approach for R&D coordination and priority setting.

9. **The Environmental Protection Agency is entrusted with one of the most critical functions of the federal government -- safeguarding the air we breathe, the water we drink, and the lands we cherish -- but it is increasingly overtaxed and underfunded in pursuing its objectives. What are your plans with regard to funding for the EPA? In particular, what is your commitment to providing adequate resources for the regulatory apparatus of EPA?**

The Administration's commitment to providing EPA with adequate resources is clear. As indicated in the 2/28/01 Blueprint document, EPA's 2002 Budget of $7.3 billion is $56 million more than the Clinton Administration's 2001 request. The $499 million reduction from the enacted 2001 level is almost entirely due to the elimination of unrequested earmarks. These reductions are being taken government-wide and are consistent with the EPA's historic practices.

EPA's Operating Program, the core of its regulatory, research and enforcement activities, is funded at $3.7 billion, the second highest level in EPA history and higher than 2001 if unrequested projects are excluded. Included within the Operating Program totals, EPA's program grants to State and Tribal governments are funded at the highest level ever, at more than $1 billion. These grants help States and Tribes to administer programs delegated to States under Federal environmental statutes.

Wastewater grants to States are funded at $1.3 billion, which is $500 million more than the previous Administration requested in its 2001 Budget. The Clean Water State Revolving fund is proposed to be funded consistent with EPA's long-standing $2 billion per year revolving fund goal. To address Federal mandates to control the biggest remaining municipal wastewater problem, the Agency will request that a portion of these funds be used for the newly authorized sewer overflow control grants.

Under this Administration, the EPA will work to protect the air, land and water, while building on the premise that environmental protection and economic prosperity go hand in hand. The Agency will work to provide more flexibility to States and local communities to craft solutions that meet their unique situations. The EPA will develop new, more effective methods to achieve environmental progress. The Agency will set high standards for environmental protection, make those expectations clear, and focus on results and performance. To reach those goals, the Agency will place a greater emphasis on innovative approaches to environmental protection, such as market-based incentives. The EPA will seek higher levels of cooperation among stakeholders. In addition, the Bush Administration's EPA will place an emphasis on making better and more appropriate use of information and analysis. In particular, EPA intends to improve the role of science in decision-making by having scientific information and analysis help in directing policy and establishing priorities.

10. **There currently is great apprehension about ensuring an adequate energy supply**

for our country. Some would focus this debate on our supply of fossil fuels, which by definition is a limited resource. There are, however, numerous renewable and sustainable sources of energy under development that receive essential funding from the government. In view of the current national concerns regarding the availability of traditional sources of energy (namely, fossil fuels), what are your plans regarding funding for renewable or alternative sources of energy?

I expect that renewable sources of energy will be an important part of the national energy policy that the Vice President's team is developing, although the current economics of most renewable energy sources mean that they are primarily a long-term solution. The importance of a program is not measured solely by the amount of Federal funding it receives, however. The plan is to continue developing innovative renewable energy technologies, while relying on the private sector to fund a greater share of the development and deployment costs. The Administration is also proposing to supplement our solar and renewable energy funding starting in FY 2004 with up to $1.2 billion in bidding bonuses from the leasing of a small portion of the Arctic National Wildlife Refuge for oil and gas exploration.

Written Questions for Sean O'Keefe
Submitted by Senator Voinovich

Ten-Year Projections

1. **I am concerned that the Administration and many of my colleagues in Congress are putting undue reliance on ten-year budget projections and the vast surpluses that both OMB and CBO project over the next ten years. While these projections are needed and have an important role in decision making regarding the budget, it is important to recognize their many limitations. As you know, they rely on tenuous economic assumptions, and they don't consider any policy changes, regardless of whether such changes are nearly certain to occur.**

   To help illustrate the inherent uncertainty in their projections due to economic factors, CBO included a diagram in their most recent Budget Outlook report that illustrates the range of possible annual budget surpluses or deficits that might occur over the next five years. Incredibly, this chart shows that in five years we could experience a surplus of over a trillion dollars, or we could experience a small budget deficit. This is critical information regarding the range of uncertainty in these projections.

   Mr. O'Keefe, how do you think that OMB could do a better job of conveying the uncertainty of its estimates? Do you have any specific ideas?

   The President's Budget recognizes that there are inherent uncertainties in making 10 year budget projections. In deference to this, it sets aside a large $1.0 trillion reserve, which can be tapped to cover priority and contingency needs starting with Medicare modernization. It is important to note, however, that the presence of this reserve does not mean that all the risks to surplus projections are to the downside. Indeed, if the past is any guide, this reserve could well increase in size as successive baseline estimates are made during the course of the year.

   OMB's budget projections are based on the President's budget proposals and assume that policy will change in line with those proposals. This is the key distinctive comparing CBO projections which must assume no change in policy.

   CBO's main innovation in their latest The Budget and Economic Outlook, Fiscal Years 2002-2011 was to present a probability analysis. While all budget projections are uncertain, CBO's latest analysis suggests that there is a great likelihood of maintaining a budget surplus. While a smaller surplus is possible, or even a deficit, there is also a possibility that the surplus could be larger than now expected. Indeed, for the last several years, both OMB and CBO have underestimated the emerging budget surplus by large

amounts. There is nothing in this record to suggest that either CBO or the Administration is being unduly optimistic in projecting a continuing large budget surplus.

It is with these realities in mind that the President's "Blueprint" outlining the FY 2002 budget contains this discussion of the "Baseline Issues" on pages 14-16:

> The President's Budget recognizes that there are inherent uncertainties in making 10 year budget projections. In deference to this, it sets aside a large $1.0 trillion reserve, which can be tapped to cover priority and contingency needs starting with Medicare modernization. It is important to note, however, that the presence of this reserve does not mean that all the risks to surplus projections are to the downside. Indeed, if the past is any guide, this reserve fund could well increase in size as successive baseline estimates are made during the course of the year.
>
> Budget projections are naturally subject to uncertainty, which increases as the projection period is lengthened. Policymakers need to be aware of this and plan accordingly. It is important to remember that there is uncertainty on both sides. Ultimately, the proper baseline assumptions used for constructing a budget plan are those that fairly balance upside and downside risks.
>
> There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest "risk" to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates, which can be seen in a comparison of revenue projections made by the Administration and the Congressional Budget Office (CBO) in January 1995 with actual receipts.
>
> Over the 1996-2000 period, revenues came in roughly $850 billion higher than originally forecast in January 1995. When combined with associated debt service savings, revenue underestimates contributed to roughly a $1 trillion underestimate of the five-year cumulative surplus.
>
> This gusher of unexpected revenue was not principally a result of stronger economic growth. The real driver of the revenue surprise is a current tax code that continues to extract an unexpectedly high percentage in taxes from each dollar that Americans earn. Annual revenue growth outran GDP growth by more than two percentage points in each of the last eight years, due to increased capital gains receipts, real bracket creep, growth in high-income taxes paid, and stronger receipts from retirement account conversions.
>
> Some argue that while revenue growth consistently outstripped GDP growth in the past, this trend may not continue. It is important to realize that the Administration and CBO baseline revenue assumptions have just such caution built into them already. Both assume that revenue growth will lag GDP growth going forward for a protracted period. This is an extremely conservative view since annual revenue growth has historically exceeded GDP growth by 0.7 percent on average, over the last several decades through good and bad economies.
>
> Realistically, one would expect revenues to grow at least slightly faster than the economy, absent tax changes, due to real bracket creep over time. (Major parts of the individual income tax code are indexed for inflation, not nominal wage growth. Thus, as taxpayers' real incomes rise, their effective tax rate rises due to a dilution of the impact of the standard deduction, exemption and credits and as some are forced into higher tax brackets.)
>
> On this key variable, the Administration is even more cautious than CBO, expecting revenue

growth to lag GDP growth throughout a multi-year period to a degree generally experienced only during recession. Capital gains are a main factor behind the deceleration in both the Administration's and CBO's revenue growth. Both expect capital gains realizations to post effectively no growth in nominal terms over the next 10 years and thus shrink markedly as a share of GDP—a very rare historical occurrence. This compares with nearly 30 percent average annual growth in realizations between 1995–1999.

Furthermore, the Administration assumes that the individual effective tax rate will edge lower, as the share of taxes paid by high income taxpayers shrinks in coming years. In addition, the Administration is assuming economic forecasts that are generally more cautious than the Blue Chip consensus. Thus, there are convincing reasons to assume that higher revenues are more likely than lower revenues and a larger, not smaller, surplus lies ahead.

In economic parlance, there are significant "upside risks" to the surplus projections, in addition to the downside risks that tend to dominate public discourse.

2. **Ten year budget surplus estimates are getting tossed around in this town like the money was already in the bank. However, these estimates are really only points along a wide range of possible budget surpluses or deficits that might occur over time. By definition, half of the time these estimates are going to be too high, the other half of the time they are going to be too low.**

For this reason, I get worried when I hear about spending and tax proposals that would consume almost all of the projected surplus. If we spend all the projected surplus, we have a 50% chance of not getting the money we need to pay for it. This means we have a 50% chance of going back to spending the Social Security surplus, something I don't want to see happen.

Mr. O'Keefe, do you think we should adopt spending and tax cut plans that give us a 50% chance that we will return to spending the Social Security surplus?

We certainly don't want to adopt a budget that spends the Social Security surplus on other programs. That is why, in addition to reserving the full amount of the Social Security surplus, the Administration has provided for a $1 trillion reserve over ten years that could be used to meet additional needs and contingencies. This should provide a more-than-adequate cushion to ensure that we are able to avoid spending the Social Security surplus. Indeed one could argue that a larger reserve would simply invite a repetition of the excessive increases in discretionary spending we have seen in the last three years. The President's Blueprint outlines a budget plan that balances the priorities of debt reduction, tax relief, and increases in priority programs, with an appropriate reserve for unanticipated developments.

Spending Levels

3. **As you know, federal spending is out of control. According to CBO's January 2001 budget outlook, legislative changes made in the past six months lowered the budget surplus by $598 billion over the next ten years. In six months we spent half a trillion dollars over the baseline! This is just astonishing.**

Part of the problem is that our existing budget process was largely designed to control deficits. However, in our current budget environment with its surpluses, this process has broken down and needs replacement.

The expiration of the Budget Enforcement Act (BEA) in 2002 provides an important opportunity to fix the budget process and inject some fiscal discipline into the process.

Mr. O'Keefe, do you share my concern over the level of spending increases and in light of the Budget Enforcement Act's expiration, do you have any suggestions on how we might instill fiscal discipline into the budget process?

I do share your concern. Unrestrained growth in spending is a threat to the surplus and debt reduction. For that reason, the Administration proposes to fix the BEA by setting limits that would allow discretionary spending to grow with inflation over the next five years. This would provide more than adequate resources for the Government. In addition, the President proposed to close the "emergency spending" loophole through a strategy that would include adequate funding for domestic disaster programs in the regular budget and appropriations process, and an emergency reserve that would be available when extreme conditions arise. The budget also ends the use of advance appropriations to hide true spending levels by crediting them to other years.

We should also extend the PAYGO requirement for entitlement spending and tax legislation. The President's budget sets aside the Social Security surplus and additional on-budget surpluses for debt reduction and contingencies. These levels ensure the President's tax plan and his Medicare Helping Hand and modernization reforms would be fully financed by the surplus. Any other spending or tax legislation would need to be offset by reductions in spending or increases in receipts.

Future Budget Liabilities

4. **I have long worried that our Federal budget policy is short sighted. We tend to focus on next year and ignore what is coming down the pike because it is outside our "budget horizon."**

A case in point is the pending retirement of the baby boomers. We all know the baby boomers will start to retire at the end of the decade and that this will begin to cause severe budgetary problems. Nonetheless, Congress has been slow to act. Little is getting done, despite the fact we all know that by acting earlier it is much easier to handle these problems than if we wait until the last minute.

It would be helpful if OMB could report additional information on the magnitude of the costs of future budget obligations under current law. For example, OMB could regularly report the high level of payroll taxes that will be necessary in future years to maintain existing Medicare and Social Security benefits. By reporting this information and lending its authority to these figures, OMB could help prompt much needed action on entitlement reform.

Mr. O'Keefe, what role do you think that OMB should have in highlighting future budget problems and liabilities?

The Administration is also concerned about the impending pressures on Social Security and Medicare. The budget proposes reforms for Medicare, and the President has proposed establishing a commission to develop specific reform proposals for Social Security.

OMB can make a valuable contribution to the discussion of long-range entitlement reform by showing the implications for the overall budget of various possible scenarios, including an extension of current law. For several years, such long-range projections have been published in Chapter 2 of *Analytical Perspectives*. In recent years, as the near-term budget outlook has improved, so has the long-term outlook. Indeed, absent further policy changes, the Government would begin by the middle of this decade to accumulate growing amounts of "excess cash balances."

The annual Trustees' reports for Social Security and Medicare include calculations of the tax rate changes that would be needed to preserve current benefits without further reforms. The change in their actuarial balance and the reasons for the change are published in a small table in the above mentioned *Analytical Perspectives* chapter

Action is needed to reform Medicare and Social Security, and the earlier reforms can be implemented the better to ease transitional problems. OMB will be eager to cooperate in efforts to highlight the need for reform and the implications of possible reforms on the budget in the long term as well as in the near term.

Leadership

5. **If you have spoken with your predecessors—those who have held the position you now seek—about their lessons learned on how to manage OMB effectively, describe how their advice and experience has influenced your thinking and plans.**

As I have indicated previously, if I am confirmed as Deputy Director, I am committed to providing strong and ongoing leadership to effectively manage OMB. With Director Daniels, I will recruit experienced managers in filling key policy positions at OMB, such as the Deputy Director for Management. Performance-based management, a priority government-wide, will be a priority in leading and managing internally at OMB. These and other perspectives have been shaped by discussions with predecessors.

Training

6. **Numerous GAO reports have highlighted the need for agencies to expend more resources on effective training and professional development programs to better equip federal employees for the workplaces of the future. Based on your experience, what priority would you place on workplace development, and how would you emphasize continuous learning at OMB?**

I fully support and encourage staff training and development. I understand that OMB divisions prepare annual training and development plans to include the full scope of training opportunities for staff (e.g., new employee orientation and continued skills development for analysts; administrative skills development; management and executive development; and opportunities for short-term developmental rotational assignments within OMB and to other organizations). If confirmed, I will continue this practice.

QUESTION SUBMITTED BY SENATOR DANIEL K. AKAKA
To Sean O'Keefe

1. **Mr. O'Keefe, there have been numerous press reports that the Administration plans to compete more than 400,000 federal jobs and reduce the number of federal managers. I understand that the Office of Management and Budget is reviewing the President's plans to reform government, as outlined in his June 9, 2001 campaign speech and his FY02 budget proposal.**

   Would you share with us the specific issues is OMB reviewing and whether there is a time frame for this review?

   The President's budget blueprint includes a comprehensive agenda of program accomplishment and management reform across the Government. Chapter IX "Government Reform" highlights the major reforms to improve the functioning of Government and to achieve efficiencies in its operations. The agenda builds on existing laws, such as the Government Performance and Results Act and the Federal Activities Inventory Reform Act, and places new emphasis on specific reforms. The President envisions a Government that has a citizen based focus, is results-oriented, and, where practicable, is market-driven. This task will not be easy and it will take time. This year's budget is just the first step in this process.

2. **With regard to contracting out, I understand that there will be a push by the Administration to expand A-76 competitions. However, Congress has charged the General Accounting Office (GAO) to convene a commission to review A-76 issues and report back to Congress in 2002.**

   Does the Administration plan to wait until the GAO A-76 commission completes its review before making greater use of A-76 competitions, and if not, why?

   Section 832 of the FY 2001 Defense Authorization Act requires the General Accounting Office (GAO) to convene a panel of experts to review public-private competition, in general, and the implementation of the FAIR Act and the OMB Circular A-76, in particular. As a matter of law, OMB will be a part of this panel. A report by the panel is not due to be submitted to the Congress until May 1, 2002.

   If confirmed, it is my intention to work closely with Director Daniels and the Deputy Director for Management (DDM) to fulfill the President's commitment to compete not less than 50 percent of the FAIR Act inventory of commercial (non-inherently governmental) activities. That process begins with the FAIR Act inventories, which, as you know, currently lists 850,000 Federal positions that perform work that could be performed by the private sector—commercial work that has never undergone competition.

   On February 15, 2001, the Director issued guidance to agencies on Performance Goals and Management Initiatives for FY 2002. Director Daniels and I will expect significant improvements in the FAIR Act inventories, due to OMB on June 30th, and will continue to work with the agencies to identify opportunities to expand the number of competitions being conducted.

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