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THE PRESIDENT'S MANAGEMENT AGENDA: GETTING AGENCIES FROM RED TO GREEN

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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THE PRESIDENT'S MANAGEMENT AGENDA: GETTING AGENCIES FROM RED TO GREEN

FRIDAY, FEBRUARY 15, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn.

Staff present: J. Russell George, staff director and chief counsel; Bonnie Heald, deputy staff director; Henry Wray, senior counsel; Earl Pierce, professional staff member; Justin Paulhhamus, clerk; Michael Sazonov, intern; David McMillen, minority professional staff member; and Jean Gosa, minority clerk.

Mr. HORN. A quorum being present, the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order.

Improving the performance of the Federal Government is central to the jurisdiction of this subcommittee. Making the Federal Government work more efficiently and effectively has taken on renewed importance in the wake of September 11th.

The Federal Government suffers from a host of seemingly intractable management problems that undermine its ability to deliver the performance that American taxpayers expect and deserve. These problems affect virtually every area of the Federal Government. They include critical computer security weaknesses, pervasive financial management woes, and the inability to demonstrate what most Federal programs accomplish.

As a subcommittee chairman, I have spent the last 7 years examining these problems. What I find most frustrating is that the problems do not need to persist. For the most part, solving them does not require new laws or major infusions of money; it does require strong leadership at the highest levels of the government.

Such leadership must be coupled with sustained commitment to focus on the problem and to hold people accountable until the job is done. President Bush and his administration have demonstrated an unprecedented commitment toward solving these deeply ingrained governmentwide problems.

The President's management agenda, which was unveiled last August, targets five major areas that need well-focused attention: hiring and retaining a skilled and motivated Federal workforce;

eliminating the government's pervasive inability to properly manage its money; ensuring that Federal programs achieve effective results from their massive investment of tax dollars; expanding electronic government; and the last of the five areas, increasing public-private competition for commercial types of Federal functions.

The President's new budget contains a scorecard showing how Federal agencies rate in each of these five areas. The scorecard uses a traffic light approach: green for success, yellow for mixed results, and red for unsatisfactory. Not surprisingly, the scorecard is ablaze in red.

The budget also includes a roadmap of specific goals to help agencies move from red to green.

The Office of Management and Budget did the scoring. We understand that the President personally discussed the scores with agency leaders during their budget reviews. The Office of Management and Budget will evaluate agencies every 6 months on their progress toward improving their performance in each of the five areas. A new round of scores is to be in each part of the budget in the future.

In addition to the management scorecard, the President's budget includes specific assessments of the effectiveness of selected agency programs and activities. Poor performers do not like scorecards. However, after using scorecards extensively as an oversight tool, I can attest they work. They focus attention on the problem, they provide a framework for assessing progress, and they promote accountability.

The budget scorecard follows the approach the subcommittee used to focus the executive branch and agency attention on the Y2K computer challenge. With sustained attention, the scorecard can have similar success in resolving these important government-wide problems.

I welcome today's witnesses, and I look forward to working with each of you to ensure the success of the President's management improvement agenda.

I am delighted to have as one of our Members today the gentleman from Texas, Mr. Pete Sessions, who is the head—and began it—of the Results Caucus. He has Members from both parties in the House of Representatives, and it is wonderful to have him here again. He was in this work for many years, and then he went to the Rules Committee.

I am delighted to have Pete Sessions here, and if you would like to give an opening statement, please do. I have read it, so it is good.

STATEMENT OF HON. PETE SESSIONS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. SESSIONS. Mr. Chairman, thank you so much. It is a great honor not only to be with you today, but a cadre of people who are assembled today for the purpose of not only having a better government and living up to that, but also for accountability within the U.S. Government.

It is no surprise to me that the people who are here today are those that have been around for quite some time and have watched not only your leadership but your skill at making sure, Mr. Chair-

man, that this issue is in the forefront of not only the Members of Congress' minds, but also the administration.

This administration, I believe, has a focus not only upon the things that this committee and this subcommittee have been attempting to accomplish for quite some time, but they came into the job with the knowledge that for our government to work effectively, it is not about throwing money in it; it is about throwing results and accountability, which will allow us the chance to have a government which, in the long run, works best when we need it.

As I have stated many times, Mr. Chairman, the goal of all of this is for us to give every single dollar to the government that it needs, but not a penny more. And when we go about marrying up accountability with the budget process, then we will find that accountability, in fact, happens.

Mr. Chairman, I do have an opening statement that I would like to ask unanimous consent to enter into the record.

Mr. HORN. Without objection.

Mr. SESSIONS. I would like to make several comments this morning about the nature of my participation.

OMB Director Mitch Daniels said that the budget should not be merely how much but how well it accomplishes its goals. Results are now going to be the focal point of the Bush administration. I testify today in support of this portion of the administration's budget that offers a reform-based plan to ensure accountability to taxpayers.

Now, more than ever, this government needs money to be spent properly. Now, more than ever, we need to make sure that the focus of the needs for that money go properly, and as we have seen demonstrated as a result of September 11th, the need stretches all across government. It is not just about FEMA, it is not just about welfare or assistance programs that we have, it is not just about making sure that our military has the things that they need to combat terrorism, it is not just about a sharing of information to ensure that our intelligence community is working properly, it is about making sure that all of these are done effectively and efficiently so that we are prepared to avoid the next problem; and certainly inefficiency by itself breeds inaction and the inability to be prepared.

Mr. Chairman, I am sure you are aware of this, but there is a new example of this Congress taking the initiative on behalf of appropriators. In the House Appropriations Transportation Subcommittee, Hal Rogers has already made sure that he became engaged in this when he cut the bonus pool for fiscal year 2002 at the Federal Aviation Administration by half and the bonus money of the Department of Transportation by one-seventh because these agencies failed to meet their target under the 1993 Government Performance Results Act.

Mr. Chairman, this is how you marry up with getting results. If we hold people accountable, if we give them the things they need and they do not measure up to what we have asked them to do and what they have committed to do, in fact there should be something at risk, and certainly a bonus pool is a quick way to do that.

Mr. Chairman, as you know, our President has talked many times about the need to make sure that government is efficient; but

in particular, I believe this administration has gone as far—or what I would say, further than perhaps what the roadmap would have talked about.

Today we are going to hear a great deal of testimony about what is called the red light, yellow light, green light. And I believe that when you come into a job, any job, you should do an evaluation of where you are to know where you are going to head.

In particular, I believe what is called the executive branch management scorecard is something that will offer us not just a red light, green light, or yellow light as to their total success, but rather to break it down into the categories that are necessary: human capital, competitive sourcing, financial management, e-Government, and performance and budget integration.

These are the areas which I believe President Bush has focused on, and he will direct each of his Cabinet-level officers, and in fact the entire government, to make sure that it is not just a matter of living within the budget, it is not just a matter of looking at one part of the business, but rather a bold initiative and a plan which will offer his administration the ability to take resources, the meager resources, the humble resources, that come from the taxpayers, and make sure they are turned into action.

I would like to quote the President because, by and large, this is what the President has said as part of the initiative. President Bush said, "It is a bold plan, and it is matched by a bold agenda for government reform."

Mr. Chairman, for the first time in a long time, I can tell you that I believe that the Congress of the United States, much of it through your leadership and the leadership of Chairman Dan Burton, has offered an opportunity for this administration to work hand-in-hand so that this administration and every single government employee will recognize that we value their jobs, we value the time that they spend; but more importantly, that their time adds up to be a value-add for the taxpayer and for the effort of the American people.

I am one person who believes that America's greatest days lie in our future; I do not believe they are behind us. But if we do not transform effectively and efficiently those things that we have, we will find that people will look to other sources, other than the government, because it will be inefficient and sooner or later become corrupt.

I believe that our President and the people of this administration, as well as your leadership, offer a vision of hope and a real chance to say that if we continue down the path we are going, that when it is our time to leave and the President's time to leave, that we can say we did a job that was well done. I think that is the ultimate compliment and an ultimate goal which we should aim for.

Thank you for allowing me to be here today.

Mr. HORN. Without objection, we want you here and your statement.

Mr. SESSIONS. Thank you. I want you to be aware that your leadership makes a huge difference, and I appreciate you very much.

[The prepared statement of Hon. Pete Sessions follows:]

Testimony before the House Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations

by

The Honorable Pete Sessions, R-TX
Chairman, Results Caucus
U.S. House of Representatives
February 15, 2002

Good morning. I would like to thank Chairman Horn for giving me the opportunity to testify before this Subcommittee on "the President's Management Agenda: Getting Agencies from Red to Green." As Chairman of the Results Caucus, I am pleased to congratulate President Bush on his efforts to afford accountability in the new budget. Spun out of the Government Performance Results Act of 1993, the Results Caucus is a coalition of reform-minded members of Congress who share the common goal of addressing major management problems within the federal government.

Unfortunately long-standing management deficiencies continue to plague many of the federal government's programs and operations. While we have passed many reforms since 1993, this problem must be addressed in a holistic way from both the executive and legislative branches.

I am testifying in support of the portion of the Administration's budget that offers a reform-based plan to ensure accountability to taxpayers. For the first time ever, the presidential budget begins the process of tying together budget items to performance and accountability. The Administration is committing itself to achieving immediate, concrete, and measurable goals in the short-run.

By holding agencies accountable, we can prove that taxpayer money is being spent in a wise manner. We will no longer focus on how much funding has increased over last year's base level, but what it has actually accomplished. OMB Director Mitch Daniels said that the budget "shouldn't be merely how much, but how well" it accomplishes its goals.[1] Results will now be the focal point of future budgets, not funding increases.

Departments and agencies are not solely responsible for problems that they encounter while serving the public. Sometimes Congress enacts laws that restrain agencies from managing in a more effective manner. But Congress also has opportunities to eliminate these restrictions.

President Bush proposed the "Freedom to Manage Act" last year in order to make a commitment to reform the federal government by eliminating obstacles to efficient operation. Several pieces of legislation have come out of the act, including a bill that I introduced last summer, the Federal Asset Management Improvement Act (HR 2710).

FAMIA will aid the General Services Administration in its effort to more effectively manage its 3.2 billion square feet of office buildings, military installations, housing, storage, hospitals, schools, and other facilities and millions of acres of land. I have been working closely with GSA in order to ensure that its property managers are allowed to use the proper tools and flexibility to better manage federal programs and meet future challenges.

FAMIA will remove many of the restrictions which GSA Administrator Steve Perry faces in his attempt to make GSA a more efficient operation. Innovations, such as public-private partnership authority and real estate management, are awarded to GSA. Our President and GSA deserve this needed level of managerial flexibility granted by Congress.

Congressman Hal Rogers represents the positive role that Congress has played by demanding accountability for performance in his area of expertise. As chairman of the House Appropriations transportation subcommittee, Chairman Rogers cut the bonus pool for FY 2002 at the Federal Aviation Administration by half and bonus money at the National Highway Traffic Safety Administration by one-seventh because the agencies failed to meet their target under the 1993 Government Performance and Results Act. I would like unanimous consent to submit a January 27, 2002 article from *The Washington Post* detailing Chairman Rogers' actions to the Congressional Record.

Unfortunately Congress alone cannot hold agencies and departments accountable for their performance. The Administration understands this. They have created a simple "traffic light" grading system into the 2003 Budget. Often found in well-run private businesses, the grading system provides the agencies and departments with target areas from which to improve. The management scorecard serves as a gauge of results and brings a corporate efficiency to the federal government.

The abundance of red lights in the initial release reveals the poorly managed agencies and departments that this Administration inherited. This system provides a map for management reform and I look forward to the day that green lights outnumber red. President Bush has set the agenda for reforming the Budget and government efficiency. Congress must share the responsibility.

Agencies and departments should not be excused from meeting certain conditions due to the fact that they are a government entity. The federal government should be held to the same strict performance measures as private sector businesses in order to achieve the highest results for its customers – in this case, the American people.

Reform-based presidential budget initiatives in the past often faded away due to a lack of oversight from Congress. The myriad of items consuming Congress' agenda this year should serve as no excuse to forget the accountability measures in the 2003 Budget. By setting high standards of demanding accountability from itself, the Administration will need full support from Congress. It is Congress' obligation to mirror President Bush's high standards and offer assistance to the President for reaching accountability.

Our President understands the need for accountability and efficiency in a budget. The results-oriented budget model brings a sense of corporate efficiency to the federal bureaucracy. It brings a common sense element to the 2003 Budget. Programs rated "effective" should see their budgets boosted. Programs that are not working should be reinvented, redirected, or retired. In the words of OMB Director Mitch Daniels: "There are plenty of places to reduce spending when you separate the effective programs from the ineffective programs. The budget will take a long step toward governing with accountability."[ii]

Now more than ever, we need strong leadership from the Executive level to end years of unaccountable performance from agencies and departments. We know what needs to be done. We now have that strong leadership at the Executive level and a Congress in place to hold the Administration accountable for budgetary goals.

As President Bush said: "It is a bold plan – and it is matched by a bold agenda for government reform."[iii] I ask my colleagues to support President Bush's plan to promote accountability for performance in the budgetary process.

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[i] "The Accountability Budget." William D. Eggers. *Wall Street Journal* February 4, 2002. A16
[ii] "The Budget Message of the President." Office of Management and Budget http://www.whitehouse.gov/omb/budget/fy2003/bud01.html
[iii] "The Budget Message of the President." Office of Management and Budget http://www.whitehouse.gov/omb/budget/fy2003/bud01.html

Mr. HORN. Thank you.

I want to echo what you previsouly said and say that Hal Rogers did an outstanding job. I have never seen an appropriator or any authorizer—and when he got all of the airlines and different security groups these last few months, he brought them in at 10 a.m. and said, "We are not letting you out of here until 5 o'clock, and we are going to find out what happens, and we want you to come back a week or so later." He did, and he went right down the line.

I told him, "I wish every authorizer and appropriator would do exactly what you are doing," because we finally got progress. People had to talk to each other. So that was very worthwhile, and he ought to get a statue somewhere around this Capitol.

Now we are going to start with our fine witnesses here, and we, as you know, are an investigative committee, so we give the oath to our guests.

If you will raise your right hands, and any of your assistants that are going to whisper in your ear, I want them under oath, too.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all the witnesses affirmed the oath.

Now we will begin with the Honorable Mark W. Everson, Controller, Office of Federal Financial Management, Office of Management and Budget. Mr. Everson has a very fine record, and we are glad to have him before us. This is exactly what is needed.

The controller role in the Office of Federal Financial Management within OMB is a statutory office, and the work he can do will make a real difference in the executive branch.

He is also vice chairman of the President's Management Council, and prior to coming to the Bush administration in August, Mr. Everson served as group vice president, Finance, of S.C. International Services, Inc., which is a $2-billion, privately owned, Dallas-based food services company with leading market positions in both airline catering and home meals solutions.

If you had stayed there and turned that into security, you would probably be a billionaire. But that is one of our major problems. So we are delighted to have you. If you could, we have read your text, and if you could summarize it, we would appreciate it. A lot of people have airplane trips and whatnot. So please proceed.

STATEMENTS OF MARK W. EVERSON, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; J. CHRISTOPHER MIHM, DIRECTOR, STRATEGIC ISSUES, U.S. GENERAL ACCOUNTING OFFICE; AND GASTON L. GIANNI, JR., INSPECTOR GENERAL, FEDERAL DEPOSIT INSURANCE CORP., VICE CHAIR, PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

Mr. EVERSON. Certainly. Thank you, Mr. Chairman, Congressman Sessions. I would note, I just learned since my moving up here, he would have been my Congressman, I gather, shortly, with the changes in Texas. But thank you both for your interest in this subject.

This is my first time before the Congress since I was confirmed, and I am delighted that it is on this subject, because your leadership, Mr. Chairman, on scorecarding, on accountability, is some-

thing that we are trying to emulate and further in the work that we are doing.

I will cover two principal subjects in my brief remarks, and one third, on the particular initiative that I think merits some reflection.

You both have well articulated the President's management agenda. There are five governmentwide initiatives that were selected to be focused upon because they are pervasive, they cut across all of the departments in terms of a lot of work is left to be done, no matter where you turn.

That does not mean that we are not focusing on additional areas. As you know, there are nine additional initiatives that are department-specific that we are looking at, that the President is tracking as well. But the bulk of the commentary and the effort in the management scorecard that you have mentioned pertains to the five. They are the strategic management of human capital, competitive sourcing and improving financial management, expanding electronic government, and also budget and performance integration.

The scorecard itself, as you indicated—and we have it over here—shows a lot of very poor marks. Eighty-five percent of the initial evaluations which we conducted as of the end of September 2001, this last fiscal year, were red. That means that against standards that we articulated, developed, and vetted with outsiders—financial management, for instance, we took them to the Comptroller General, to the Secretary of the Treasury, my boss, Mitch Daniels—it was not just an OMB, effort, though—to make sure that we did good, strong standards in each area.

The way the scorecard works, to get the green you have to meet a whole series of what we call "core criteria" for well-managed enterprises, a private-sector-like standard, if you will, applied in the government context. But on the other hand, you are red if you have any one of a number of serious flaws.

Again, in financial management, my area, an example of that would be if the auditor is unable to express an opinion on your financial statements. So, unfortunately, in 85 percent of these measured categories, the government agencies and departments are red as of the end of the last fiscal year.

I think there is a lot of opportunity for progress. We will be tracking the progress side. Agencies are currently finalizing their plans to get themselves out of the ditch, if you will. That is an active and ongoing discussion between OMB and also OPM, which is the leader in human capital, that initiative, and the departments and agencies.

The second subject I would very briefly touch on is what you talked about, performance and results. You will notice as you go through this document—and I really do commend it to you, a whole new approach—we are trying to tie together performance of programs.

As you know, GPRA had six principal objectives. One of them was certainly performance. This document for the first time goes through and highlights major programs, and not only those by any means, and takes a shot at an honest evaluation of the effectiveness of the program: Is the money getting the desired outcome that the taxpayer can expect?

It is a first effort, it has a long way to go, and we welcome the input of the committee and other interested parties in helping us develop a performance budget-based concept.

I want to close with just one particular—a plug for one particular initiative. It is in the accounting area.

The budget has made a change in the accounting for certain of the retirement costs. There was an inconsistency in law. The bulk of the retirement costs under the first program in the military retirement system is already charged directly to programs, but some of the retirement costs for the older system, the predecessor system, were still held centrally. We have taken a first step, which was conceptually called for by the AIGA, the Association of Government Accountants, and endorsed in principle by the Joint Financial Management Improvement Program, which again includes the Secretary of the Treasury and the Comptroller General, to change this presentation so all the retirement costs for employees will actually be charged in the budget against programs.

We think that is greater transparency, greater accountability, and an important first step in trying to marry up dollars and results.

Those are sort of the three points I would like to emphasize this morning, Mr. Chairman.

[The prepared statement of Mr. Everson follows:]

STATEMENT OF THE HONORABLE MARK W. EVERSON,
CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

February 15, 2002

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before the subcommittee to discuss the Administration's efforts to improve the management and performance of the federal government. I would like to discuss two important components of this effort. One is the President's Management Agenda and the Administration's use of an Executive Branch Management Scorecard to track improvements in the five government-wide problem areas targeted by the President. The other is the manner in which the President's Budget for 2003 seeks to foster accountability in government – taking a first step toward performance-based budgeting. In addition, I would like to briefly discuss a specific initiative to improve financial transparency – a modest but important step to more closely align the federal government's budgeting process with its financial accounting and reporting.

The President's Management Agenda and Scorecard

Since the beginning of his Administration, the President has called for better management of the federal government. Beginning with his Budget Blueprint in February 2001, continuing in the FY 2002 Budget and in his Management Reform Agenda released in August 2001, the President has repeatedly spelled out a clear agenda for government reform.

Rather than pursue an endless and disconnected array of initiatives, the Administration has elected to identify the government's most glaring problems – and solve them. The President has ordered the pursuit of five government-wide initiatives that together will help government achieve better results.

The first initiative, Strategic Management of Human Capital, aims to attract talented and imaginative people to the federal government in order to improve the service provided to our citizens. A second, Competitive Sourcing, exposes parts of government to competition so that they may better focus on what customers want while controlling costs. A third project, Improving Financial Performance, improves how government manages its money – reducing, for instance, the billions in erroneous payments the government makes every year. A fourth project, Expanded E-Government, harnesses the power of the Internet to make government more productive. The fifth, Budget and Performance Integration, begins the process of linking resource decisions with results – the underlying information needed to hold government accountable.

Good intentions and good beginnings are not the measure of success. What matters in the end is completion: performance and results. In order to ensure accountability for performance and

results, the Administration is using an Executive Branch Management Scorecard. The scorecard tracks how well departments and agencies are executing the President's management initiatives, and where they stand at a given point in time against overall standards for success.

The scorecard employs a simple "traffic light" grading system common today in well-run businesses: green for success, yellow for mixed results, and red for unsatisfactory. Scores are based on five standards for success defined by the President's Management Council and discussed with experts in government and academe, including individual fellows from the National Academy of Public Administration.

The standards for financial management, for example, were reviewed by the Secretary of the Treasury, the Comptroller General, and the Director of the Office of Management and Budget (OMB). Under each of the five sets of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has even one of any number of serious flaws. For example, in financial management, an agency is "red" if its books are in such poor condition that auditors cannot express an opinion on the agency's financial statements.

A 2001 baseline evaluation of departments and agencies against the standards for success shows a lot of poor scores with 85% red and only one green, in financial management at the National Science Foundation. This was to be expected since, as the President indicated when selecting the Management Agenda items, the areas are "targeted to address the most apparent deficiencies where the opportunity to improve performance is the greatest."

Performance-based Budgeting

The President's Budget for 2003 takes the first step toward reporting to taxpayers on the relative effectiveness of the thousands of programs on which their money is spent. It commences the overdue process of seriously linking program performance to future spending levels. It asks not merely "How much?"; it endeavors to explain "How well?"

These changes have been called for by good government advocates for decades. A 1949 commission headed by the 31st President, Herbert Hoover, first introduced the term "performance-based budgeting." Subsequent Presidents launched efforts to get better results from government. During the 1990s, the Congress passed several statutes aimed at enhancing government's attention to performance. As you know, the Government Performance and Results Act (GPRA) in 1993 directed the executive branch to undertake the measurement of effectiveness and to reflect the answers in budget choices. As Senator John Glenn said several years later, "*The ultimate goal of GPRA is to use program performance information to guide resource allocation decisions.*"

In an initial and admittedly exploratory way, the FY 2003 Budget responds to these longstanding demands, proposing to reinforce provably strong programs, and to redirect funds in many cases from programs that demonstrably fail, or cannot offer evidence of success. Eager to

make government work better, the Administration used all of the performance information it could gather in making decisions for this Budget. We seek to change the burden of proof, asking agencies and advocates to supply evidence of program effectiveness instead of assuming effectiveness in the absence of evidence to the contrary. OMB staff and agencies collected evaluations, studies and performance documentation of all sorts from a variety of sources to assess which programs were effectively improving desired outcomes.

Over time, the results of this performance-oriented process of policy development and budget allocation will include:

- funding effective programs, which have demonstrated benefits greater than cost;
- shifting resources toward more effective programs from less effective ones that have similar purposes;
- setting program targets and strategies based on understanding performance and cost relationships;
- adding incentives to enhance program effectiveness; and
- improving efficiency in programs and support services.

The information on which program ratings are based is far from perfect, and some conclusions may ultimately prove erroneous. The Administration invites a spirited discussion and welcomes additional data, as well as suggestions about how to measure performance better throughout the federal government.

Financial transparency

In closing, I would like to highlight a specific step which will improve financial transparency. It is our belief that budget accounts should show the total resources required to achieve program results. Currently this is not always the case.

Our proposal would assign employee costs, including those relating to retirement, as direct charges to programs. For example, pensions for new employees and for military employees were reformed in the mid-1980s, with employers paying their share of the accruing costs. Yet, costs for employees hired earlier under the Civil Service Retirement System have been only partly charged to programs.

This accounting change would be an important step in closing the gap between current budgetary cost and uniform full operating cost so that cost and results can be compared to each other and across government. Importantly, this change will not affect the "bottom line" of the budget as a whole, or the basic budgetary concepts of budget authority, obligations, and outlays.

The need for financial transparency has been cited by both the American Institute of Certified Public Accountants (AICPA), and the Association of Government Accountants (AGA). In addition, the Joint Financial Management Improvement Program (JFMIP), whose principals include the Comptroller General, the Secretary of the Treasury, the Director of the Office of

Personnel Management, and the Director of OMB, has said, including the full costs of employees "in data used for budgetary decision-making would enhance both the planning process and the evaluation of the costs of operations. It would also provide for enhanced consistency and transparency relating to presentation of this information and greater accountability for results."

* * *

The steps the Administration is taking to improve government management including those in budget and performance integration and financial transparency are exciting and long overdue. I look forward to working with the committee and I'll take any questions you may have on these matters.

Executive Branch Management Scorecard

2001 Baseline Evaluation

	Human Capital	Competitive Sourcing	Financial Mgmt.	E-Gov	Budget/Perf. Integration
AGRICULTURE	●	●	●	○	●
COMMERCE	●	●	●	○	●
DEFENSE	●	●	●	●	●
EDUCATION	●	●	●	●	●
ENERGY	●	●	●	●	●
EPA	●	●	●	○	○
HHS	●	●	●	●	●
HUD	●	●	●	●	●
INTERIOR	●	●	●	●	●
JUSTICE	●	●	●	●	●
LABOR	○	●	●	○	●
STATE	●	●	●	●	●
TRANSPORTATION	●	●	●	●	○
TREASURY	●	●	●	●	●
VA	●	●	●	●	●
AID	●	●	●	●	●
CORPS OF ENGINEERS	●	●	●	●	●
FEMA	●	●	●	●	●
GSA	●	●	○	●	●
NASA	●	●	○	●	●
NSF	●	●	◐	○	●
OMB	●	●	●	●	●
OPM	○	●	●	○	●
SBA	●	●	○	○	○
SMITHSONIAN	●	●	●	○	●
SSA	○	●	○	○	●

Standards For Success - Human Capital

G	Y	
Must Meet All Core Criteria: • Agency human capital strategy is aligned with mission, goals, and organizational objectives: 1) integrated into Budget and Strategic Plans; 2) consistent with OPM's human capital scorecard (issued by December 1, 2001); and 3) complies with standards for internal accountability systems to ensure effective merit-based HRM. • Agency has a citizen-centered organizational structure that is delayered and oriented toward performing the mission assigned to it. • Agency 1) sustains high-performing workforce that is continually improving in productivity; 2) strategically uses existing personnel flexibilities, tools, and technology; and 3) implements effective succession plans. • No skill gaps/deficiencies exist in mission critical occupations. • Agency differentiates between high and low performers through appropriate incentive and rewards. • Changes in agency workforce skill mix and organizational structure reflect increased emphasis on e-government and competitive sourcing.	Achievement of Some but not All Core Criteria; No Red Conditions.	Has Any One of the Following Conditions: • Agency human capital strategy is not aligned to support the mission, goals, and organizational objectives and is not integrated into Budget and Strategic Plans. • Agency organizational structure is not citizen-centered and not delayered. • Agency does not 1) strategically use existing personnel flexibilities, tools, and technology; and 2) implement succession plans. • Agency is not addressing Skill gaps/deficiencies in mission critical occupations. • Agency fails to reward high performers and fails to address low performance. • Agency outsources without training and deploying adequate contract management staff, and/or without appropriate planning to accommodate displaced employees.

Standards for Success - Competitive Sourcing

G	Y	
Must Meet All Core Criteria: • Completed public-private or direct conversion competition on not less than 50 percent of the full-time equivalent employees listed on the approved FAIR Act inventories. • Competitions and direct conversions conducted pursuant to approved competition plan. • Commercial reimbursable support service arrangements between agencies are competed with the private sector on a recurring basis.	Achievement of Some but not All Core Criteria; No Red Conditions.	Has Any One of the Following Conditions: • Completed public-private or direct conversion competition on less than 15 percent of the full-time equivalent employees listed on the approved FAIR Act inventories. • Competitions and direct conversions are not conducted in accordance with approved competition plan. • No commercial reimbursable support service arrangements between agencies are competed with the private sector.

Standards for Success - Financial Management

G	Y	
Must Meet All Core Criteria: • Financial management systems meet Federal financial management system requirements and applicable Federal accounting and transaction standards as reported by the agency head. • Accurate and timely financial information. • Integrated financial and performance management systems supporting day-to-day operations. • Unqualified and timely audit opinion on the annual financial statements; no material internal control weaknesses reported by the auditors.	Achievement of Some but not All Core Criteria; No Red Conditions.	Has Any One of the Following Conditions: • Financial management systems fail to meet Federal financial management systems requirements and applicable Federal accounting standards as reported by the agency head. • Chronic or significant Anti-deficiency Act violations. • Agency head unable to provide unqualified assurance statement as to systems of management, accounting, and administrative controls. • Auditors cite material non-compliance with laws and regulations, or repeat material internal control weaknesses; or are unable to express an opinion on the annual financial statements.

Standards for Success - Expanding E-Government

G	Y	
Must Meet All Core Criteria: • Strategic Value: all major systems investments have a business case submitted that meets the requirements of OMB Circular A-11 (Exhibit 53, Form 300). • IT Program Performance: On average, all major IT projects operating within 90% of Form 300 cost, schedule, and performance targets. E-government and GPEA implementation: (must show department-wide progress or participation in multi-agency initiative in 3 areas) • Citizen one-stop service delivery integrated through Firstgov.gov, cross-agency call centers, and offices or service centers. • Minimize burden on business by re-using data previously collected or using ebXML or other open standards to receive transmissions. • Intergovernmental: Deploying E-grants or Geospatial Information one-stop. • Obtaining productivity improvements by implementing customer relationship management, supply chain management, enterprise resource management, or knowledge management best practices.	Achievement of Some but not All Core Criteria; No Red Conditions.	Has Any One of the Following Conditions: • Less than 50% of major IT investments have a business case per OMB Circular A-11 (Exhibit 53, Form 300). • On average, all major IT projects operating at less than 70% of Form 300 cost, schedule and performance targets. Fulfills not more than one of the following: • Citizen one-stop service delivery integrated through Firstgov.gov, cross-agency call centers, and offices or service centers. • Minimize burden on business by re-using data previously collected or using ebXML or other open standards to receive transmissions. • Intergovernmental: Deploying E-grants or Geospatial Information one-stop. • Obtaining productivity improvements by implementing customer relationship management, supply chain management, enterprise resource management, or knowledge management best practices.

Standards for Success - Integrating Budget and Performance

G	Y	
Must meet all core criteria: • Integrated planning/evaluation and budget staff work with program managers to create an integrated plan/budget and to monitor and evaluate its implementation. • Streamlined, clear, integrated agency plan/budget sets forth outcome goals, output targets, and resources requested in context of past results. • Budget accounts, staff, and specifically program/activities are aligned to support achieving program targets. • Full budgetary cost is charged to mission accounts and activities. Cost of outputs and programs is integrated with performance in budget requests and execution. • Agency has documented program effectiveness. Analyses show how program outputs and policies affect desired outcomes. Agency systematically applies performance to budget and can demonstrate how program results inform budget decisions.	Achievement of Some but not All Core Criteria; No Red Conditions.	Has Any One of the Following Criteria: • Planning and budgeting separate with little collaboration. Levels of organization have little and formal communication. Focus on getting funds for independent use. • Traditional budget request with little attempt to tie resources to results or communicate with other than budget technicians. • Excessive numbers of accounts, historical anomalies, accounts that fund illogical parts of programs. Centralized accounts that fund program resources; accounts that fund multiple programs with little in common. • No attention to charging cost to the right bureau, let alone the activity. Substantial costs "mixed up" at the agency or bureau level. Program managers lack authority over resources. • Focus on getting money for a good cause. Justification by anecdote. Little focus on outcomes, or how program influences them.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D. C. 20503

OFFICE OF FEDERAL
FINANCIAL MANAGEMENT

March 26, 2002

The Honorable Stephen Horn
Chairman
Subcommittee on Government Efficiency,
Financial Management and
Intergovernmental Relations
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for the recent opportunity to testify before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations on the subject of the President's Management Agenda and the Management Scorecard. As I mentioned at the hearing, the steps the Administration is taking to improve government management including those in budget and performance integration and financial transparency are long overdue. I expect our efforts to enhance government operations in all areas.

Enclosed, please find responses to the written questions you submitted to me following the hearing. Please let me know if you require further information.

Again, I appreciate your sustained interest and strong leadership in improving management throughout the Federal Government. I look forward to testifying before your Subcommittee again on April 9, where I hope to present in further detail the actions that the Administration is taking to improve financial management in the government.

Sincerely,

Mark W. Everson
Controller

We have reviewed the IG's response to the questions, and would offer the following additional information.

1. Based on the current state of your agency's financial management systems, how challenging will it be to complete next year's financial statement audit by February 1?

We agree that completing and issuing the FY 2002 Department-wide audited financial statements by February 1, 2003 is a major challenge. We expect to achieve this milestone. To make the February 1 date, the interim audit work will commence soon. In addition, the Department will issue interim financial statements for the period ending March 31, 2002, by the OMB required date of May 31, 2002.

2. Were this year's financial statements prepared from data produced routinely by the agency's financial management systems?

The financial statements are prepared for the most part (versus only to a limited extent) from data produced by the financial management systems. It is true that data, primarily for personal property, capital leases and certain accounts payable, are developed from sources other than the general ledger. However, these balances constitute a minority portion of the Department's total values presented in the financial statements.

In addition to the installation of new Hyperion software to improve the timeliness of financial reporting, the Department is implementing the use of our existing Fixed Assets Module for personal property in FY 2002. This will further increase the amount of financial statement data produced by the financial management systems.

3. Are the agency's financial and performance management systems integrated?

To improve planning, resource and financial management, key resource management and planning activities with respect to foreign assistance oversight (Function 150), appropriations

and financial services functions were consolidated into a new bureau - Resource Management (RM). RM is headed by the Assistant Secretary for Resource Management and Chief Financial Officer, Christopher B. Burnham. This reorganization significantly improves the coordination of policy and resources, and enhances organizational integration among our financial management (including systems), strategic planning and performance, and budget responsibilities.

5. Do the agency's financial systems provide timely, accurate, and useful data to support day-to-day management and policy-making?

Please see our comments to Question 2.

6. Provide further insights on the financial management systems.

The Department is in substantial compliance with applicable Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. However, the Department's financial management systems do not comply with Federal financial management systems requirements, as required by several laws and regulations. As required by FFMIA, RM has developed a Remediation Plan (Plan) to resolve this issue by the end of FY 2003. RM has completed several phases of the Plan, and the remainder of the Plan is on target and on schedule.

The Plan contains several major projects including the installation of a Regional Financial Management System (RFMS). RFMS will replace our legacy overseas financial systems and is on-schedule for implementation worldwide by the end of FY 2003. RFMS is comprised of a custom developed Disbursing System (RFMS/D) and American Management Systems' off-the-shelf accounting system. Implementation activities began in June 2001, when the RFMS/D module was brought on-line for Foreign Service National payroll disbursements to several countries in Central and South America. On November 1, 2001, RFMS became operational at our Charleston, South Carolina Financial Service Center (FSC), with Embassy Lima as the first serviced post offering the full range of financial services under RFMS. As of April 1, 2002, nine countries (posts) serviced at our Charleston FSC, and one country

serviced by at our Bangkok FSC, have gone live with RFMS. Based upon our success to date, we have increased our initial conversion total for posts for FY 2002 from 31 to 36.

In conjunction with establishing a single worldwide financial management system, the Department is also establishing a consolidated financial service delivery organization at our Charleston FSC. The Department plans to consolidate financial operations and certain systems functions from the FSCs in Paris, Bangkok, and Headquarters (Washington Metropolitan area) to the Charleston FSC. The consolidation action will streamline financial operations, reduce the Department's presence overseas, and convert Foreign Service National jobs to American employee jobs.

The second building in Charleston will be occupied in April 2002. As Paris FSC-serviced posts are converted to RFMS during 2002 and 2003, financial servicing will concurrently transition from Paris FSC to Charleston FSC and Bangkok FSC. During 2002, the domestic American Payroll and Foreign Service Pension functions will also be relocated to the Charleston FSC. Following completion of the Paris FSC consolidation, and renovation of a third building in Charleston (scheduled for March 2004), some Bangkok FSC operations will be consolidated into Charleston. At that time, the Charleston Financial Services Complex will serve as the Department's central financial servicing facility for all overseas financial management activities. The remaining portable domestic financial operations will be relocated to Charleston FSC by September 2006, and use the modern web-based, client-server Momentum® system.

As indicated in the responses by the IG, the Department has improved the security of our mainframe and other information systems. The Department's Management Control Steering Committee (MCSC), with the concurrence of the Inspector General, approved the closure of the material weakness for Information Systems Security for the Fiscal Year (FY) 2000 Federal Managers' Financial Integrity Act (FMFIA) Report. This was based on the fact that the processes, controls and administration of the security program had been significantly enhanced since this problem was identified.

Some of the many other IT security accomplishments to date include:

- Developed a Systems Security Program Plan (SSPP) that documents the Department's security program in its entirety,
- Adopted the National Security Telecommunications and Information Systems Security Instruction (NSTISSI), National Information Assurance Certification and Accreditation Program (NIACAP),
- Developed a Certification and Accreditation Document that establishes a standard process, set of activities, general tasks, and a management structure to certify and accredit systems,
- Established a 24X7 computer incident response team,
- Established an IT Configuration Control Board,
- Established the Remediation Program Office,
- Established antivirus program and processes, and
- Implemented an ongoing penetration-testing program.

Mr. HORN. I am glad you mentioned that. I have asked the staff to take a look at the accounting practices of various regulatory authorities within the executive branch to see if we are making some mistakes here. You are apparently on top of that, and I am glad to hear about that.

Mr. EVERSON. Thank you.

Mr. HORN. I might say, since all you Dallas people are here, there is one important Dallas person that wanted to come here very badly, but he had a longtime commitment. But he has been with us from the very beginning on the GPRA, so-called, the performance and results, and that is the majority leader of the House of Representatives, Mr. Armey. He is retiring this year and I am retiring this year, and we would like to get a lot of things done before all these things happen.

But he has been, from the very beginning, fighting for performance and results, so we are sorry he is not with us today. But Dallas seems to be doing good.

Mr. SESSIONS. I will second that, Mr. Chairman.

Mr. HORN. Gee, I thought you would. I have been in your fine city.

Next is the gentleman from the General Accounting Office, our right arm, and that is Christopher Mihm, the Director for Strategic Issues in the U.S. General Accounting Office.

For those that do not know, that office has been in the legislative branch since 1921, and the head of it is the Comptroller General of the United States. They do excellent work, and at every hearing we get into we try to give them a 6-month or 4-month lead, and we always like to hear what they have to say on the issue at hand.

Mr. Mihm, welcome here again.

Mr. MIHM. Thank you, Mr. Chairman and Mr. Sessions. Once again, it is always a great honor to appear before you. Of course, I will take your guidance and just hit the highlights of my written statement.

My major point this morning is that the administration's plan to use the scorecard to highlight the agencies' progress in achieving the goals embodied in the management agenda is a very promising first step. As we have seen by your example, Mr. Chairman, grading agencies on their progress can be an effective incentive to improve.

Mr. Sessions, as your efforts in leading the Results Caucus have underscored, many of the challenges agencies face are longstanding and complex, and will require some inspired and sustained attention. Therefore, as this subcommittee has emphasized by the topic of this hearing, the value of the scorecard is not in the scoring, but in the degree to which the scores lead to demonstrable improvements.

As you mentioned in your opening statement, Mr. Chairman, what we need now is leadership, hard work, and accountability until the job is done. With that in mind, there are three points that I just want to touch on very briefly.

First, the President's five governmentwide initiatives cannot be successfully addressed in an isolated or piecemeal fashion, separate from one another or from other management challenges and in

high-risk areas facing the agencies. The administration clearly appreciates this, as their budget documents demonstrate.

We believe that the initiatives must be addressed in an integrated way to ensure that they drive a broader transformation of cultures within Federal agencies. At its essence, this cultural transformation must seek to have Federal agencies become less hierarchical, less process-oriented, less stovepiped and inwardly focused, and more flat, partnerial, results-oriented, integrated, and externally focused.

This integrated thinking also needs to be applied to programs and mission areas, as you pointed out, Mr. Sessions, in your comments about government post-September 11th.

My second point this morning is that while agencies will have to undertake the bulk of the effort in addressing their respective management weaknesses, the improvements needed have important implications for the central management agencies as well. OMB, OPM, the General Services Administration, the Department of the Treasury will need to remain actively engaged throughout the planning and implementation of the President's initiatives in order to ensure that the agencies bring to bear the resources and capabilities they need to make real progress.

The central management agencies, therefore, need to ensure that they, too, have the capabilities in place to support and guide efforts. These will be critical to help agencies identify root causes of their management challenges, pinpointing specific actions, providing agencies with tools and additional support, including targeted incentives where needed, to address shortcomings and assist agencies in monitoring and reporting progress.

Third and finally, in implementing the President's management agenda, it will be important to ensure that improvement plans and status information are made available so that Congress, other interested parties, and the public can help identify solutions and assess progress.

It can only be through the continued attention of Congress, the administration and Federal agencies that progress can be sustained and, more importantly, accelerated. Transparency, therefore, will be crucial to making lasting and effective changes.

In summary, Mr. Chairman and Mr. Sessions, highlighting attention to longstanding management weaknesses through the President's management agenda and the executive branch management scorecards are certainly important steps in the right direction.

At the same time, it is well recognized that consistent progress in implementing these initiatives will be key to making real improvements in performance and management across the Federal Government.

We are pleased that this subcommittee and others in Congress have turned to GAO for assistance on Federal management issues, and of course, we look forward to continuing to assist Congress and agencies in this regard, and would certainly be pleased to provide any additional assistance that you may request.

I would be happy to take any questions that you may have.

Mr. HORN. Well, thank you very much.

[The prepared statement of Mr. Mihm follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency,
Financial Management and Intergovernmental Relations
Committee on Government Reform
House of Representatives

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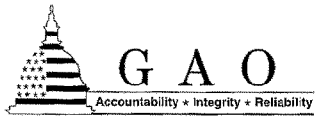
MANAGING FOR RESULTS

Next Steps to Improve the Federal Government's Management and Performance

Statement of J. Christopher Mihm
Director, Strategic Issues



GAO-02-439T

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the President's Management Agenda to improve the management and performance of the federal government. The federal government is one of the largest, most complex, and diverse organizations in the world, facing a wide range of challenges in responding to a number of key trends, such as globalization, changing security threats, and demographic changes. Especially in light of the tragic events of September 11, federal agencies will need to work better with other governmental organizations, nongovernmental organizations, and the private sector, both domestically and internationally, to achieve results. Focusing on accountable, results-oriented management can help the federal government use this network to deliver economical, efficient, and effective programs and services to the American people.

My central point today is that the administration's plan to use the Executive Branch Management Scorecard to highlight agencies' progress in achieving management and performance improvements embodied in the President's Management Agenda is a promising first step. However, it is important to recognize that many of the challenges the federal government faces are long-standing and complex, and will require sustained attention. Therefore, as this subcommittee has emphasized by the topic of this hearing, the value of the scorecards is not in the scoring, but in the degree to which scores lead to sustained focus and demonstrable improvements. This will depend on continuing efforts to assess progress and maintain accountability to ensure that agencies are able to, in fact, improve their performance.

As agreed with the subcommittee, my statement today will:

- discuss the administration's scorecard approach to address five crosscutting management initiatives,
- describe the key elements that our work suggests are particularly important in implementing and sustaining management improvement initiatives so that they genuinely take root and eventually solve the problems they are intended to fix, and
- highlight the need for transparency and congressional oversight to provide the continuing attention needed to improve management and performance across the federal government.

The Administration's Scorecard Provides a Starting Point for Improving Federal Management

The objective of the Executive Branch Management Scorecard is to provide a tool that can be used to track progress in achieving the President's Management Agenda. Using broad standards, the scorecards in the president's budget grade agencies' performance regarding five governmentwide initiatives, which are:

- strategic management of human capital,
- competitive sourcing,
- improved financial performance,
- expanded electronic government, and
- budget and performance integration.

Central to effectively addressing the federal government's management problems is recognition that the five governmentwide initiatives cannot be addressed in an isolated or piecemeal fashion separate from the other major management challenges and high-risk areas facing federal agencies.[1] As stated in the President's Management Agenda, they are mutually reinforcing. More generally, the initiatives must be addressed in an integrated way to ensure that they drive a broader transformation of the cultures of federal agencies. At its essence, this cultural transformation must seek to have federal agencies become less hierarchical, process oriented, stovepiped, and inwardly focused; and more flat, partnerial, results oriented, integrated, and externally focused.

The focus that the administration's scorecard approach brings to improving management and performance is certainly a step in the right direction. As we have seen by your example, Chairman Horn, in calling attention to agencies' financial management, the year 2000 computer concerns, and computer security issues by grading agencies on their progress, this approach can create an incentive to improve management and performance. Similarly, we have found that our high-risk list has provided added emphasis on government programs and operations that warrant urgent attention to ensure our government functions in the most economical, efficient, and effective manner possible.

[1] U.S. General Accounting Office, *DOD Financial Management: Integrated Approach, Accountability, and Incentives Are Keys to Effective Reform*, GAO-01-681T (Washington, D.C.: May 8, 2001).

The President's Management Agenda focuses on important challenges for the federal government. The items on the agenda are consistent in key aspects with the federal government's statutory framework of financial management, information technology, and results-oriented management reforms enacted during the 1990s. In crafting that framework, Congress sought to provide a basis for improving the federal government's effectiveness, financial condition, and operating performance.[2] Moreover, I believe it is worth noting the clear linkages between the five governmentwide initiatives and the nine program-specific initiatives identified by the administration, and the high-risk areas and major management challenges that were covered in GAO's January 2001 Performance and Accountability Series and High-Risk Update.[3] For example, we have designated strategic human capital management as a governmentwide high-risk area that presents a pervasive challenge throughout the federal government, and this is also one of the president's governmentwide initiatives. Our work has found strategic human capital management challenges in four key areas, which are:

- strategic human capital planning and organizational alignment;
- leadership continuity and succession planning;
- acquiring and developing staffs whose size, skills, and deployment meet agency needs; and
- creating results-oriented organizational cultures.

In the area of improved financial performance, we have continued to point out that the federal government is a long way from successfully implementing the statutory reforms Congress enacted during the 1990s. Widespread financial management system weaknesses, poor recordkeeping and documentation, weak internal controls, and the lack of cost information have prevented the government from having the information needed to effectively and efficiently manage operations or accurately report a large portion of its assets, liabilities, and costs. Agencies need to take steps to continuously improve internal control and underlying financial and management information systems to ensure that

[2] U.S. General Accounting Office, *Managing for Results: The Statutory Framework for Performance-Based Management and Accountability*, GAO/GGD/AIMD-98-52 (Washington, D.C.: Jan. 28, 1998).

[3] U.S. General Accounting Office, *Performance and Accountability Series*, GAO-01-241 through 262 (Washington, D.C.: January 2001). U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: January 2001).

managers and other decision makers have reliable, timely, and useful financial information to ensure accountability; measure, control, and manage costs; manage for results; and make timely and fully informed decisions about allocating limited resources.

Another of the administration's initiatives is to integrate performance review with budget decisions, with a long-term goal of using information about program results in making decisions about which programs should continue and which to terminate or reform. The Office of Management and Budget (OMB) has changed the presentation of the president's budget to provide added focus on whether programs are effective, and a management focus is present throughout the budget document's discussions of the agencies. In our observations of agencies' efforts to implement the Government Performance and Results Act (GPRA) and the Chief Financial Officers Act, more agencies were able to show a direct link between expected performance, resources requested, and resources consumed.[4] These linkages help promote agencywide performance management efforts and increase the need for reliable budget and financial data. However, our work has also shown that additional effort is needed to clearly describe the relationship between performance expectations, requested funding, and consumed resources. The uneven extent and pace of development should be seen in large measure as a reflection of the mission complexity and variety of operating environments across federal agencies. Describing the planned and actual use of resources in terms of measurable accurate results remains an essential action that will continue to require time and effort on the part of all agencies, working with OMB and Congress.

The administration has identified areas where it believes the opportunity to improve performance is greater. However, as stated in the president's budget, "The marks that really matter will be those that record improvement, or lack of it, from these starting points." The administration has pledged to update the scores twice a year and to issue a mid-year report during the summer. Updates and future reports will be important in ensuring that progress continues as agencies attempt to improve their performance. It is key that rigorous criteria be applied to ensure that, in fact, progress has been made.

[4] U.S. General Accounting Office, *Managing for Results: Agency Progress in Linking Performance Plans With Budgets and Financial Statements*, GAO-02-236 (Washington, D.C.: Jan. 4, 2002).

Key Elements in Implementing and Sustaining Management Reforms

According to the administration, the President's Management Agenda is a starting point for management reform. As such, we have drawn upon our wide-ranging work on federal management issues to identify elements that are particularly important in implementing and sustaining management improvement initiatives. These elements include: (1) demonstrate leadership and accountability for change, (2) integrate management improvement initiatives into programmatic decision making, (3) use thoughtful and rigorous planning to guide decisions, (4) involve and empower employees to build commitment and accountability, (5) align organizations to streamline operations and clarify accountability, and (6) maintain strong and continuing congressional involvement (which will be covered in the next section).[5] These six elements have applicability for individual federal agencies, and the central management agencies, each of which plays a fundamental part in implementing reforms and improving federal government performance.

Demonstrate Leadership and Accountability For Change

One of the most important elements of successful management improvement initiatives is the demonstrated, sustained commitment of top leaders to change. Top leadership involvement and clear lines of accountability for making management improvements are critical to ensuring that the difficult changes that need to be made are effectively implemented throughout the organization. The unwavering commitment of top leadership in the agencies will be especially important to overcoming organizations' natural resistance to change, marshalling the resources needed in many cases to improve management, and building and maintaining the organizationwide commitment to new ways of doing business.

Sustaining top leadership commitment to improvement is particularly challenging in the federal government because of the frequent turnover of senior agency political officials. As a result, sustaining improvement initiatives requires commitment by senior career executives, as well as political leaders. Career executives can help provide the long-term focus needed to institutionalize reforms that political executives' often more limited tenure does not permit.

[5] U.S. General Accounting Office, *Management Reform: Elements of Successful Improvement Initiatives*, GAO/T-GGD-00-26 (Washington, D.C.: Oct. 15, 1999).

The Office of Personnel Management's (OPM) amended regulations that place increased emphasis on holding senior executives accountable for organizational goals provide an opportunity to reinforce leadership and accountability for management improvement. Specifically, the amended regulations require agencies to hold executives accountable for results; appraise executive performance on those results balanced against other dimensions, including customer satisfaction and employee perspectives; and use those results as the basis for performance awards and other personnel decisions. Agencies were to implement their policies for the senior executives for the appraisal cycles that began in 2001.

Although the respective departments and agencies must have the primary responsibility and accountability to address their own issues, leaders of the central management agencies have the responsibility to keep everyone focused on the big picture by identifying the key issues across the government and ensuring that related efforts are complementary rather than duplicative. The top leadership of OMB, OPM, the General Services Administration (GSA), and the Department of the Treasury need to continue to be involved in developing and directing reform efforts, and helping to provide resources and expertise to further improve performance.

Integrate Management Improvement Initiatives into Programmatic Decision Making

To be successful, management improvement initiatives must be part of agencies' programs and day-to-day actions. Traditionally, the danger to any management reform is that it can become a hollow, paper-driven exercise where management improvement initiatives are not integrated into the day-to-day activities of the organization. The administration has recognized this danger and encouraged agency leaders to take responsibility for improving the day-to-day management of the government. Integrating management issues with budgeting is absolutely critical for progress in government performance and management. Such integration is obviously important to ensuring that management initiatives obtain the resource commitments needed to be successful. More generally, however, the budget process is the only annual process we have in government where programs and activities come up for regular review and reexamination. Integration also strengthens budget analysis by providing new tools to help analysts review the relative merits of competing agency claims and programs with the federal budget.

The management issues in the president's agenda have both governmentwide and agency-specific components. Those aspects of the problem that are governmentwide and cut across agency boundaries demand crosscutting solutions as well. Interagency councils such as the President's Management Council, Chief Financial Officers' Council, the Chief Information Officers' Council, the Human Resources Management Council, the President's Council on Integrity and Efficiency, and the Joint Financial Management Improvement Program can play central roles in addressing governmentwide management challenges. As I have noted in a previous testimony, interagency councils provide a means to help foster communication across the executive branch, build commitment to reform efforts, tap talents that exist within agencies, focus attention on management issues, and initiate improvements.[6]

Use Thoughtful and Rigorous Planning to Guide Decisions

The magnitude of the challenges that many agencies face call for thoughtful and rigorous planning to guide decisions about how to improve performance. We have found, for example, that annual performance plans that include precise and measurable goals for resolving mission-critical management problems are important to ensuring that agencies have the institutional capacity to achieve results-oriented programmatic goals. On the basis of our long experience examining agency-specific and governmentwide improvement efforts, we believe the improvement plans that agencies are to develop in conjunction with tracking their progress in achieving the goals of the President's Management Agenda should establish (1) clear goals and objectives for the improvement initiative, (2) the concrete management improvement steps that will be taken, (3) key milestones that will be used to track the implementation status, and (4) the cost and performance data that will be used to gauge overall progress in addressing the identified weaknesses.

While agencies will have to undertake the bulk of the effort in addressing their respective management weaknesses, the improvements needed have important implications for the central management agencies as well. OMB, OPM, GSA, and Treasury will need to remain actively engaged throughout the planning and implementation of the president's initiatives to ensure that agencies bring to bear the resources and capabilities to make real progress.

[6] U.S. General Accounting Office, *Government Management: Observations on OMB's Management Leadership Efforts*, GAO/T-GGD/AIMD-99-65 (Washington, D.C.: Feb. 4, 1999).

These four agencies, therefore, need to ensure that they have the capabilities in place to support and guide agencies' improvement efforts. These capabilities will be critical in helping agencies identify the root causes of their management challenges and pinpointing specific improvement actions, providing agencies with tools and additional support—including targeted investments where needed—to address shortcomings, and assisting agencies in monitoring and reporting progress. For example, OMB can assist agencies in developing and refining useful performance measures and ensuring that performance information is used in deliberations and key decisions regarding agencies' programs. OPM can provide tools for agencies to use in better gauging the extent to which federal employees understand the link between their daily activities and agencies' results. In this regard, OPM has announced a major internal restructuring effort driven in large part by the need to provide better support and resources to agencies.

Involve and Empower Employees to Build Commitment and Accountability

Agencies can improve their performance by the way that they treat and manage their people, building commitment and accountability through involving and empowering employees. All members of an organization must understand the rationale for making organizational and cultural changes because everyone has a stake in helping to shape and implement initiatives as part of agencies' efforts to meet current and future challenges. Allowing employees to bring their expertise and judgment to bear in meeting their responsibilities can help agencies capitalize on their employees' talents, leading to more effective and efficient operations and improved customer service. However, our most recent survey of federal managers found that at only one agency did more than half of the managers report that to a great or very great extent they had the decision-making authority they needed to help the agency accomplish its strategic goals.

Effective changes can only be made and sustained through the cooperation of leaders, union representatives, and employees throughout the organization. We believe that agencies can improve their performance, enhance employees' morale and job satisfaction, and provide a working environment where employees have a better understanding of the goals and objectives of their organizations and how they are contributing to the results that American citizens want. In that regard, our work has identified six practices that agencies can consider as they seek to improve their operations and respond to the challenges they are facing.[7] These are:

- demonstrating top leadership commitment;
- engaging employee unions;
- training employees to enhance their knowledge, skills, and abilities;
- using employee teams to help accomplish agency missions;
- involving employees in planning and sharing performance information; and
- delegating authorities to front-line employees.

Align Organizations to Streamline Operations and Clarify Accountability

Successful management improvement efforts often entail organizational realignment to better achieve results and clarify accountability. Agencies will need to consider realigning their organizations in response to the initiatives in the President's Management Agenda. For example, as competitive sourcing, e-government, financial management, or other initiatives lead to changes in how an agency does business, agencies may need to change how they are organized to achieve results.

In recent years, Congress has shown an interest in restructuring organizations to improve service delivery and program results and to address long-standing management weaknesses by providing authority and sharpening accountability for management. Most recently, Congress chartered the Transportation Security Administration in November 2001 and required:

- measurable goals to be outlined in a performance plan and their progress to be reported annually;

[7] U.S. General Accounting Office, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

- an undersecretary who is responsible for aviation security, subject to a performance agreement, and entitled to a bonus based on performance; and
- a performance management system that included goals for managers and employees.

Transparency and Congressional Oversight Are Necessary to Achieve Results

In implementing the President's Management Agenda, it will be important to ensure that information is available so that Congress, other interested parties, and the public can assess progress and help to identify solutions to enhance improvement efforts. As stated in the president's budget, "The Administration cannot improve the federal government's performance and accountability on its own. It is a shared responsibility that must involve the Congress." Therefore, transparency will be crucial in developing an effective approach to making needed changes.

It will only be through the continued attention of Congress, the administration, and federal agencies that progress can be sustained and, more importantly, accelerated. Support from Congress has proven to be critical in sustaining interest in management initiatives over time. Congress has, in effect, served as the institutional champion for many of these initiatives, providing a consistent focus for oversight and reinforcement of important policies.

Making pertinent and reliable information available will be necessary for Congress to be able to adequately assess agencies' progress and to ensure accountability for results. Key information to start with includes the agencies' improvement plans that are being developed to address the agencies' scores. Congress can use these improvement plans to engage agencies in discussions about progress that is being made, additional steps that need to be taken, and what additional actions Congress can take to help with improvement efforts.

More generally, effective congressional oversight can help improve federal performance by examining the program structures agencies use to deliver products and services to ensure that the best, most cost-effective mix of strategies are in place to meet agency and national goals. As part of this oversight, Congress can identify agencies and programs that address similar missions and consider the associated policy, management, and policy implications of these crosscutting programs. This will present challenges to the traditional committee structures and processes. A continuing issue for Congress to consider is how to best focus on common

results when mission areas and programs cut across committee jurisdictions.

Conclusions

In summary, Mr. Chairman, serious and disciplined efforts are needed to improve the management and performance of federal agencies. Highlighting attention through the President's Management Agenda and the Executive Branch Management Scorecards are steps in the right direction. At the same time, it is well recognized that consistent progress in implementing these initiatives will be the key to achieving improved performance across the federal government. In implementing the President's Management Agenda, the elements highlighted during this testimony should be considered and adapted as appropriate in view of the fact that experience has shown that when these elements are in place lasting management reforms are more likely to be implemented that ultimately lead to improvements. Finally, Congress must play a crucial role in helping develop and oversee management improvement efforts throughout the executive branch. Congress has proven to be critical in sustaining management reforms by monitoring implementation and providing the continuing attention necessary for management reform initiatives to be carried through to their successful completion.

Mr. Chairman, we are pleased that you and your colleagues in Congress have often turned to GAO for assistance on federal management issues and we look forward to continuing to assist Congress and agencies in this regard. We have issued a large body of reports, guides, and tools on issues directly relevant to the President's Management Agenda. We will be issuing additional such products in the future that should prove also helpful to Congress and agencies in improving federal management and performance.

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

Contacts and Acknowledgment

For further contacts regarding this testimony, please contact J. Christopher Mihm at (202) 512-6806. Individuals making key contributions to this testimony included Jacqueline Nowicki, Susan Ragland, and Aonghas St Hilaire.

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Mr. HORN. We have one more witness, and then we will go to questions.

The Honorable Gaston L. Gianni is Inspector General, Federal Deposit Insurance Corp., vice chair of the President's Council on Integrity and Efficiency. We are glad to have you here. Thank you.

Mr. GIANNI. Thank you, Mr. Chairman, Mr. Sessions. It is a pleasure to be here today to discuss the President's management agenda and the role of the Inspectors General community in accomplishing this agenda.

Specifically, this morning, I would like to share with you some information about the community's expertise, the views of the agenda itself, and then our role in overseeing, as well as facilitating, the accomplishments and progress under this.

Almost 24 years ago, the Congress created the IG concept and developed and enacted it into law. While the act has been amended several times over the years and added new IGs and clarified reporting responsibilities, the basic tenets of the act's intended mission have remained constant and strong.

The role of the IG is to protect the integrity of government programs through traditional audits and other reviews; improvement of program effectiveness; and preventing fraud, waste, and abuse.

The Offices of Inspector General bring to bear a longstanding historical perspective on the challenges and opportunities facing our government. Offices of Inspector General offer stability and broad-based knowledge and expertise on individual agencies and the government as a whole.

In addition to our agency-specific reports, each OIG summarizes its report semiannually to the Congress. The community recently has provided assistance to the House Committee on Government Reform, and played a significant role in advancing the implementation of the Government's Performance and Results Act.

Many Offices of Inspector General have been providing independent assessments, as well as insights and advances, to help promote this important legislation. We envision the implementation of the management agenda to be quite similar to the GPRA effort, and because of past contributions, believe we are well qualified to offer our assistance.

We recently put together a strategic framework which lays out our mission and operations for the next 3 years, which will try to be providing support to our agencies and leadership in government. Our annual report to the President last year detailed the pivotal role IGs have played in the area of information technology, GPRA, financial management, and program integrity. Through our results, we have uncovered potential savings of $9.5 billion, and identified $5.5 billion as possible recoveries.

For the past 3 years, we have been summarizing the management challenges facing our agencies and submitting that report to the Congress. We are prepared to support and help the administration make progress on our agencies achieving results in the five areas.

Members of the IG community believe that major management challenges are not only for their respective entities, but also within their own organizations. The theme of our recent Journal on Public Integrity emphasizes the challenges for the government in the area

of human capital. In the March 2001 management's challenges summary, 18 of 27 IGs cited human capital as their top agency challenge, compared to 7 in the previous year. Many Offices of Inspector General are addressing this.

In the competitive sourcing area, as the Federal Government increases its competitive resource programs, oversight of agency contract activities will take on added importance. As a note of caution, the Federal Government has been lax in its contracting oversight. Our annual report to the President lists example after example of poor oversight. More than 27 IGs identified this as a major challenge.

We note that appropriate internal controls and oversight in these areas must be in place to ensure that the goods and services are not only meeting the needs of the government and the public, but that they are provided in the most cost-effective manner.

In the financial management area, since the 1990's, we have been working with our CFOs to help them get to a clean opinion. Last year, 18 of the 28 CFOs reached a clean opinion status. We are continuing to work with our CFOs and to assist them to move to the green.

One area of caution: As the administration pushes and has setup a goal for more timely financial statements, this is going to put on an added burden and challenge for the government agencies. We are working with the CFOs to think through these challenges and how this goal might be accomplished.

In expanding electronic government, Offices of Inspector General have a substantial amount of expertise in this area. Appropriate controls, again, need to be in place to safeguard sensitive data and critical systems of our government. All 27 IGs have identified this as a major challenge.

We have helped the Congress with both the GPRA as well as the Y2K, and we are positioned to help again to see that the management agendas are initiated.

In the area of budget and performance, the IG community continues to consider GPRA implementation a significant agency challenge. Last year, we provided to Chairman Burton an analysis of each of our agency's management objectives under GPRA, and whether those goals were quantifiable and how they might better achieve them.

Overall, we believe the initiatives contained in the President's management agenda are a promising first step. Having said that, success of these initiatives can only be achieved through updated, integrated information systems. As such, agencies will need to invest in updating their financial and program information systems and ensure that these systems are developed and approved in accordance with standard system architect programs.

We are in a position to help. We stand ready. Our strategic framework tasks us to be ready and responsive to our agencies and their needs. We are working with the CFO community as it addresses the erroneous payments situation.

Individually, IGs build relationships with their agency heads and strive to be influential forces in identifying vulnerabilities and facilitating excellence. Simply put, our job is to oversee operations and recommend ways to make them better. We view ourselves as

agents of positive change. An IG is clearly in a position to oversee the progress an agency makes in moving from red to green on the scorecard, and to offer them insights on opportunities to further advance the agency's progress.

Depending on the need of the individual agency, an OIG can offer feedback on the scorecard measures and verify and validate the measures and processes. An OIG can target its audits to advance the agenda that would be of the greatest help to its agencies.

While challenge and vulnerability and risks have affected the focus of Offices of Inspector General's work and priorities over the year, we have adapted to these challenges and these changes and remain relevant and on point. I believe that the management agenda offers us another opportunity to align our forces.

While I cannot speak for each IG or how they will approach their work, I am confident that each IG is mindful of the importance of the management agenda, and will develop strategies to provide the most valuable input to their agencies.

In summary, IGs were given the authority to be independent voices of economic efficiency and effectiveness within the Federal Government. We take this authority and responsibility very seriously as we are committed to promoting integrity, accountability, and transparency within our respective agencies.

As always, Mr. Chairman, we appreciate your support of the IG mission and the community, and look forward to a continuing dialog to maintain a constructive relationship with you and the committee.

Mr. HORN. Thank you very much. That is a very thorough statement.

[The prepared statement of Mr. Gianni follows:]

President's Council on Integrity and Efficiency

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Testimony of

Honorable Gaston L. Gianni, Jr.
Vice Chair, President's Council on Integrity and Efficiency

Before the

Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations Committee on Government Reform
United States House of Representatives

Regarding

The President's Management Agenda: Getting Agencies from Red to Green

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the President's Management Agenda and the role of the Inspector General (IG) community in accomplishing this agenda. Specifically, I would like to share some information on the community's expertise, our views on the Agenda itself, and our role in overseeing as well as facilitating this effort. But before I begin, I would like to take this opportunity to briefly introduce myself and the community I represent.

I am one of 29 presidentially appointed, Senate confirmed IGs, who are members of the President's Council on Integrity and Efficiency (PCIE). Created by Executive Order in 1981, the PCIE provides a forum for IGs, the Office of Management and Budget (OMB), and other federal officials to work together and coordinate their professional activities. Since May 1999, I have served as the Vice Chair of this Council. It is in the capacity of the PCIE Vice Chair that I appear before this Subcommittee today.

How is the IG Community Positioned to Comment on the Management Agenda?

Almost 24 years ago, the IG concept was developed and enacted into law. While the Act has been amended several times over the years to add new IGs and clarify reporting requirements, the basic tenets of the Act's intended mission have remained constant and strong. The Act charges IGs to independently (1) conduct and supervise audits and investigations relating to the programs and operations of their agencies and review related legislation and regulations; (2) provide leadership for activities designed to promote economy, effectiveness, and efficiency and fight fraud, waste, abuse in their agencies; and (3) keep agency heads and the Congress informed of problems. Simply put, the role of the IG is to protect the integrity of government programs through traditional audits and other reviews; improve program effectiveness; and prevent and detect fraud, waste, and abuse.

The Offices of Inspector General (OIGs) bring to bear a long-standing historical perspective on the challenges and opportunities facing our government. OIGs offer stability and a broad base of knowledge and expertise on individual agencies and the government as a whole. In addition to our agency-specific audit, inspection, evaluation, and investigation reports, each OIG summarizes its work in semiannual reports to the Congress to communicate the most pressing issues facing their agencies.

Over the last several years, OIGs have assisted the Congress, and in particular the House Committee on Government Reform, and played a significant role in advancing the implementation of the Government Performance and Results Act (GPRA) of 1993. GPRA calls for each agency to develop a strategic plan, an annual performance plan, and measurable objectives for comparing planned efforts with actual results. Many OIGs have been providing independent assessments as well as insight and advice to help promote this important legislation. We envision the implementation of the Management

Agenda to be quite similar to the GPRA effort and, because of past contributions, believe we are well qualified to offer our assistance.

As a community, OIGs have focused attention on good government for many years. In May 2001, the PCIE, along with the Executive Council on Integrity and Efficiency (ECIE), which serves a parallel mission as the PCIE for the 28 Designated Federal Entity IGs, adopted its *Strategic Framework* to memorialize this responsibility. The *Strategic Framework* articulates the Councils' mission, vision, goals, objectives, and strategies for the next three years. I will talk more specifically about the framework later.

To guide its strategic direction and stay apprised of government-wide issues, the PCIE has an Executive Council, six standing committees, and two roundtables. Ad hoc committees and working groups are formed, as needed, to stay abreast of pertinent issues and share best practices aimed at improving government programs and initiatives. We promulgate standards for our community to ensure that our work is of the highest quality and integrity and oversee a process to ensure that our work is done in accordance with these and other professional standards.

Communication and coordination are basic tenets of the IG community. To convey and share our ideas, knowledge, and experience, we employ a variety of publications, forums, and working groups. At this time, I'd like to share with the Subcommittee some examples...

Annual Progress Report

In our last progress report, the PCIE and ECIE highlighted the community's many accomplishments over a 12-month period and focussed attention on several initiatives and management challenges that were of national interest. This report, *A Progress Report to the President for Fiscal Year 2000,* detailed the pivotal role the OIGs have assumed in such areas as:

- information technology
- GPRA compliance and accountability
- financial management, and
- program integrity.

Through hundreds of independent and objective audits, evaluations, inspections, and investigations of Federal programs and activities, OIGs uncovered potential savings of $9.5 billion and identified recoveries of almost $5.5 billion. We look forward to issuing our fiscal year 2001 annual report to the President later this spring.

Journal of Public Inquiry

For a number of years, the IG community has published its *Journal of Public Inquiry* to offer professionals both inside and outside of the IG community and scholars an opportunity to address issues of importance. In anticipation of the January 2001change in

Administration, we issued a 2-part special edition of the *Journal* to focus attention on programs and activities in broad, functional issue areas. The first part discussed how past OIG efforts have contributed to government efficiency and effectiveness. The second part highlighted important issues facing the next Administration from the OIG perspective. In more recent editions, we have addressed other critical issues, such as human capital and the integrity of international governments.

Management Challenges Report

Over the past 3 years, OIGs across government have examined their agencies' programs and operations and highlighted their agencies' "top management challenges." With their focus toward activities that promote government-wide efficiency and effectiveness, the Councils have compiled these challenges into a short report to attract high-level attention. As we will discuss below, five of the eight challenges, which we highlighted in our March 27, 2001 report to the Chairman and Ranking Member of the House Government Reform Committee, are prominently featured in the President's Management Agenda. We anticipate that our next management challenges report, which we plan to issue by the end of next month, will feature a number of the same initiatives.

As these activities attest, we are deeply committed to the IG mission and ready to offer our perspectives on the President's Management Agenda, as you requested.

What Are the IG Community's Perspectives on the President's Management Agenda?

The President's Management Agenda was announced last August to "address the most apparent deficiencies where the opportunity to improve performance is the greatest." Its goal was to establish a more responsible and responsive government that was citizen-centered, results-oriented, and market-based.

The Administration stated that its focus was on five government-wide initiatives:

- Human Capital Management
- Competitive Sourcing
- Financial Management Improvement
- Expanded Electronic Government, and
- Integration of Budget and Performance.

To show where the government stands on these initiatives and the progress agencies are making, the Administration is using an Executive Branch Management Scorecard. This scorecard applies the "traffic light" approach for each of the five initiatives to gauge progress by 26 agencies, including OMB. Red represents unsatisfactory performance in any one condition, yellow is for mixed results, and green means that all the standards for success have been met. The scores are based on standards for success as developed by the President's Management Council in consultation with others such as OMB, the General Accounting Office (GAO), and other experts from government and academia.

Mr. Chairman, the issues raised in these initiatives are not new to us. At this time, I would like to offer the IG community's perspective on each of the five government-wide initiatives. I will also describe some of the work that we as individual OIGs or as a community have done in these areas, including items that may need further consideration.

1. Human Capital Management

Human capital management has recently been receiving increased attention throughout government. The GAO was one of the first agencies to highlight this area as a "high risk" factor for the federal government. The wave of expected retirements, recruitment and retention obstacles, inadequate evaluation and reward systems, and outdated training and education methods are areas that need immediate attention. The goal of the Administration is for each agency to develop a viable human resource strategy to attract and retain the right people, in the right places, and at the right time to enable the agency to be a high performance organization that delivers high quality services to the American public.

Members of the IG community believe this area is a major management challenge not only for their respective entities but also within their own organizations. The theme of a recent issue of our *Journal of Public Inquiry* emphasized the challenges government agencies and the IG community are facing with these human capital issues. This publication contained articles on:

- Evaluating the Efficacy of Agency Human Capital Systems
- Recruitment Strategies to Attain a High Quality and Diverse Workforce
- Building an Organization for Higher Performance
- Succession Planning and Training Needs
- Telecommuting and Offsite Workplaces

In the March 2001 management challenges summary that I mentioned earlier, 18 of 27 OIGs also cited human capital as a top agency challenge compared to 7 OIGs the year before. Many OIGs are addressing this area through workforce analyses and other activities in their respective agencies. The PCIE has also aligned its committee structure by establishing a Human Resources Committee to create and implement innovative and effective human resource management programs within the community.

2. Competitive Sourcing

This initiative is intended to increase public-private competition for improved performance and cost savings. As part of the Federal Activities Inventory Reform (FAIR) Act, agencies and departments as well as the OIGs have been identifying functions that could be performed by the private sector. As the federal government increases its competitive resource programs, oversight of agency contracting activities will take on added importance.

As a note of caution, the federal government has been lax in its contractor oversight. Our annual reports to the President are full of examples where poor contractor oversight resulted in excessive and unnecessary costs to the taxpayer and, even more alarming, fraudulent billing schemes.

Last year, 20 of 27 OIGs identified procurement and grant management as a major management challenge. We noted that appropriate internal controls and oversight of these areas must be in place to ensure that the goods or services are not only meeting the needs of the government and the public, but that they are provided in the most cost-effective and efficient manner. OIGs are continuing to look at how entities have been facilitating competition and providing oversight of contractors.

3. Financial Management Improvement

The Administration is aggressively seeking to improve the timeliness, usefulness, and reliability of financial information to enable sound decision making and safeguard the government's assets. Since the enactment of key legislation during the 1990s to improve federal financial management, OIGs have worked closely with federal entities to address financial management and accounting system weaknesses. As a result, 18 of 24 Chief Financial Officer (CFO) agencies received unqualified or "clean" opinions on their Fiscal Year 2000 financial statements.

Nevertheless, much more needs to be done to improve the quality, timeliness, and usefulness of financial information and enhance financial information systems. In our last annual report to the President, we mentioned that for some agencies, attainment of a clean opinion is a fragile and somewhat artificial achievement because it results from extraordinary end-of-year efforts rather than a more constant accounting operation. The Administration's emphasis on accelerating the reporting requirements over the next few years to eventually require an audited financial statement within 45 days after the end of the fiscal year could further complicate this effort. The CFO and IG community will be working together to address this emerging issue.

Agencies will need to further streamline their processes and/or upgrade their financial information systems to achieve this goal. The IG community has developed a "best practices" guide for performing financial statement audits. Together with the GAO, we have revised the Financial Audit Manual that provides auditors with a single reference for auditing agency financial statements.

Last year, 21 of 27 OIGs considered financial management as a continuing management challenge. One area where the IG community identified a government-wide problem in financial management and provided recommendations was on the federal collection of non-tax delinquent debt that amounted to over $46 billion. Currently, the IG community and CFOs are also conducting a joint project to determine the extent of erroneous payments and identify ways for addressing this $20 billion problem. The OIGs are continuing to devote considerable resources not only by conducting an assessment of

these types of financial-related problems but also offering their expertise in evaluating accounting operations and financial information systems.

4. Expanded Electronic Government

According to OMB, the federal government is the world's largest consumer of information technology, yet the federal government has "only scratched the surface" of what is available to the public. The President's budget states that there are more than 31 million federal web pages on 22,000 web sites. The Administration has selected over 20 E-Government initiatives to accelerate and streamline service delivery to the public.

Again, OIGs agree that electronic technology can be used to effectively and efficiently improve services to the government taxpayer and others. However, appropriate controls need to be in place to safeguard the sensitive data and critical systems of the government. All 27 OIGs reporting last year identified information technology, security, and critical infrastructure protection as the top management challenge facing their agency. Following the events of September 11, there has been an increased focus on security and critical infrastructure protection.

The IG community has demonstrated its expertise in addressing the risks to the government's automated information infrastructure during the successful Year 2000 (Y2K) effort. Currently, we are continuing to assess the government's IT risks through the review of the government's effort to protect physical and cyber-based systems under the Homeland Security Plan. We are also conducting annual independent evaluations of the agencies' information security programs and practices as part of the Government Information Security Reform Act (GISRA). Our Information Technology (IT) Roundtable is working with the OIGs in addressing GISRA requirements through forums and training sessions with groups such as the Chief Information Officers (CIO) Council, OMB, GAO, and other organizations.

5. Budget and Performance Integration

The Administration's focus on program results through this integration of budget and performance initiative appears to be grounded in GPRA. As mentioned earlier, GPRA established requirements for agencies to develop strategic plans and performance targets, and to report annually on the progress of achieving their goals. According to a recent GAO report issued to the Senate Committee on Governmental Affairs, *Managing for Results—Agency Progress in Linking Performance Plans with Budgets and Financial Statements,* GAO-02-236, dated January 4, 2002, agencies have made some progress in linking expected performance and program activity funding. However, GAO states that additional effort is needed to clearly describe the relationship between performance expectations, requested funding, and consumed resources.

The IG community continues to consider GPRA implementation and accountability as a significant agency challenge. Last year we responded to a request from Chairman Burton on the OIGs' assessment of the most significant performance measures contained in their

agencies' performance reports and the extent to which the data or information underlying the measures was valid and accurate. Many of the OIGs have made the assessment of GPRA-related performance measures a standard part of their work. Additionally, the IG community has an active GPRA Roundtable working group to address the challenge of achieving the GPRA intent within the IG community and respective agencies.

Overall, we believe that the initiatives contained in the President' Management Agenda are a promising first step. Having said that, the success of these initiatives can only be achieved through updated, integrated information systems. As such, agencies will need to invest in updating their financial and program information systems and ensure that these systems are developed and approved in accordance with standard system architecture platforms.

How Does the IG Community View Its Role?

Mr. Chairman, the IG community is clearly poised and committed to continue its contribution toward good government. As I have just discussed, collectively and individually, the IG community has been offering recommendations and advice to help agencies address their management challenges for the past several years. As charged by the IG Act, individual OIGs will continue to direct their work toward examining agency programs and operations with the goal of promoting program efficiency and effectiveness and protecting government integrity. Our job is to independently identify government vulnerabilities, facilitate solutions, and leverage our resources to promote integrity, accountability, and excellence in governance.

The PCIE is organizationally structured to respond to the requests of its shareholders as well as the needs of its community. In particular, our Audit and Inspection and Evaluation Committees have been involved in a number of the endeavors I just mentioned. In addition, our committees promote and share best practices and ensure that our standards are current and appropriate. Our two active Roundtables regularly meet to address information technology and GPRA issues. We have established working relationships with the CFO, CIO, and Procurement Executive Councils, whereby we attend their meetings and coordinate on issues needing an OIG perspective. As a community, we are actively involved and keenly aware of the significant issues facing our Nation.

As evidence of our commitment, the PCIE and ECIE *Strategic Framework* states as its first goal the community's ever-present desire to "Improve Federal Programs and Operations." This goal calls for the community to continue its identification of management challenges and exert its leadership in government-wide activities to address common challenges. In addition to the areas of focus I discussed earlier, we are currently engaged in a variety of ongoing initiatives and conversations with several different organizations to discuss best practices and consider alternatives for addressing areas of weakness. Let me share with you a few of these:

- The IG community is teaming up with the CFO community, as I referenced earlier, to form a working group to examine the existing problem with improper or erroneous payments and offer possible solutions to get this problem under control. An IG and a CFO are co-chairing the working group.

- A project team of OIGs is examining the erosion of controls over the use of Social Security Numbers within the federal government and how this contributes to the developing identity theft crisis in the Nation.

- IGs are participating in a GAO-led effort to involve federal, state, and local representatives in a discussion of domestic issues, such as education, transportation, health care, and food safety.

- The IT Roundtable is working with GAO and state and local audit organizations to address the growing gap between emerging needs and existing competencies in the information system security audit arena.

Individually, IGs build relationships with their agency heads and strive to be influential forces in identifying vulnerabilities in the agency's programs and operations and facilitating excellence by recommending improvements. Simply put, our job is to oversee operations and recommend ways to make them better. We view ourselves as "agents of positive change." An IG is clearly in a position to oversee the progress an agency is making in moving from "red to green" on the scorecard and to offer insights on opportunities to further advance the agency's progress.

Depending on the needs of the individual agency, an OIG can offer feedback on the scorecard measures and verify and validate the measures and processes. As I stated earlier, the OIGs have performed the latter role in the implementation of GPRA. An OIG can target its audit and review planning to examine operations and programs where the opportunity for advancing the agenda would be the greatest. While changes in vulnerability and risk have affected the focus of the OIGs' work and priorities over the years, we have adapted to these changes in order to remain relevant and on point. I believe that the Management Agenda offers us yet another opportunity to align our focus. While I cannot speak for how each OIG will approach its work within their agency, I am confident that each IG is mindful of the importance of this agenda and will develop a strategy to provide the most valuable input.

Closing

Mr. Chairman, this concludes my prepared statement. In closing, I would like to summarize the value-added we provide to the constant focus of improving government operations and enhancing service to the public—IGs were given authority to be independent voices for economy, efficiency, and effectiveness within the federal government. We take this authority and responsibility very seriously as we are committed to promoting integrity, accountability, and transparency within our respective agencies.

I again appreciate the opportunity to share this information and hope you find our perspectives useful. As always, we appreciate your support of the IG mission and community and look forward to continuing this dialogue and maintaining a constructive relationship with you. At this time, we would be happy to respond to any questions that you or other Members of the Subcommittee may have.

Mr. HORN. We'll now go to questions. The questioning will be by my colleague, the gentleman from Texas, Mr. Sessions.

Mr. SESSIONS. Thank you, Mr. Chairman. I will remind this group, and I hate to do this, I do have a plane to catch. Unfortunately or fortunately, I chose to spend the night, but my son has a campout this afternoon, and I promised to help him pack. Boy, that road to being an Eagle Scout is a long one, and it does take parents to be involved.

My questions have now been provided to Mr. Everson. I would like to run through those very quickly. I am going to leave, but will be interested and will read this testimony.

First of all, I would like to say that when you walked in today, you were preceded by a staff that is second to none. The opportunity that you have to come from Dallas, TX, from the private sector is an incredible opportunity for the President of the United States to take your expertise directly from where efficiency and the models of success come from.

But your ability to transform the laws that have been passed, and the intent of this Congress for the last few years, the flavor and spirit of which we are attempting to accomplish, is embodied directly by each of your staff members. I know many of them personally and have worked with them, and they are men and women of high caliber.

It is my hope that when we have some time in the near future, I will have a chance to sit down with you, now that you have gotten your feet on the ground.

The essence of my three questions that I would like to have you at least ponder—and if you would like to provide written feedback later, I'm sure the chairman would be pleased to include that in the record.

Mr. HORN. Without objection.

Mr. SESSIONS. Thank you, Mr. Chairman.

They are boiled down to three points.

No. 1, I would like to know what your evaluation schedule is on yellow, green, and red-light. What do I mean by this? You are taking this as an initiative that does not override the laws of the U.S. Congress. This is the Bush administration's plan about how they are going to offer their own initiative to get them on track to then comply with GPRA and other laws that the Congress has mandated.

But I am interested in hearing from you something that we then will put as a marker in our file to get back with you, to find out what you have done. We do not want you to trudge along this path without two things, No. 1, a mark that you have set. You are here today establishing not only a precedent about where the Bush administration will be, but also a roadmap for us. We don't want you to trudge a mile in your own sandals, we want to help you along, so that evaluation period would help us.

No. 2, I am interested in the feedback to GAO that is the arm of the U.S. Congress on being held accountable on your plan. How should we look at you? How are we going to evaluate you? It is one thing for you to come up here and to talk about the administration, but I believe we should hold you accountable for your words and your expectations, also.

I believe Mr. Mihm is very astute at not only carefully understanding this, but establishing something where we might have a working relationship.

I would like for you, too, to establish what those goals and objectives will be, because you will be before us, hopefully, many times to offer that. And unfortunately, in this offer and evaluation, Mr. Mihm is our scorekeeper. I trust him, and I think it is fair to establish that goal up front: once again, feedback to the GAO on how you want to be held accountable on your plan, the President's plan.

Last, for quite some time I have been concerned about the integration of Inspectors General into the overall management of an organization. There are certainly, over the years, opportunities where there are success models, and there are opportunities where there have been unsuccessful role models.

I am interested in hearing from you, even if it is in written testimony to follow this up, on your plan, the administration's plan, about the use of IGs. Their role which is as defined in law is something you will have to deal with. I am interested in an open and honest evaluation, how they can become value-added in a new role, not in a different way, but in a new way for them to become more integrated, so that this administration can accomplish those goals.

I will tell you that the three of you who are on this panel before us are honest people who are not only well-intended, but who I expect to be very successful. So I say this with a sense of hope and optimism, not with a sense of reluctance or a challenge that cannot be met.

But I encourage you to make sure, Mr. Everson, that we are hearing from you as the President's lead initiative person on how we are going to hold you not only accountable, but to work through this.

And last, please tell us what we can do to help you out, because it would be insincere of me to say "Go get them" without me saying that we are here to help, also.

With that said, Mr. Chairman, unfortunately I am going to leave. I have teed up three or four issues and provided them to Mr. Everson in writing, scratched out on a pad, but I believe that he has a good sense of the spirit of what I am asking.

I want to thank you, Mr. Chairman, for allowing me the opportunity to be in front of this subcommittee today. I want to thank Henry Wray, who is the gentleman to my right, who is a kind and caring gentleman who has a long background in government efficiency. I am delighted that he is with this subcommittee today.

Mr. HORN. Thank you. We are delighted, and may you have a good trip.

We are now going to go to some questions.

One of the things that interests me is, I put a non-tax-delinquent debt situation in the public laws about 4 or 5 years ago, and I notice on your page 5, at the bottom, Mr. Gianni, it says that "Last year, 21 of 27 Inspectors General considered financial management as a continuing management challenge," and I am delighted to see that.

One area where the IG community identified a governmentwide problem in financial management and provided recommendations was on the Federal collection of the non-tax-delinquent debt that

amounted to over $46 billion. Now, does that pretty well—that did come back into the Treasury?

Mr. GIANNI. Mr. Chairman, that money has not yet come back into the Treasury. There are a variety of reasons. We identified some of the reasons in our initial study, and made some recommendations to the respective agencies as to how they could improve the overall collections of those.

We still have some agencies that have yet to take a hard look at how the debt is being collected, but I go back to the President's management reform on erroneous debt. They are focusing on trying to figure out a methodology of estimating that debt, and then once that methodology is arrived at and agreed upon, agencies will then determine how they can best go back collecting that debt.

So we are taking a more thoughtful process, and the IGs are working with the CFOs on this Presidential initiative.

Mr. HORN. One of the things that I have tried to get when I was looking at this from the IRS view, which is the tax debt—and what got me into this was when I saw one pile of money, $100 billion, that they had not collected. The then-Commissioner said, "Well, I have $60 billion that maybe we could collect." I said, "Did you ever think about private collectors?" "Oh, my heavens, it is privacy."

Well, it isn't privacy. Give them the address, tell them what the IRS says they owe, and if they have some objection to how they did it, then fine, get the IRS personnel there to do that. But we need to pick it up, and it is just crazy to have all of the rest of us in the United States pay our taxes and these people get away with it.

I have never seen any executive branch suggestion with us on the tax debt. I would hope that the President, since we need to scrape around here for a little money for all the things we have got—a war in Afghanistan, $40 billion to try and help the city of New York, and so on and so on and so on—now we ought to be going after that tax debt.

Commissioner Rossotti is a very fine person, and I was delighted that the administration kept him over, because we asked President Clinton to look for somebody who really knew what they were talking about in computers and taxation and so forth. He has been that. But what we have to do is collect that tax debt, and that is what has not been done. I would hope President Bush and OMB would zero in on it.

In terms of the non-tax debt, Secretary Rubin was the one that helped us the most. He got the executive branch, under President Clinton, and we had some pick-ups of money to the tune of billions. I have not talked to the Secretary of the Treasury, but I think he would be of the same view, to tell his colleagues in Education, in Agriculture, in HUD, all of those where there is a lot of defaulting, that we need to do something about it.

What is your feeling on that? Maybe you have not had a chance to look at it, Mr. Everson.

Mr. EVERSON. I think you are raising important issues that go to the heart of financial management, and those are at the core of what obviously are two thrusts in the improved financial management initiative. One is accurate and timely information that you use for financial purposes and operating purposes to make deci-

sions about what you are doing and whether you are going to spend money on A or B, but the second is clearly just controlling the funds. Debt recovery is a very real element of this.

We have not yet focused on that specific element to the degree that I believe we will down the road. We are starting with the erroneous payments component of this, which is the current generation of overexpenditures in programs, or in some cases, underexpenditures where a beneficiary is not receiving the moneys that they are entitled to.

As my panel colleague indicated, we have moved forward and I think sort of—it gets to Congressman Sessions' question in a collaborative manner where OMB asked the CFO counsel to work jointly on erroneous payments with the PCIE. I am not sure, Gaston, that has been done too often in the past in a very deliberate, joint committee structure, but that is an important initiative, just to start on that process.

We are going to—we have over 53 programs where we are tracking the error rates, and we have plans that have been developed. We are going to work with the agencies to see how they improve the controls over the expenditure of funds and drive down those error rates.

Going to the debt recovery itself is another element that is covered in one instance in the specific initiative of the Education Department on the student loans, where recovery is something we are working for. You are suggesting it be broadened, and I think we should consider that.

Mr. HORN. Mr. Gianni, do you have any thoughts on that? You are involved with the President's Council on Integrity and Efficiency, and I just wondered, what is your look at that in terms of both tax debt and non-tax debt?

Mr. GIANNI. Certainly, Mr. Chairman, I think all my colleagues would be interested in ensuring that their agencies have active programs to collect the debt that is owed them. Interestingly enough, at the Federal Deposit Insurance Corp., we do have a substantial amount of debt and restitutions that have been ordered to be paid to the corporation. The Corporation does have a program that continuously is seeking to try to collect those funds.

In addition to that, we partner with the Corporation, my investigative staff—in those instances where individuals for some reason happen to be misleading the Corporation about the size of their funds, the locations of their funds, and lie to the Federal Government, my investigative staff have been successful in working with the Corporation in identifying these revenues and bringing additional revenues back to the Corporation.

So I think it is possible for more to be done, and I certainly will take your concerns back to my colleagues at the IRS and make known your concerns about the tax debt that needs to be collected.

Mr. HORN. Yes. We used to have a sort of 6-month review of the IRS, and Commissioner Rossotti has been very supportive. And Finance in the Senate, Ways and Means, the House, Government Reform, Government Relations, and so forth, we would get to this and put a little heat on it once in a while; and I have not seen that happen in the last few months. They seem to be just drifting off and letting all these things go right and left.

But I am delighted that the IGs are involved, and I think that certainly is something that is just sad. If they are not involved and are not getting results out of the bureaucracy, then I think that is something that ought to be going to the Comptroller General, going to Congress and the authorizers as well as the appropriators, and say, hey, get with it. So I am glad the IGs are doing this.

And again, the private collectors need to be involved. There is no reason they cannot be used. I think it was 1994–1995, and the IRS at that time, much before Mr. Rossotti, they had a hokey little operation, when they said, we will give them that little teeny-weeny bundle and they can go out and collect it. What they gave them was a 5-year-old debt, and they didn't do anything about it. They hadn't received letters, and all the rest.

Of course, if you do not get after the debt, pretty soon everybody says, "Gee, that was a good grant they gave me."

We can do better than that. We have to do better. We have balanced the budget, but we have got a lot of expenditures that have not been met, and we need to get at this when we have people who are going into bankruptcy and everything else.

I want to help the farmer who has a problem with bankruptcy. I grew up on a farm, and I cry when people in South Dakota, North Dakota and Iowa have problems. But I do not cry when these jokers come and milk the Federal Government, milk the taxpayers, and they just—it is wrong. I would hope this administration will be vigorous on that and tax scofflaws, I guess. When I was in Bangladesh, that is what they used to call a lot of these people. Anyhow, we ought to work at that.

Let me ask you about another area that this subcommittee has been very active on, and that is computer security. What is the situation with the IGs on that? Because we had a number of major agencies and independent departments and all that, and we could do better than that. So what are we getting at under the rubric of financial management? How about computer security, because a lot of that relates to how do you manage something, where you keep hackers out and all the rest of it? What can you tell us about OMB's thinking in this area?

Mr. EVERSON. I think you are probably familiar, Mr. Chairman, that one of the first things that Mitch Daniels did when he came in was he wanted to provide greater attention to IT in general, and computer security is certainly a central element of that. He appointed Mark Foreman Associate Director for Information Technology.

Clearly, one of the major thrusts of what Mark has been doing, as we organized that area, is to build on the work that you have done in the past, and others, in this important area—it is another area—as in those that we have already discussed this morning, where we are very deficient across the government. The stakes are clearly higher now because of recent events, and I think there is more of an understanding and more of an impetus to have true change.

I can only tell you that as we go through on the e-Government piece in each of our discussions with the agencies, an adequate security plan is a central piece of what we are requiring. So it is a

subject that is being aggressively attacked even on the President's Management Council.

We have scheduled for our April meeting a forum on this very topic so that the Chief Operating Officers, the Deputy Secretaries, if you will, focus on what their proper role is from a managerial point of view. It's not going to be presentations on the technical issues, of course, but just how do you make sure that they have the proper information to assess the management of this critical area.

So we are clearly attentive to it, Mr. Chairman.

Mr. HORN. Well, I am delighted to hear that. So you have obviously made an impact.

Mr. EVERSON. We haven't made an impact yet. We're going to make an impact.

Mr. HORN. The Deputy Secretaries are the ones that really have to be responsible for this, but it doesn't bother me having an IG looking over their shoulders.

Mr. GIANNI. Mr. Chairman, I might just add that last year Congress did pass the Government Reform Information Security Reform Act, which required all of the IGs to put together with their chief information officer a report on their government computer security. We've completed the first round of reports, provided that information to OMB. OMB has recently issued a consolidated report on government security, the condition of our security within the government agencies, and the IGs are in the process right now of working on the second round of reports that will come out later this year.

Mr. MIHM. Mr. Chairman, I guess what you can add onto that is that one of the things that the administration committed to in the report that came out earlier this week on information security was to better inform security concerns within the President's scorecard. It's kind of implicitly covered both in the e-Government and certainly in the financial management areas, but now it will be an explicit mention as—at least as I read the report that came out.

Mr. HORN. Was that a blue book that you gentlemen——

Mr. MIHM. This was an OMB report.

Mr. EVERSON. Yes. It just indicated it—what it does is, it pulls together a lot of Gaston's colleagues and some of our own internal assessments and it runs through the major agencies.

Mr. HORN. Well, can we get copies of that for those of us that have an interest in this?

Mr. EVERSON. I certainly think we can get those copies to you, yes, sir.

Mr. HORN. OK.

Now, how can we be sure that the Federal Government is not vulnerable to some of these so-called "potential Enron situations?" For example, what are the safeguards that protect against evaluation and accounting gimmicks in agencies' financial statements?

Mr. EVERSON. I want to tread carefully here. Enron is obviously a subject that is subject to very intense scrutiny at this time. I think it's important, that we on the government side, who are looking at the financial management of the government, draw back and reflect very carefully before trying to make a comparison between what happened there and our own situation.

First, I would say that the most important thing that is happening there right now—and it started even before these recent events—was a new and strengthened focus on financial management. This is due in part, I would say, largely, to the players themselves; and I must commend here the leadership of General Walker who, as the chairman of the Joint Financial Management Improvement Program, pretty well insisted that a group that had been, if you will, dormant for decades but was in—established in statute in the 1950's, consisting of the Secretary of the Treasury, the Director of OMB, and the head of GAO, get together and start to tackle these issues.

So the first thing that will avoid an Enron-like situation is commitment from the top that financial management matters.

I think we have that now; so I think that all the parties would agree that—and we've met, I would say to you, three times just since my arrival. There was a meeting in August and a meeting in October and a meeting just 3 weeks ago where we have developed a long laundry list of things to tackle. It's preliminary, but an example of this was the decision that was taken that the Comptroller General mentioned recently in principle to explore audit committees for departments and agencies. This is another pressure point to hold people like Gaston and myself accountable.

The question came from Congressman Sessions, how do you hold OMB accountable? Well, one way you do it is to have independent parties not tied either to the Department or the people who are auditing the Department or the people who are monitoring the Department, meaning folks such as myself, take a fresh look and say, well, do the books and records and does the conduct of the audit—does this make sense to those independent parties?

We are going to move toward that model, and we're going to do other things as well to make sure that the disclosures are adequate. And, clearly, one of the problems whether you believe that the accounting was correct in terms of off-balance-sheet, the disclosures clearly were inadequate if the financial community couldn't understand the financial information. I think that we don't have that problem as much in government.

The accounting and the integration, as we spoke before, on the retirees' side is one small example. We want to make progress there, but I do believe that the issue of Enron itself is not an exact parallel because we have good disclosure here; the issues are known with the watchdogs that we have sitting beside me, their—and CBO also from your side of the government, looking at these issues.

So I think we've got a lot more tools. They just have to be pulled together in some of the ways I mentioned.

Mr. GIANNI. Mr. Chairman, I might add, one other thought is that the General Accounting Office recently issued standards. They issued the standards for auditing in the Federal Government and the Comptroller General took a stand and issued a stronger standard on independence and the mixing of auditing and other services. So I think the government is out in front on this particular issue and has a rather stronger concept and approach to ensuring that the difficulties won't arise. You have the GAO, you have the IGs,

you have OMB, as well as the oversight from the Congress, which apparently isn't as strong in the private sector.

Mr. HORN. The group of us that care about management up here and care about any type of honesty and all, we look toward those IGs that you are representing here. That was about 20, 22 years ago, the bipartisan basis, then the Chief Financial Officers, then the Chief Information Officers, so forth and so on; and I was delighted when last year I was told that the Comptroller General and the Secretary of the Treasury and the Director of OMB get together and talk about these things. That hasn't happened for 50 years.

We've had a few people of the old type in GAO with Mr. McCarl and others in the 1940's. We don't want to go back to that, but when Congress put programmatic reviews, Mr. Rayburn wasn't happy with that and Mr. Cannon, head of Appropriations, wasn't happy with that. But after they died, things changed, and the GAO has done an outstanding job.

I couldn't think of a better person than Dave Walker to be Comptroller General of the United States. He's a straight-shooter, and he does things that probably upset a few people, but that is the way it is, and that's the way the Congress created GAO. And so we thank you all for the GAO work that you have done.

As I said earlier, I'm interested in seeing what the Federal Government has to do with accounting and if they brought it up to date and——

Mr. EVERSON. If I could just mention one other thing that I neglected to indicate that is pertinent to this, one of the decisions we took in August and formalized it in this last January meeting after discussion to change the composition of something called a Federal Accounting Standards Advisory Board from a government-dominated majority of 6–3, to flip that so that the private sector membership would be in the majority, 6 to 3. It's toward this same end of having a greater independence and a clearer integrity in the process so that it isn't just a spat between GAO and OMB on what the proper accounting, or CBO, that there is an independent frame of reference that is addressing all of these issues. And that is the starting point on the technical side, and if we marry it up with the change in the audit committees, I think we can go through and address the issues you're getting at.

Mr. HORN. Yes. I haven't spent any time on the Enron thing except for my own constituents, but we've got committees all over this place that do that.

But here's one that certainly relates to good management and bad management: What safeguards protect against conflicts of interest by outside firms that both audit agency books and provide consulting services to those agencies? What do you feel? Is there a feel on this?

Mr. MIHM. The Comptroller General recently issued an amendment to the yellow book standards, which are the generally accepted standards for government auditing. This amendment had been in the works for 3 years or so, and there had been extensive public comments. Basically, it requires much more independence, stronger firewalls between the auditing sides of organizations and the side providing consulting services.

In essence, audit agencies are not to be, first, engaged in management decisions; and second, they're not to be providing consulting services on things that are within the scope of their audit. We are allowed to make available our information to audited entities, but we are not to be consulting with them. So this greater degree of independence was recently underscored by the new requirements.

Mr. HORN. And you didn't have to put a 60-day look at it?

Mr. MIHM. No, sir. I mean, it did go through extensive comment, including some push-back from the private sector, but the Comptroller General held firm on this. I mean——

Mr. HORN. Good.

Mr. MIHM [continuing]. He does not believe that firms should be providing management consulting services on the issues that are directly the subject of their audits.

Mr. GIANNI. Mr. Chairman, I was on the advisory board, the Comptroller General's advisory board that worked on those independent standards for the past 3 years. My term is up. I put in my 3 years on the advisory board. I'm just happy that we were able to get those standards on the street.

But they did go through a process that exposed them preliminarily to the public, considered the comments, reexposed it to the public, and then recently came out with the final revision.

What this does is that it prevents auditing firms in a substantial and a material way of having consulting-type activities, and it sets-up a process, a criteria that the firms must meet if they're going to do any of this type work. And if it does hit the materiality standpoint and they're also doing the financial statements, they just—it's prevented, it's prohibited under the new standards.

Mr. HORN. Let me ask just a couple more questions and—you have done such a good job with your statements that we're very proud to see them.

The General Accounting Office reviewed the criteria for success in improving financial management that are used in the budget scorecard. Now, did GAO review the criteria for the President's other four governmentwide initiatives, and what do you think of these criteria?

Mr. MIHM. We've looked generally at the criteria across the board, and we were very pleased that OMB had a staff level turned to us when they were in draft and asked for our input and took some of our input. Of course they had to make their own judgments about what worked and what didn't work.

Clearly, our guidance and products, the OMB scorecard, other messages that the agencies are seeing from Congress; the important thing is that they're all pulling agencies in the same and similar directions, and that's the important issue as far as we're concerned.

For example, in the human capital area, the issues that OMB lays out on the need for integration between people considerations and program decisionmaking is exactly a point the Comptroller General has been making for some time.

You and Mr. Sessions mentioned in your opening statements about the need for greater accountability and instilling a greater performance culture within agencies. That's in the President's

scorecard. That's certainly something that we spend a great deal of time looking at.

In summary, we've looked at the scorecard criteria in a broad sense and they're certainly consistent with where we've been taking our message and where we're urging agencies to move.

Mr. HORN. I've got a personal interest here where about 2 years ago I put in a bill—and it is law now—the Chief Financial Officer in the Executive part of the Presidency; and that individual, I think, has been appointed now.

I don't know if you can, but the question would be if you have a CFO in the Executive Office of the President, will that CFO be involved with the other CFOs, or will they be looked at in the Presidency to be the person that would have a lot of things to say about CFOs? Usually in control agency kinds of things like OMB, that certainly goes on the CFO agenda, and I am just curious if anything has occurred so far.

Mr. EVERSON. I think you probably know, Mr. Chairman, one of the things the administration is trying to do is to draw together the Executive Office of the President, and that is one of the budget proposals that be a specific—one account or a lot of—simplified, so that it can be pulled together and you can get just that kind of professional approach to it where you have a Chief Financial Officer—as you say, one has been appointed—and to pull that all together and make that kind of good, smooth operation happen.

And obviously, in my capacity as the acting Chair of the CFO Council, the input of that person is certainly something that is desirable and should be done; and I will make sure that they participate fully in what we are doing governmentwide to support the management agenda and to help share best practices and to attack all of these areas that we've been talking about this morning.

Mr. HORN. We had, as you know, a lot of different investigations, like the Travel Office and all that——

Mr. EVERSON. Yeah.

Mr. HORN [continuing]. And it sure was simple that we needed some people to really get the accounts down there and make some sense.

Mr. EVERSON. Yes.

Mr. HORN. And so the Clinton administration said, we won't have any—we don't want a CFO. And I said, well, how about the next President? Oh, sure, he can do that.

So that is one way we get things done around here, to put it off and the time is here.

Mr. EVERSON. Well, this is an administration—you mentioned earlier that the President himself has been using these scorecards. That is correct. I was at a meeting of all senior appointees earlier this week and he mentioned them again. So you have an administration that is entirely in line with accountability, strong support of the functions that are represented on this panel with me to just try and bring a spotlight on these issues.

Mr. HORN. Along this line, will you provide the scores of progress assessments and agency improvement plans to the Congress and the public?

Mr. EVERSON. Yes. We're going to be working with this tool on a quarterly basis, and our expectation is that twice a year we will

actually make the evaluations public, probably at the midsession review, which will take place this summer.

An important point that I'd like to make is that just as we did in the budget document, where the management agenda is imbedded in the text itself, the midsession review takes a look at how you're doing in terms of your financial projections. That's the right time to do it again.

We want to emphasize again and again to everybody that this management focus is closely aligned to program delivery. If you don't improve the efficiency of the government, you're not going to be able to sustain program delivery. So you're going to see these things linked each time.

So I imagine we'll be seeing where we stand publicly and asking for your help on—maybe if there are any laggards out there, come this summer.

Mr. HORN. I'll tell you, when we were in the Y2K bit—and it took us 2 years to get the President then, Mr. Clinton, to finally face up to it, and so we did have these scorecards; and one Cabinet member of his, who was a good friend of mine, he said, "Steve, put as many as you can in that score." He said, "I am banging mine on my door, and every single member of this particular department when they go through to see me, they're going to see we got an F, and what are they going to do about it?"

So they used this to beat a few of these people over the head and think about it.

So we're obviously glad to help, and Dr. Raines was very supportive of all this in OMB; and I said, hey, it's your job to do that inventory. We've been doing it; if you do it, we'll look at it. And he did, and we had regular quarterly reports that way.

And, you know, trying to keep ahead of hackers on computer security is a real problem.

Mr. EVERSON. Yes.

Mr. HORN. And I hope, gentlemen, that you look at the CIA operation. We can't get them to respond. We've got five subcommittees here that are hurt by their lack of respect for the Congress, and I think that ought to upset a few people down there; because if they feel that way about Congress, I wonder what they feel about the Presidency. So that bothers me.

And Chairman Burton isn't happy, and about three or four of the subcommittee chairs, including me, are not happy about this computer bit. We don't know what they're doing.

But some of the services are doing terrific jobs in the Department of Defense. The Air Force has done a marvelous job over the years, and especially on Y2K they really—when Defense was going down the drain, the Air Force was getting A's.

And so we'd like to have your thoughts on what we can do to be helpful, and if you have any other points you want to make now and like to get on the record, we're glad to have it, and we'll wrap it up.

Mr. EVERSON. I really have nothing to add from what's already been stated very eloquently by yourself and Congressman Sessions and then what we said as a panel. I think they'll say, "Well begun is half done." I'd to think that's where we are right now.

For the first time, rather than just responding to GAO watch lists and congressional investigations, the executive branch is articulating standards that should govern the way we manage our business. That's the first step.

We have fostered a climate of accountability. That is coming from the top, from the President himself. That's the second step. The rest is just mechanics. Now, that is a lot of mechanics, obviously, but the pieces of this are starting to engage. I see it because I go around in my capacity as vice chair of the President's Management Council and speak at the Department of Education to all the senior appointees, they're using the scorecard and more detailed scorecards on all of their management initiatives.

So this is starting to happen, and with your help and the help of my colleagues on the panel, putting the spotlight on it, I don't think that this will slip. The reason I suggest that is because, look what happened 5 months ago in September. That was a watershed point. This initiative, this agenda, could have died in the delivery room, but it didn't. It gathered steam because of the events of September and because people recognized we have to manage ourselves better to be able to do all the things that are so central for our government.

So I'm optimistic, and I thank you.

Mr. HORN. Well, I thank you because that is exactly what Congress wants, which is, keep at it in terms of management. We have to. We can't—it isn't something that we can just say, oh, well, push it aside. And I'm delighted to hear your eloquent statement that you didn't push it aside, and the President is deeply involved in it.

Mr. Mihm.

Mr. MIHM. I think, Mr. Chairman, there've been, interestingly, three broad themes that have been coming out of here this morning, that we're all in agreement on; and I think that you touched on them right in your opening statement.

And that is leadership, and that we've got to be serious and keep going forward with this and keeping drilling into agencies how serious we are about this.

Second, it's going to take plenty of hard work and that there are roles for certainly the agencies, the central management agencies, Congress, GAO and the IG community to play constructively, recognizing that we have different institutional arrangements, but these are issues that we can work together on.

I think third and most important, as you underscored, is the importance of accountability, that we need to start making clear that there are consequences of success and there are consequences of failure on this. People who are making progress and organizations making progress will be rewarded appropriately. There are new regulations within the last year or so that the Office of Personnel Management has issued for performance appraisals for senior executives which are, as I mentioned in my written statement, a ready-made vehicle for taking the President's scorecard and drilling them right into organizations and drilling them into the contracts that we have for our senior executives.

And as you mentioned, Chairman Rogers is interested——

Mr. HORN. Well, on that point, I think every single executive in the executive branch, when they go out to make a speech some-

where on their program, they ought to go to a community college or a college, private and public, and say, we have need for talent, we have a——

Mr. MIHM. Absolutely.

Mr. HORN [continuing]. Lot of people that are retiring, and you have great opportunities to serve your country, be it in uniform or be it in civilian clothes.

The military groups have done this for the last 50 years to increase the talents of their people, and that is getting them into schools to get them a Master's degree, or Ph.D. We have generals all over the place that have a Ph.D., and the reason is, they know that if you don't improve your human capital, then you can't get this agency to do what needs to be done.

So we ought to be doing that. I am going to try to do it everywhere I am holding a hearing, and I am holding a number of them across the country. So I would hope that your people could get out there and put themselves in, just let young people say, well, gee, you know, I didn't know the Federal Government had these good opportunities. They're marvelous. They're marvelous.

Any thoughts, Mr. Gianni?

Mr. GIANNI. I would agree with you, Mr. Chairman, from the standpoint of, I have an optimistic view on the youth of America. I think if we present the mission of the government to the youth of America, they will come and they will serve just like I did and just like my colleagues did, to step forward to serve our country.

I think if we present the government and the important responsibilities of our government in providing services to the public—it's a mission; it's a noble mission—they will step up to the challenge.

Unfortunately, for too long, the Federal Government hasn't done a lot of hiring, and we've lost touch with our colleges and universities. But as the workforce has matured, we now find that we are in this crisis situation, and I think we'll start getting back to the colleges and campuses to educate our youth on the important mission and service that they can provide to our country.

I just want to thank you, Mr. Chairman, for inviting me here today and let you know that the IG community stands ready to serve; and we'll continue our individual license and help the agencies make progress in this important area.

Mr. HORN. We ought to have OMB have different little booklets that they can give to one of the senior civil servants when they're out doing this work, so we sing from the same hymnal; and I would think that they've got a printing press down there in OMB.

So I want to thank you all for coming. It's been very useful.

And I want to thank my staff that put this together and put everything together. J. Russell George, staff director and chief counsel; Bonnie Heald, deputy staff director, right next to help; and you all know Henry Wray. And Pete certainly did; he helped him a lot in the Results Caucus. And Henry Wray is the senior counsel here and he has been great help over the years in the executive branch and the Senate committee. We're delighted to have him here, and we're delighted he put this together.

Earl Pierce, professional staff—where is Earl? He isn't around today. And Justin Paulhamus, the majority clerk; and Michael Sazonov, intern. They're back working.

Minority staff, David McMillen, he's a regular and we count on him for a lot of help and work. We thank you for being there; and Jean Gosa, the minority clerk, is also very helpful to us.

And our court reporters today are Leanne Dotson and Lori Chetakian. So thank you very much, and with that, we are adjourned.

[Whereupon, at 11:58 a.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

Towards a New Definition of Good Financial Management

Dr. Dale R. Geiger
Cal State San Marcos
George Washington University

The purpose of these remarks is to highlight the need for a new definition of good financial management consistent with the increasingly important need for efficiency in government operations. Current financial management practice emphasizes budget management and budget acquisition instead of resource management and productivity improvement and does not meet this goal.

Existing accounting systems and management paradigms satisfy the needs of address a management environment where the definition of good financial management is "spending 99.9% of the budget." Spending more violates the Anti-Deficiency Act. Spending less proves that resource needs are less than requested and that smaller budgets are needed: something no government organization at any level of the hierarchy wants to admit. The understandable, but undesirable, effect results in little effort being spent on efficiency gains, continuous improvement, and cost reduction.

Budget acquisition dominates the financial management agenda in government operations: consuming enormous efforts and resources itself. Documenting, defending, and ultimately denying budget "needs" receives considerably more attention than reducing "needs": the essence of efficiency improvement.

The Purpose and Value of Financial Management

Much of the emerging thinking about financial management emphasizes the need for financial reporting and record keeping. It seeks unqualified audit opinions, integrated financial systems, and accurate financial information. Such precursors should not be confused with financial management and are better labeled "financial reporting."

While perhaps necessary, these are not sufficient evidence of good financial management. After all, even Enron had good audit opinions. Chapter 1 (pages 7-9) from Winning the Cost War: Applying Battlefield Management Doctrine to the Management of Government (Geiger, 2000, iUniverse.com) describes and differentiates the traditional and management-based views of relationship between budget and program output:

> "As shown in Figure 1-1 below, if Congress wants more program, more budget is provided. The converse of the above is that when budget is not appropriated, the programs and missions of the agency decline. This paradigm ignores how government organizations use resources and assumes that output is solely a function of budget levels received.

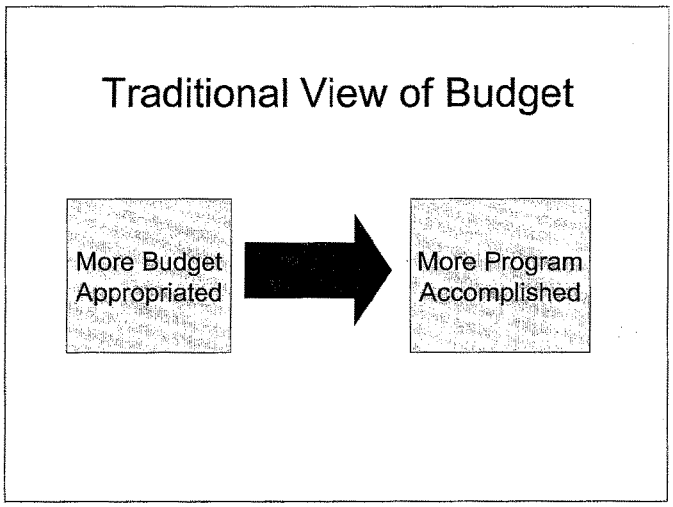


Figure 1-1 illustrates the traditional view that more budget is required if more program is to be accomplished.

> "The Anti-Efficiency Culture that evolved during two generations of plenty has infected the organization with a mentality of spending, rather than conserving. Good financial management within the executive branch has come to mean spending 99.9% of the budget.

"Efforts to protect or expand the mission have become grounded in continuously seeking additional budget. Busy and hardworking executives make enormous efforts to justify and defend budget requests. This is perceived as the way to improve operations. Relatively little effort is made in managing resources efficiently for continuous improvement of productivity. One often hears statements like "why should we reduce cost?"

"Few would argue that most government organizations have done much to improve their productivity. The question of why they haven't changed is better asked as "why should they have changed?" It is proposed here that government organizations have not managed cost well simply because they didn't have to manage cost well.

"Relatively large levels of funding removed the stimulus of necessity and its progeny: efficiency. When resources are plentiful, managing the spending process is easy. Few tough decisions must be made. Marginal personnel can be retained. Efforts for efficiency improvement are not needed or rewarded.

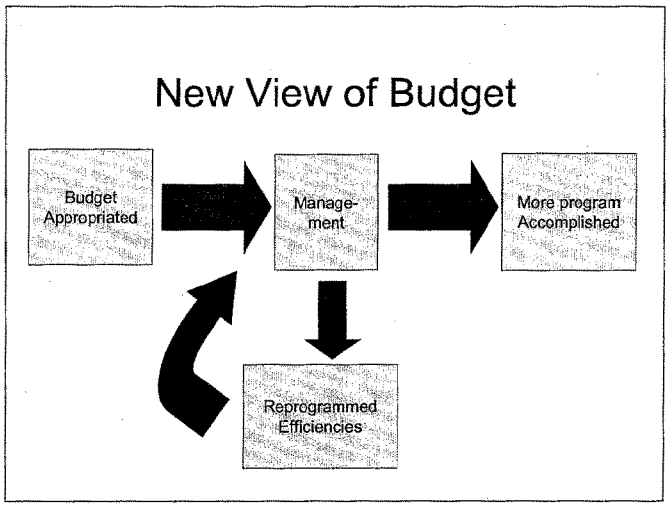


Figure 1-2 illustrates that management generates efficiencies that represent a new source of funding when reprogrammed in accordance with Congressional intent.

"Necessity theory says that concern for the organization mission and survival increases the need for greater efficiency when budgets fall. It also suggests that abundant funding reduces the need for efficiency. Imagine winning the lottery tonight. Would you have the same personal financial concerns that you have today?"

Budgeting Doesn't Provide Planning Needed for Financial Management

Effective financial management starts with planning processes that provide guidance in implementing the mission, a standard for evaluating execution of the mission, and learning opportunities for improving the efficiency of the mission. Chapter 4 (pages 51-53) points out that the current budget-based financial management process fails to meet these goals:

"Budgeting does not provide ***guidance in implementation of the mission*** as it is more concerned with the acquisition of resources rather than their effective and efficient use. In government, tremendous energy goes into the budgeting process as organizations strive to defend and increase their resources.

"This is not to say that budgeting is an unimportant process. Commanders must have troops and equipment. But having troops and equipment is not enough to accomplish the mission. Troops and equipment must be employed in a managed fashion and this is where planning becomes essential.

"Cost planning is concerned with how to best "employ" the acquired resources. Having military forces, while a prerequisite to battle, does not guarantee that those forces are well used. Having a budget likewise says nothing about how resources will be used.

"Results oriented commanders concentrate the majority of their efforts on deploying and employing forces because that is where they have the greatest personal impact and because they recognize this as part of their job responsibility. In the past practice permitted in pre-Cost War

days, Government managers at all levels in the chain of command too often spent much more time defending current budgets and seeking more resources than they spent managing what they had.

"Governmental budgeting does not provide a ***useful tool for mission evaluation***. Instead, it could be thought of as setting the casualty (spending) level for a yearlong campaign. Note: the budget isn't an upper limit to spending. It is a mandated level of spending. Imagine the battlefield commander who is obligated to take a certain (and perhaps avoidable) level of casualties, while under the threat of going to jail if he violates the Anti-Deficiency Act and has one too many.

"The budgeting process in government does not provide ***learning about how to improve mission execution***. Two things are responsible. First, the budget process does not provide timely feedback. Typically, eighteen months elapse from budget submittal until actual spending results are available. Furthermore, the next budget is already law and the following budget has been submitted. Learning from experience cannot even be factored into a budget until the following year.

"Second, and worse, there is no learning possible because results don't differ from budget as managers invariably spend the entire budget. Everything appears to be under control because no area over or under spent. Good financial management in government has come to mean spending 99.9% of the budget. Spending more is illegal. Spending less risks a potentially lower budget next year."

Financial Management's Goal Should be Reducing, Not Funding, Needs

Efficiency improvement inherently means doing more with less. Success means needs should be reduced. The tremendous efforts currently spent on expressing and defending needs overemphasizes funding, rather than reducing, needs. Chapter 9 (pages 119-120) addresses this issue:

"Imagine if workers were paid according to their "needs." There would be no incentive for improvement in skill, education, or productivity. Instead workers would likely spend energy and time expanding needs, documenting needs, and arguing needs. The Soviet

Union ostensibly tried this by implementing Karl Marx's philosophy of "from each according to his ability; to each according to his needs." It didn't work.

"Ironically, this is how government currently operates. I was recently disappointed to find that a senior leader at one of the pilot sites was still focused on "needs." He felt that Cost Based Management would help him to better "prove" his needs for funding.

"This thinking is an unfortunate legacy of the cold war mentality where obtained needed funding was the key job of management. Subordinate organizations spent considerable effort to calculate needs and argue for funding. Commanding organizations spent equally large efforts to rationalize funding cuts.

"Obtaining funds will still be essential in agency interactions with legislative bodies. However, it represents a waste of time for the vast majority of operations within the agency. Subordinate organizations should simply be told that reducing needs is their priority."

Conclusion: Financial Management's Goal Should be Mission Success

Motivating the cultural changes necessary to truly improve financial management is not easy. It seems clear that aligning improved financial management with the accomplishment of the organizations mission is important. Chapter 9 (page 123-124) discusses the payoff of good financial management:

"Organizations that win the Cost War will enhance their ability to deliver mission output. They will do so at higher levels of output per dollar. The alternative is to continue in the mode of reaction: reaction to budget cuts, reaction to A-76 outsourcing threats, reaction to head count limitations. Victory in the Cost War means the nation and future generations of citizens will enjoy more services and security from government, lower taxes, or both."

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D. C. 20503

OFFICE OF FEDERAL
FINANCIAL MANAGEMENT

March 26, 2002

The Honorable Stephen Horn
Chairman
Subcommittee on Government Efficiency,
Financial Management and
Intergovernmental Relations
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for the recent opportunity to testify before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations on the subject of the President's Management Agenda and the Management Scorecard. As I mentioned at the hearing, the steps the Administration is taking to improve government management including those in budget and performance integration and financial transparency are long overdue. I expect our efforts to enhance government operations in all areas.

Enclosed, please find responses to the written questions you submitted to me following the hearing. Please let me know if you require further information.

Again, I appreciate your sustained interest and strong leadership in improving management throughout the Federal Government. I look forward to testifying before your Subcommittee again on April 9, where I hope to present in further detail the actions that the Administration is taking to improve financial management in the government.

Sincerely,

Mark W. Everson
Controller

Answers to written questions from Congressman Stephen Horn to the Honorable Mark W. Everson, Controller, OMB

1. **The Office of Management and Budget (OMB) report to Congress on Federal Government Information Security Reform, which was issued last week, states that information security "will be incorporated into the [Executive Branch management] scorecard." How will this be done?**

   As you know, the President has charged OMB with overseeing the implementation of his Management Agenda through the use of an Executive Branch Management Scorecard. The Scorecard tracks agency improvement in five government-wide problem areas and assigns a red, yellow, or green score. Under one of these areas, expanding electronic government, we are in the process of modifying the scorecard to clarify the importance of the IT security element as a core criterion in the e-government standards for success.

2. **Clearly, information security is one of the Federal Government's most glaring problems. Last year, I gave 16 major agencies and the Government as a whole failing grades on this subject. Likewise, the General Accounting Office has designated information security a government-wide "high-risk" problem, and information security tops Inspector General lists of the most serious management problems facing their agencies. In light of this, should information security be designated as a separate government-wide priority initiative in the President's Management Agenda and the scorecard?**

   A separate score is not anticipated at this time. However, clarification of IT security as a core element of the e-government standards will hold agencies accountable to address security. If agencies fail to adequately address IT security, they will remain "red" against the standards for success in Expanding E-government. I would also note that IT security will be the primary focus of the April meeting of the President's Management Council, giving further emphasis to its imporance.

3. **Please briefly describe the process by which progress assessments under the scorecard will be done. Specifically:**

   a. **Will OMB issue objective criteria for judging the quality of agency plans and improvement efforts, as it did for the scorecard itself?**

      Each OMB branch has been working with OPM and OMB's statutory offices to assess department and agency plans and measure progress based on the particular circumstances of each department.

   b. **How will OMB ensure that the measurement and evaluation process is fair and consistent across agencies?**

      The Administration leads for each initiative are meeting weekly to coordinate the agenda. In addition, we are holding quarterly discussions with each of OMB's

resource management offices to assure consistency and fairness of OMB's assessments.

4. **You testified that making real progress on the President's Management Agenda and the scorecard is a shared responsibility between the Executive Branch and Congress. I could not agree more. In this regard, what information will OMB be sharing with Congress to assist Congress in its oversight?**

   a. **Specifically, will OMB provide the Congress its criteria for assessing progress under the scorecard?**

      OMB will assess agency progress against the deliverables and timelines established for the five initiatives that are agreed upon with each agency. Agency plans will vary and would probably be best assessed by Congress on a case by case basis. We will assess progress as follows:

      Green: Implementation is proceeding according to plans agreed upon with the agencies;

      Yellow: Some slippage or other issues requiring adjustment by agency in order to achieve initiative on a timely basis; and

      Red: Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.

   b. **Will OMB provide Congress the improvement plans and supporting documentation that individual agencies are to develop to get from "red" to "green" in each scorecard category?**

      Yes, but the approach that the Administration is taking to implement the President's Management Agenda stresses the ownership of the initiatives by the agency management teams. Probably the best way for Congress to monitor steps by individual agencies is for them to be assessed through the existing oversight practices employed by their congressional authorizing committees. I believe this will help reinforce the agency's ownership of initiative implementation and stress congressional interest more effectively than if all plans are collected centrally in OMB and provided to Congress.

   c. **What additional information exists to document how OMB made its judgements about the initial scores, and what additional information will be used to document the progress assessments?**

      Over 80% of the baseline evaluations were red. In many cases there were multiple conditions leading to this assessment. Assessments were made by OMB resource management office branches in consultation with the agencies

themselves. The President's Budget provides a summary of the key factors. As scores improve, we will note the basis for the improvement

d. Will this information be made available to Congress?

The Budget summarizes the basis for each evaluation. We would be happy to respond to any requests for more detailed information on a case by case basis.

5. You testified that the budget's scoring system is "common today in well-run businesses." Could you provide some examples of businesses that use this system and how it has worked for them?

I used a similar system at my last employer, LSG Sky Chefs. A simplified 'dashboard' set of indicators has many variants. No two systems are exactly the same, but many private sector managers establish, track, and drive their organizations through simplified key indicators.

6. It makes sense to target a limited number of problems for priority attention, as the President's Management Agenda does. However, what are you doing to ensure that agencies do not neglect the many other core management and performance problems they face?

The President, while crafting his Management Agenda, selected five problem areas to "address the most apparent deficiencies where the opportunity to improve performance is greatest." It also includes nine agency-specific initiatives. We are confident that after the building blocks of management reform are laid the departments and agencies will be able to tackle the additional problems that are ripe for reform. As the President's Management Agenda is implemented and performance based budgeting begins to be used in the planning stages of each budget, departments and agencies will employ better management practices throughout the entire budget process to address shortcomings and rectify them.

7. The agencies clearly have plenty of work ahead of them if they are to improve their scores and get to "green." What are OMB and the other central management agencies doing to help the agencies?

OMB and the Office of Personnel Management (OPM) have met with each agency to review their implementation plans. OMB and OPM will monitor and assist agencies wherever possible to implement the President's Management Agenda. We will also work to foster the sharing of "best practices" across agencies. The staff will meet with agencies quarterly to monitor progress, adjust plans and offer advice to get to "green."

8. Are staff resources at OMB and the other central management agencies adequate to provide hands-on assistance to agencies? Specifically, do these agencies have staff with the right mix of knowledge, skills, and abilities? If not, where are agencies expected to go for this assistance?

OMB and the OPM have been working cooperatively on the President's Human Capital initiative since its inception, at both the executive and staff levels. This new, more cooperative relationship has enhanced the capability of both agencies. In addition, since OPM assumed full leadership responsibility for the Human Capital initiative, it has implemented a number of actions to ensure that agencies receive the assistance they need to achieve the objectives of the initiative. For example:

- OPM established a new Human Capital Initiative team, composed of some of OPM's most experienced policy and operations staff, to provide immediate leadership for this initiative. The team members have been meeting with each agency, along with OMB budget examining staff, to review their workforce analyses and human capital action plans, discuss specific recommendations for improving these plans, and set common expectations for results. The team members have access to the full range of expertise in all parts of OPM, and tap directly into those resources to handle the reviews and recommendations, and to arrange specific assistance when needed.

- OPM also uses this matrix team approach to provide quick, top-quality help to agencies that requested special assistance. These "strike forces" are sent into an agency to solve a particular problem, and they stay as long as needed. For example, OPM sent a strike force to the new Transportation Security Agency to quickly set up the human resources systems and processes needed to hire and manage a totally new staff.

OMB's resource management and statutory offices are supporting direction and coordination of the other initiatives. In addition, OMB has recently formed a "Performance Evaluation Team" to serve as a dedicated resource to support the budget and performance integration initiative. Departments and agencies, however, are in some instances making either organizational changes or hiring outside consultants to develop and implement the initiatives. OMB can monitor, guide, and direct the initiatives. It is not structured to provide extensive implementation consulting to the agencies.

9. **How is OMB ensuring that agencies reinforce accountability for improvements within their organizations? Are Senior Executive Service performance appraisals being used for this purpose? If so, how?**

We have discussed and stressed at the President's Management Council the need to link the management agenda to performance evaluations.

10. What resource-allocation and other consequences exist for good performance ("green") and poor performance ("red")?

The President has indicated to his Administration the importance he attaches to implementing the agenda. However, we have not developed a set of automatic consequences tied to a particular score.

11. Will the new performance measures exist only at the agency/department level or will they be embedded throughout the management hierarchy?

Performance measures will be tied to specific programs in order to foster accountability.

12. Since many measures of performance require an element of cost measurement, will you be proposing significant improvement of cost accounting and analysis capabilities?

Cost is a critical piece of information necessary to assess performance. As I said in my testimony, it is the Administration's belief that budget accounts should show the total resources required to achieve program results. Currently this is not always the case. As an example, provisions in the Administration's proposed Managerial Flexibility Act would assign employee costs, including those relating to retirement, as direct charges to programs. This change will provide a more complete cost of program activities, so that we can determine whether our programs are as efficient and effective as they can be. If we achieve our goal of better allocation of costs to programs, we will not only be better able to determine the full cost of the results we achieve, but we will also have a better sense of how that performance will be affected by different funding levels.

Clearly, budget and performance integration cannot be achieved until we know what specific activities cost so we can evaluate performance. Timely and reliable cost information is also a fundamental building block for each of the other President's Management Agenda initiatives. Gauging performance requires us to know what things cost. Consider some of the cost implications for the other four Government-wide initiatives:

- Strategic Management of Human Capital-- we need to know the employee costs we will incur if we change the composition of the workforce and encourage managers to use existing and proposed personnel flexibilities.

- Competitive Sourcing–valid comparisons are impossible without accurate cost data.

- Improved Financial Performance–erroneous payments must be identified and tracked before we can measure reductions. Clean audits equate to accountability; we need to obtain them and move on to real financial management.

- Expanded Electronic Government-- what are the real cost savings we will achieve through the various E-Government projects, and what is the cost benefit of a paperless environment?

All of these requirements argue for better cost accounting and analytical capabilities, which we support.

13. What criteria and data did you use to determine the budget's effectiveness ratings for the selected agency programs and activities highlighted in the budget?

In an initial and admittedly exploratory way, the FY 2003 Budget responds to longstanding demands for greater measurement of program performance, proposing to reinforce strong programs, and to redirect funds in many cases from programs that demonstrably fail or cannot offer evidence of success. That is why we issued guidance early in the FY 2003 Budget process to improve the alignment of performance information and budget resources. It was difficult in some cases to gather performance information that actually shed light on program accomplishments. Nonetheless, OMB staff and agencies collected evaluations, studies and performance documentation from a variety of sources to assess which programs were effectively achieving desired outcomes. The Administration used all of the performance information it could gather for the selected programs in making decisions for this Budget.

14. How do these effectiveness ratings relate to agency plans and reports under the Government Performance and Results Act (Results Act)? Specifically, are they based on, or are they at least consistent with, Results Act performance goals and reports?

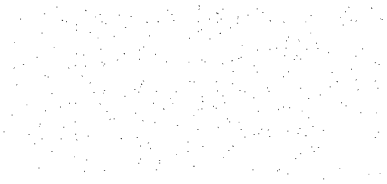
Some relate; some do not. OMB examiners arrived at the program performance ratings using material from various sources, including but not limited to GPRA reports and plans. For example, these studies included IG reports, program evaluations, GAO reports and studies and assessments from outside third parties. The information on which program ratings are based is not perfect and some conclusions may prove erroneous over time. The Administration invites a spirited discussion and welcomes additional data, as well as suggestions about how to improve the criteria to be used in assessing future effectiveness

15. The Results Act requires that the annual budget include a government-wide performance plan. How does the President's Fiscal Year 2003 Budget address this requirement?

Rather than simply aggregate the individual performance objectives of a multitude of programs, it establishes government-wide performance expectations in three critical areas: Protecting the Homeland; Winning the War on Terrorism Abroad; and Returning to Economic Vitality. It also addresses many of the most important performance objectives of major departments and agencies.

The FY 2003 Budget places an unprecedented emphasis on past and current performance and the use of performance information in evaluating programs and making budget decisions. The Administration is committed to presenting a stronger and more detailed array of future performance and target levels in the FY 2004 Budget.

I sat through each of the Director's 2003 Budget Reviews, where we focused a significant amount of attention on performance. And I would be the first to admit that we have along way to go and would like work with the Committee to see that improvements are made in the future to strengthen the use of performance information not only within the Administration, but also by the Congress.

16. How have you involved agency program managers in the scorecard and the effectiveness assessments? How have you involved agency field offices?

We shared the scorecard and program evaluations with agency managers prior to finalization, but do not know whether they were in turn shared with other agency field offices.