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BUILDING AN EXECUTIVE–LEGISLATIVE PARTNERSHIP FOR PERFORMANCE BUDGETING

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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BUILDING AN EXECUTIVE–LEGISLATIVE PARTNERSHIP FOR PERFORMANCE BUDGETING

TUESDAY, NOVEMBER 17, 2009

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:03 a.m., in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Schwartz, Becerra, Doggett, Berry, Yarmuth, Scott, Bishop, Connolly, Schrader, Ryan, Lummis, Austria, and Latta.

Chairman SPRATT. Let me call the hearing to order and welcome our witness as well as the guest here today and the members on the committee.

We continue today our discussion on performance budgeting and management improvements in the executive branch and, in particular, on ways we can make our government more cost effective. To ensure that tax dollars are spent wisely and well, among other things, we need to fix goals, we need to evaluate effectiveness, we need to purchase goods and services for a fair price.

We are honored to have as our witness today Jeffrey Zients, OMB's Deputy Director for Management and chief performance officer. He is the guy who holds the job that I just described. It is a big job.

I am sure your time is very precious, and we appreciate your finding the time to come and testify to us.

I would also like to thank my colleagues on the Republican side for working out with our side on setting this hearing up. This is an ongoing dialogue between our committee and the administration on performance budgeting and management improvements in general.

Above all, I want to thank and recognize Congressman Kurt Schrader of Oregon, whose commitment to this subject and experience in this field have been essential to us in developing this hearing. Before he came here, Congressman Schrader, as a member of the State legislature, played a major role in designing Oregon's initiatives in this realm. His State encourages State agencies to focus their efforts to achieve a better return on the State's investment.

Congressman Schrader continues to work with Oregon Solutions, a public-private partnership which engages communities in solving public problems. Before turning to Mr. Ryan for his opening state-

ment, I would like to yield the balance of my time to Congressman Schrader to say just a few words.

[The prepared statement of Mr. Spratt follows:]

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., CHAIRMAN, COMMITTEE ON THE BUDGET

Good Morning. I'd like to welcome all of you to our discussion of performance budgeting and ways Congress and the Administration can work together to make our government more effective and more cost-effective. The American public deserves to know that we are spending their tax dollars wisely, and that means setting clear goals, evaluating programs for effectiveness, and purchasing goods and services for a fair price. I thank my colleagues on the other side of the aisle for working with us, and I hope this bipartisan hearing will be the beginning of a constructive, ongoing dialogue between our Committee and the Administration about fiscal responsibility.

I would also like to recognize Congressman Kurt Schrader of Oregon, whose persistence and thoughtfulness on this issue is a primary reason we're holding this hearing. Before he came to Washington, Congressman Schrader played a key role in helping Oregon's state agencies re-focus their efforts to meet clear, simple goals and deliver a better return on the state's investment, and he continues to work closely with Oregon Solutions, a public-private partnership which engages communities in solving public problems. We are grateful for his leadership on this important issue. Congressman Schrader, would you like to say a few words?

Mr. SCHRADER. Thank you, Mr. Chairman. I appreciate your help in organizing the hearing and allowing me the opportunity to speak here today.

Mr. Zients, thank you for agreeing to testify before the House Budget Committee. I was very pleased when President Obama set up the position earlier this year, and I am really glad to see you settling into your position at this time.

Performance management has been a big issue for me for a long time. I spent most of my time in the Oregon legislature developing a culture of measurement and achieving outcomes. In most legislative bodies, there is a complete disconnect between the lofty goals of educating a workforce, ending hunger, stopping drugs, helping the homeless, and the actual budget process itself. There is an obvious need to link the budget outlays to intermediate outcomes that move us measurably towards achieving our goals.

While much has been written on outcome- and performance-based budgeting, implementation has often foundered in the public arena where buy-in by either the executive or legislative body is incomplete. Oregon has spent the last decade with its governor and legislature committed to developing culture performance outcomes, steering committees to develop the procedures involve both the executive and legislative branch. The agency would propose outcomes, but it would be modified by the legislature in the course of their deliberations.

What has resulted has been an appreciation, I think, by the executive agencies and the legislature of how their actions do or do not achieve their desired goals and the ability to allocate resources more effectively and strategically.

Oregon is not alone. States with diverse political environments have made performance measurement an important part of their budgeting process. Texas, the home of my colleagues Mr. Doggett, Mr. Edwards, and Mr. Hensarling on this committee, began instituting performance measurements nearly two decades ago.

Here in Congress, there have been various efforts to improve Federal budgeting throughout this century. Most recently, these efforts were pursued by successive Congresses and two Presidents with different politics. President Clinton established a National Performance Review, and the 103rd Congress passed the Government Performance and Results Act of 1993. Codifying performance plans and congressional involvement, they developed a development of these strategic plans.

President George W. Bush continued these efforts with a Program Assessment Rating Tool, and in this Congress we have already passed the Weapons Systems Acquisition Reform Act of 2009 to improve how our defense dollars are spent.

Government performance is a bipartisan and interbranch issue supported by Democrats and Republicans, multiple Congresses, and Presidents. Those of us here today have the opportunity to work together on this issue again at a time when it is more important than ever for us to spend taxpayer money wisely.

And I yield back.

Chairman SPRATT. Mr. Ryan.

Mr. RYAN. Thank you, Mr. Chairman. I also want to welcome our witness, OMB's Deputy Director for Management and the administration's chief performance officer, Jeffrey Zients.

Welcome, Mr. Zients. Nice to have you here today.

I think everyone here can agree: Ideally, government programs should function efficiently. And that means providing the maximum level of services for the lowest possible costs. But the common and entirely justifiable view is that the phrase "government efficiency" is often a contradiction in terms.

That view is not entirely fair. Over the years, Congresses and administrations have tried by various measures to systemically evaluate programs, weed out waste and duplication, and make the government work better. Of course, without any particular striking exception, the government always seems to come up well short of that goal. So progress is clearly in need.

Medicare is a classic example. Medicare has a critically important mission to provide health care for the elderly, but it has a $38 trillion unfunded liability. That means, with all its good intentions, the Federal Government has overpromised benefits for future beneficiaries by $38 trillion more than the program can actually pay.

And we just learned that Medicare last year had a whopping improper payment rate of 12.4 percent. That is $47 billion lost to fraud in a single year, in a single government program; and this comes after years of efforts to prevent fraud. The great goal of Medicare is to get the fraud rate down to 10 percent, and even that seems a bit lofty for this massive Federal entitlement spending program.

Of course, to make matters worse, in the meantime Congress is about to add a $1 trillion new health care entitlement that is similar in design to Medicare, and we are significantly expanding Medicaid, which is already bankrupting the States. This is far from the first administration to propose such a program performance initiative, and frankly, this isn't the first such fiscally responsible sounding measure this administration has hailed even as it continues to

pursue enormous expansions in size, scope, and cost to the Federal Government.

Now, I do believe performance measures, such as those we will be discussing today, can help highlight which programs are failing or are in need of reform, but it cannot make the difficult political decisions to actually eliminate failing programs or, more important, restructure currently unsustainable entitlements.

So my concern is that, despite Mr. Zients's best intentions and the genuine merits of performance-based budgeting, this initiative could be diminished to marginal tinkering to programs with major structural flaws, or it might simply cover Congress's failure to take real steps necessary to get control of the dangerous explosion of Federal spending, deficits, and debt. I truly hope that is not the case.

Mr. Zients, I look forward to learning more about the administration's proposals at today's hearing.

Chairman SPRATT. Thank you, Mr. Ryan.

By way of introduction I should tell everyone on the panel that the Deputy Director comes here well qualified. He graduated from Duke summa cum laude. The only problems with his education is that he did not have an opportunity to study under David Price while he was there. They overlapped, I believe.

He has served as the CEO of a major business firm and as a management consultant. He brings huge talents and experience to this job, and he needs them for the task that is set out before him.

We are glad you are here. We look forward to your testimony. We will, as practice, make your testimony in its entirety part of the record, but you can summarize it as you see fit. You are our only witness today, so you are welcome to take your time in explaining your position. We are eager to hear what OMB has in store in the way of management efficiencies and oversight systems.

Thank you again for coming. The floor is yours.

STATEMENT OF JEFFREY D. ZIENTS, CHIEF PERFORMANCE OFFICER AND DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. ZIENTS. Members of the committee, I appreciate the opportunity to come before you today to discuss the Obama administration's efforts to improve the performance of the Federal Government.

The President believes that it is more important than ever to maximize the effectiveness of every tax dollar we spend. When programs work, we should support them; when programs do not work, we need to fix them or end them. To accomplish this, we need to measure the performance of programs and continually search for more effective and efficient ways to operate.

During my 20 years in the private sector as a CEO and adviser to CEO, I found that leadership, measurement, and a motivated workforce creates the foundation for good performance. I am confident that the same is true in government.

Congress and previous administrations laid some of the groundwork for government-wide performance management, including the Clinton administration's GPRA and the Bush administration's

PART. The result is that today we have thousands of metrics and plans.

I believe the test of a performance management system is whether it is used. Despite the extent and breadth of these historic efforts, the current system fails this test. Congress doesn't use it, agencies don't use it, and it doesn't produce meaningful information for the public. There is too much focus on process and not enough on outcomes. We do not track progress and goals which cut across agencies. Overall, too much emphasis has been placed on producing performance information to comply with a checklist of requirements.

This must change. Federal managers and employees at all levels must use performance goals and measures to set priorities, monitor progress, and diagnose problems.

The fundamental problem with the past performance improvements has been the lack of involvement of Congress. We would like to work with you to develop mechanisms to better use performance information to inform budget decisions. This committee has the ability to see the big picture, and I believe there are opportunities to leverage your unique perspective to look across programs that are trying to achieve similar goals and better understand which are working and which are not.

Also, we plan to work with Congress to build on promising performance management developments in State and local governments and other countries. Several States, including Oregon, Virginia, Texas, and Ohio, show how government can clearly communicate State performance priorities, track progress against goals, and make results transparent to the public.

Local governments, including New York City and Baltimore, have effectively used performance management practices to improve outcomes and drive down costs. Other countries, including the United Kingdom, offer instructive lessons.

We are committed to taking the best of what works in other governments, in the private sector, and in recent Federal efforts to create a new performance management system. This system will be the foundation for our efforts to improve the efficiency and effectiveness of the Federal Government.

As we develop this management system, there are five key principles we will follow.

First, senior leader ownership: It is critical that senior agency leaders own the overall performance management process and their agency goals and measurements. Secretaries and deputy secretaries will be charged with setting of agency goals and will be held responsible for performance against those goals.

Second, cascading goals: A clear line must link agency strategic goals and measurements to programs and to individual employees.

Third, outcome-oriented cross-agency targets: Outcome-oriented goals and measures connect government agencies to their missions. Similarly, achieving broad government outcomes often requires contributions from multiple actors across different agencies.

Fourth, relentless review: Measurement has no value if it is not used. Clear communication of goals, progress against targets, and frequent reviews of performance against plans are essential. These reviews must be performed at all levels of government.

Fifth, transparency: Achieving important government goals requires the active engagement of Congress, the public, and the overall government workforce. Transparency plays a critical role in creating accountability and stimulating idea flow.

Using these five principles, the administration is committed to driving performance gains across the Federal Government.

We have already begun to move forward on several fronts. In this year's spring budget guidance, OMB asked every major agency to identify a small number of outcome-oriented, high-priority performance goals which they intend to achieve in the next 12 to 24 months. Senior leaders are actively involved in this effort, including secretaries and deputy secretaries. This level of involvement, I believe, is a significant break from the past. Agency leaders will review their progress against their goals on an ongoing basis. Agencies have also identified goals, such as climate change and homelessness, that are high priority for multiple agencies and require close collaboration.

In June, we launched the IT Dashboard, which displays cost and schedule variance for every major Federal Government IT project. The IT Dashboard is already having an impact. The VA has put on hold 45 over-budget or behind-schedule projects until it decides which to continue and which to terminate. We plan to roll out similar dashboards for other government functions.

In September, the United States Citizenship and Immigration Services set up a system that allows applicants to see their status via the Web or e-mail updates and the processing time of their case compared to other similar cases. This makes what has been a notoriously opaque process much more transparent. We are encouraging agencies to identify other service areas which can benefit from similar customer facing systems.

For certain types of programs, ongoing measurement is not sufficient. These programs require periodic in-depth evaluations to determine their effectiveness. On October 7, OMB encouraged Federal agencies to request fiscal year 2011 funding to conduct significant pilot evaluations in strength and agency evaluation capacity.

Among the Obama administration's Cabinet and sub-Cabinet appointments are several former governors and State officials who have experience using performance goals and measures to drive government performance. We are enlisting them and other leaders across Federal agencies to work together as a vanguard for Federal performance management with particular emphasis on adopting best practices from State and city performance management systems.

As we move forward, we will also identify current measurement efforts that are not used and are burdensome. We will either eliminate them or streamline them. This will include making the performance and accountability reports more useful by scaling back their hundreds of pages per agency per year.

OMB is using performance information to inform budget decisions. The President's fiscal year 2010 budget proposed reduced funding or the termination of 121 programs. Agency goals and relevant performance information are also informing our internal fiscal year 2011 budget discussions. Overall, across the last several

months, we have made progress in setting up our new performance management system and have begun to pilot key parts of it.

That said, we have a lot of work to do to put in place a system that is truly used by key decision-makers across government. As we undertake these efforts, we would like to work with the Budget Committee to make sure the information you receive from agencies serves you well. We look forward to partnering with you as we learn more about the committee's performance improvement priorities.

We have already had productive conversations with members of this committee, including Representatives Schrader and Cuellar, and I want to thank the committee for holding this hearing and for your belief in improving Federal performance. I look forward to working with you to achieve this objective.

Mr. Chairman and members of this committee, I would be pleased to answer any questions.

[The prepared statement of Jeffrey Zients follows:]

PREPARED STATEMENT OF JEFFREY D. ZIENTS, CHIEF PERFORMANCE OFFICER AND DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Chairman Spratt, Ranking Member Ryan, and Members of the Committee: I appreciate the opportunity to come before you today to discuss the Obama Administration's efforts to improve the performance of the Federal government.

The President believes that it more important than ever to maximize the effectiveness of every tax dollar we spend. We must be aggressive in identifying which programs work, and which do not. When programs work, we should support them and continue to push for improved performance. When they do not, we need to reform or terminate them. To accomplish this, we need to measure the performance of programs and continually search for more effective and efficient ways to operate.

During my 20 years in the private sector as a CEO and advisor to CEOs, I found that leadership, measurement, and a motivated workforce create the foundation for good performance. I am confident that the same is true in government.

Congress and previous Administrations laid some of the groundwork for government-wide performance management, starting with the Clinton Administration's implementation of the Government Performance and Results Act (GPRA). The Program Assessment Rating Tool (PART) developed by the Bush Administration tried to create metrics at the program level. The result is that today we have thousands of metrics and plans in a number of overlapping systems.

The test of a performance management system is whether it is used. Despite the extent and breadth of these historic efforts, the current approach fails this test. Congress doesn't use it. Agencies don't use it. And it doesn't produce meaningful information for the public.

Most metrics are process-oriented and not outcomes-based. We do not track progress on goals that cut across agencies. Overall, too much emphasis has been placed on producing performance information to comply with a checklist of requirements instead of using it to drive change.

This must change. Federal managers and employees at all levels must use performance goals and measures to set priorities, monitor progress, and diagnose problems. They must learn from practices that work and those that do not. They need to learn how to use goals and measures to motivate the best from our workforce and our service delivery partners to achieve greater results and to allocate scarce resources wisely.

A fundamental problem with past performance improvement efforts has been the lack of involvement with Congress. We would like to work with you to develop mechanisms to better use performance information to inform budget decisions. This Committee has the ability to see the big picture, and I believe there are opportunities to leverage your unique perspective to look across programs trying to achieve similar goals and better understand which are working and which are not.

Also, we plan to work with Congress to build on promising performance management developments in State and local governments and other countries. Several State websites including in Oregon, Virginia, and Ohio, for example, show how government can clearly communicate state performance priorities, progress, problems, and strategies to the public. Washington's Government Management Accountability

and Performance program and Maryland's StateStat illustrate the value of goal-focused, data-rich discussions to find the root causes of problems and to devise smarter strategies to tackle them. Local governments, including New York City; Baltimore, Maryland; and King County, Washington have effectively used performance management practices to improve outcomes, reducing crime and increasing housing starts for example, and drive down costs. Other countries, including the United Kingdom and New Zealand, offer instructive lessons.

As the Administration develops this performance management system, we are committed to taking the best of what works—in other governments, the private sector and recent Federal efforts—to create a new performance management system. This system will at the foundation of our efforts to improve the efficiency and effectiveness of the Federal government. In developing this performance management system, there are five key principles we will follow:

1. Senior leader ownership of performance management process. It is critical that senior agency leaders "own" the overall performance management process and their agency goals and measurements. Secretaries and Deputies will be charged with the setting of agency goals, will be held responsible for performance against those goals and their related measurements and will be expected to be actively engaged in all aspects of the performance management process.

2. Cascading goals and measurements. A clear line must link agency strategic goals and measurements to programs and employees. Unfortunately, few agencies have historically had agency goals cascade down to unit or program targets or understood how performance against specific program and unit goals resulted in success—or failure—against agency-wide objectives. Both linkages are critical to the functioning of a successful performance management system.

3. Outcome-oriented, cross-agency goals and measurements. Outcome-oriented goals and measures connect government agencies to their missions. Too often in the past targets have been internal and process oriented. Similarly, achieving broad government outcomes often requires contributions from multiple actors across different agencies and often inside and outside of government. Goals and measurements must support coordination across these organizational boundaries. These must also reflect clear delineation of lines of responsibility, explicitly identifying who a "goal owner" is and what other organizations are expected to contribute toward a common objective. Similarly, a given unit's measurements must reflect their differing contributions toward common goals.

4. Relentless review and accountability. As has been noted above, measurement has no value if it is not used by decision makers. Clear communication of progress against targets and frequent reviews of performance against plans are essential. These reviews must be performed at all levels of government, including program, unit and agency level reviews, as well as reviews by OMB and other components of the White House of overall agency performance. These reviews must be done on a regular basis, probably at least quarterly. Only this kind of relentless review process will result in performance management becoming ingrained into the culture of government.

5. Transparent process. Achieving important government goals requires the active engagement of the public, Congress, and the overall government workforce. Transparency plays a critical role in this engagement, promoting understanding of what we in the government are doing, stimulating idea flow and involvement of broader groups, communicating results and creating accountability for agency managers. Such transparency is therefore critical to the success of any Federal performance management system.

Using these five principles, we are committed to driving performance gains across the Federal government. This is an ambitious undertaking. However, we have already begun to move forward on several fronts.

PRIORITY PERFORMANCE GOALS FOR EVERY AGENCY

In this year's spring budget guidance to agencies, OMB asked every major agency to identify a small number—three to eight—of ambitious, outcome-oriented high priority goals which they intend to achieve in the next 12 to 24 months. Senior leaders are actively involved in this effort, including Secretaries and Deputy Secretaries. This level of involvement is a significant break from the past. We expect agency leaders to review their progress against their goals on an ongoing basis and OMB will monitor progress here also. At the same time, agencies are identifying goals, such as climate change and homelessness, which are a high priority for multiple agencies and require close collaboration.

MANAGEMENT DASHBOARDS

Management dashboards have proven an effective means for succinctly conveying real time performance data in both the private and public sectors. In June, we launched the IT Dashboard, which covers all major IT projects across government. The IT Dashboard makes it possible to review cost and schedule variance for every major Federal government IT project. The dashboard also shows how each agency's Chief Information Officer has assessed performance. The IT Dashboard is already having an impact. As a result of this effort the VA, for example, put 45 over-budget or over-schedule projects on hold until it decides which to continue and which to terminate. We plan similar dashboards for other common government functions, including procurement, financial management, and personnel management.

CUSTOMER-FACING PERFORMANCE INFORMATION

We have begun using dashboards not just to improve our administrative functions, but to serve agency customers. In June, the President charged Secretary Napolitano and the team at the United States Citizenship and Immigration Services (USCIS) to set up, within 90 days, a system that allows applicants to see their application status via web or email updates, how long each step in the process normally takes, and the speed of the applicant's case compared to other similar cases. The site went live on September 24, exactly 90 days after President's announcement and makes what had been a notoriously opaque process much more transparent. We are encouraging agencies to identify other service areas which can benefit from similar customer-facing systems.

RIGOROUS EVALUATIONS

For certain types of programs, regular measurement is not sufficient. These programs require periodic in-depth evaluations to determine their effectiveness. On October 7th, OMB Director Orszag encouraged Federal agencies to request FY2011 funding to conduct significant evaluations in social, educational, and economic programs as well as begin to strengthen agency evaluation capacity. He also established an inter-agency evaluation working group and instructed all Federal agencies to make evaluations of program impacts readily available online.

PERFORMANCE LEADERSHIP

Dr. Shelley Metzenbaum, who joined our OMB team a month ago, is leading our performance measurement and management effort. Among the Obama Administration's Cabinet and sub-cabinet appointments are several former Governors, state officials, and local officials, who have experience using performance goals and measures to drive government change. We are enlisting them and other interested officials across Federal agencies to work together as a vanguard for Federal performance management. They are developing real-time systems for measuring their performance and managing their agencies.

As we move forward, we are also identifying current performance management requirements and systems that do not meet these principles, and will either eliminate or streamline them. This will include making the Performance and Accountability Reports more useful by scaling back their hundreds of pages per agency per year.

OMB is also using performance measures, evaluations, and other relevant data about need and program context to inform budget decisions. The President's FY 2010 Budget proposed reduced funding or the termination of 121 programs that that had not accomplished the goals set for them, that operated inefficiently, or that were unnecessary because the program objectives were being better addressed by another program. Agency goals and relevant performance information will also inform our FY2011 budget decisions.

As we undertake these efforts, we would like to work with the Budget Committee to make sure the information you receive from agencies serves you well. We look forward to partnering with you as we learn more about the Committee's performance improvement priorities. We have already had productive conversations with members of this Committee, including Representatives Schrader and Cuellar.

I thank the Committee for holding this hearing and for your belief in improving Federal performance. I look forward to working with you, with Federal employees across the nation, and with our service delivery partners to accomplish this objective. Mr. Chairman and Members of the Committee, I would be pleased to answer any questions you may have.

Chairman SPRATT. Thank you very much.

I am going to yield my time now, my first 5 minutes, to Mr. Schrader, and I will come in and be the clean-up hitter at the end of everyone else's questions.

Mr. Schrader.

Mr. SCHRADER. Thank you again, Mr. Chairman. I appreciate that.

Mr. Zients, given the work that has been done before under the Clinton and Bush administrations with PART and the Government Performance and Results Act, how do you see this management initiative for this administration, relating to them, replacing them? How is that all going to work together?

Mr. ZIENTS. Good question. Thank you.

Well, first of all, I think we need to make sure that we don't sort of throw the baby out with the bath water. There are good aspects to GPRA, there are good aspects to PART. I think there is too much—there are too many metrics. We tend to measure in silos, which is how we are organized as a government—by agency, by program—when many of our issues—homelessness, climate change, employment programs—tend to go across. So we need to have the ability to go across in identifying the issue or the opportunity rather than the silo.

We need to be focused on outcomes-oriented measures. Too often, measures are input- or process-oriented. So outcomes-based measures. We need to make sure that we don't have too many; I think the focus on too many things is ultimately the focus on nothing. So we need to prioritize.

And then—do all of this and be transparent, and then make sure that people are using the system—you are using it, senior leaders across government are using it—and that that use, that attention, then trickles down or cascades through the organization, all the way to the individual employee.

So I think there is a decent foundation here, but we need to take the pieces that fit with what I just described and also eliminate what doesn't, to remove the clutter, if you will.

Mr. SCHRADER. Very good points. I totally agree. And if we can get that alone done, we will have gone a long way towards improving government efficiency and getting great bang for our buck with our taxpayer dollars.

But to that end, how do you envision getting Congress involved? As I alluded to in my opening remarks, a lot of times that is the nub. I mean, the State to the north of me, Governor Locke had put a great program into potential effect, and it was largely somewhat, if you will, at least ignored by the legislative branch.

How do you envision getting Congress involved in either the early stages of helping develop the management system; and then, more importantly perhaps, once the system is up and running, involve us in working with you on the outcomes that are desired?

Mr. ZIENTS. I think when you do do the retrospective on the prior efforts, there has not been enough involvement with Congress at the beginning in helping to create the system; and therefore, it is probably not surprising that there hasn't been a lot of use. So we are reaching out to you and your colleagues in the House and the Senate, and we want input as to what will serve you well, because

you are an important part of making sure that this system is used and paid attention to.

I think that this committee could play a particularly valuable role in that, looking across the silos and helping with some issues that do go across programs and helping us to think that way and organize that way. And the more that we can tie performance management to the budget, the more successful it will be in actually having the system be used and actually have it drive results.

Mr. SCHRADER. If you could discuss just for a moment how you might shift resources using performance-based budgeting in light of a particular crisis or a policy objective that Congress is attempting to achieve in any given session, how would that impact the use of your outcome-based budgeting system?

Mr. ZIENTS. I think that if you were to take one of these issues that does cut across, and you would say, Okay, there are a dozen or two dozen programs that are attempting to accomplish the mission of that cross-cutting issue or opportunity—let's say, homelessness—and understand:

What do we know about each one of those programs?

What do we know in terms of how they are performing versus their outcomes-based measurements?

Are they performing at the target, below the target, or above?

Have there been any evaluations done of those programs as to how those programs perform on their own, and then in comparison to other programs?

We can then say, Okay, that issue is important; now let's make sure we fund the programs that are working well and not fund or fix the programs that aren't working.

Mr. SCHRADER. Excellent. That is great.

You talked about already directing OMB to talk with the agencies about priorities in the next 12 to 24 months. Oftentimes it has been my experience that to achieve certain outcomes it takes several legislative or congressional sessions to get there. It can take years more than just a couple years.

How do you envision the outcomes? There are intermediate outcomes, there are long-term outcomes; how do you see the relationship of what you are doing related to the long-term budgetary implications that this Congress would be involved in?

Mr. ZIENTS. I think that if targets are too far out in the future, people tend to discount them and they don't really drive performance. So in this effort where each agency has identified three, four, five—maybe as many as six, seven, eight, depending on the size of the agency—high-priority performance goals, we are looking for metrics across a year-to-2 period of time.

It doesn't mean in 24 months we are complete, but we want to see how agencies are tracking against those milestones. And if they are performing well, you know, we will obviously encourage continued strong performance. If people are missing targets, we will call that out and look for mid-course corrections and ultimately want to ensure that those targets are met.

So I would think that that type of information, how are agencies doing against their targets, what does the trajectory look like, would inform future budget decisions.

Mr. SCHRADER. I found that if you don't have intermediate outcomes, you lose focus entirely. But you have to have your eye on the big prize, and those intermediate outcomes hopefully get you on that trajectory.

Mr. ZIENTS. Exactly.

Mr. SCHRADER. One more question if I may, Mr. Chair.

You also referenced some rigorous in-depth evaluations periodically. Are you envisioning that like a zero-based budgeting exercise or something similar?

Mr. ZIENTS. It could play into a zero-based budgeting exercise, but it is actually a slightly different take, which is to say, there are programs where we have measured them and we are seeing how they are performing against their targets and goals as I just described.

But at the same time, you need to step back and say, How is this program doing versus other programs serving the same goal? How is this program doing versus a control? And, therefore, you need a rigorous evaluation of those programs periodically to understand what kind of return the taxpayer is getting on the dollar.

I don't think as a generalization we do enough evaluation across government. So the guidance encourages agencies to build their evaluation capabilities; to start to work in cross-agency groups to share best practices; to make all evaluations, historic and future, transparent because sometimes evaluations end up on a shelf somewhere; and also, to encourage agencies to put forward proposals for additional evaluations to be funded in the fiscal year 2011 budget.

So I think evaluation dollars can have a very high return for all of us.

Mr. SCHRADER. I appreciate that. If we can actually get Congress and the administration on the same page with performance measurement, we will have done yeoman's work and probably be one of the better achievements in this Congress, in my humble opinion.

I yield back, Mr. Chairman.

Chairman SPRATT. Ms. Lummis.

Ms. LUMMIS. Thank you, Mr. Chairman. And I applaud Mr. Schrader's attention to this project. I think it could be very worthwhile.

Thank you for being here, Mr. Zients.

Five months ago, Peter Orszag directed Federal agencies to identify high-priority goals. And you mentioned a couple of them, homelessness and climate change. Has there been a publication of those goals so we can see what your goals are and compare them to our goals? Or when do you expect that to become available?

Mr. ZIENTS. We are in the midst of the budget process at OMB, and I can tell you that those high-priority performance goals—I am impressed by the first round that were submitted.

There is some variation across the agencies. Some of them still need some work. But we are starting each budget discussion with those high-priority performance goals and ensuring that they are the right goals, and then the budget discussion follows those goals. When the President releases the budget in February, we plan to release those high-priority performance goals with the budget.

Ms. LUMMIS. And are those performance goals tied to specific budget items? In other words, can we expect to see a deficit reduction component associated with those goals or real savings associated with that?

The reason I asked, and I think that Representative Schrader has hit on it, I have seen polls that show that the average Democrat believes that almost half of Federal dollars are wasted, and the average Independent and Republican believes that more than half of Federal dollars are wasted. So clearly, the American people are and have a right to be a bit cynical about how Federal dollars are spent. And it is incumbent upon all of us to set up manners in which a transparent system can be used by the public to evaluate whether their dollars are being used well.

Is that going to be available to the public?

Mr. ZIENTS. Well, the high-priority performance goals are very much focused on management, so not on policy. And so it goes right to the issue you are talking about, which is how well do our government services perform?

And I think there are two aspects to that. One is, how efficient are they? And the second is, how high is the quality of the service? How good is the citizen interaction with the service?

And, yes, many of the high-priority performance goals address citizen facing services, both their efficiency and their effectiveness, meaning their service quality. And, yes, we do plan on making those goals, the broad goals and the supporting metrics and the milestones and the plans, available to the public.

Ms. LUMMIS. And are there savings that will be tied to budget reductions associated with those goals?

Mr. ZIENTS. As I said, the goals themselves have to do with becoming more effective and more efficient. So, yes, there ultimately will be savings, a separate exercise as part of the OMB budgeting process, to identify taking all available evaluation and metrics and other knowledge we have, recommending programs that should either be terminated or funding should be reduced. So in fiscal year 2010, I think there were 121 of those programs presented as part of the budget, and we will do a similar exercise in fiscal year 2011.

Ms. LUMMIS. Let me give you an example of an agency that, as the bill passed the House this year, received an over-35-percent increase in their budget, which is a stunning number to me. I can't imagine a Federal agency being able to expend that big of a budget increase. And that was the EPA.

How will you monitor one agency's massive expansion of dollars under these types of performance bills?

Mr. ZIENTS. Understanding the right outcomes-based measures and ensuring that the agencies are performing against those measures—and if they are not, that corrective actions are taken—and making those metrics available to the public and for all of you to monitor progress against.

Ms. LUMMIS. Thank you, Mr. Zients.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Ms. Lummis.

Mr. Doggett.

Mr. DOGGETT. Thank you very much.

And thank you, Mr. Schrader, for your interest in this.

I was involved in some of these performance evaluations back in my days in the Texas State legislature, and I think this is really important. And I appreciate your service at OMB, but as you know, my concern is about the half of the budget that OMB is doing nothing on, and that is the tax expenditure side. In fact, it probably is more than half of the budget according to the determinations that the Government Accountability Office has made.

By "tax expenditures," I am referring to the special tax breaks, known as tax expenditures, that are designed to reward particular activities or to advantage specific groups of taxpayers that are often described as spending programs hidden within the Tax Code. As best I can determine, OMB has done nothing about the tax expenditure portion of the budget with the notable exception of taking the appendix A on performance measures and economic effects of tax expenditures that the Bush administration OMB put into its budget year after year, and copying it—I think verbatim; you may have changed a word or two—and putting it into the budget that the President submitted in February.

Is there anything else that OMB has done, other than copying those words from the Bush budget and giving us appendix A in the same form we have seen it year after year?

Mr. SCHRADER. I agree with you that there we are talking mostly, or this morning has been focused on spending programs, and there is a whole other side of this which is the tax side. And the President is committed to maximizing that the impact of every dollar we collect and every dollar, I suppose, that we don't collect. And it is—those types of programs oftentimes are part of the collection of programs to serve different purposes like homelessness or other cross-cutting issues. It has not been the first area that we have focused on in the first few months.

Mr. DOGGETT. Have you done anything on it?

Mr. ZIENTS. It has not been an area of focus for us. It will be going forward.

Mr. DOGGETT. Is it correct that to this point all you have done is to reprint appendix A out of the Bush administration budget and put it in your budget?

Mr. ZIENTS. I don't have specific knowledge on that.

Mr. DOGGETT. Well, if you compare them side by side, there may be a word or two change, but it looks to me like it is a reprint.

Just to give you an example. And I was encouraged by the comments in the President's budget that programs will not be measured in isolation, but assessed in the context of other programs that are serving the same population and meeting the same goals.

Instead of picking on somebody else's tax expenditure, I will talk about one that I authored, which is the higher education tax credit that is part of the stimulus program.

I don't see how you can evaluate—as Mr. Schrader has suggested we need to do, and I agree with him—Pell grants, Perkins loans, work-study without evaluating and comparing them with a rather substantial tax reduction—$14 billion was the score, approximately, on the higher education tax credit that I authored—and comparing all three.

But I don't see OMB doing anything on that, and I am concerned that when we get the budget next February, it will have the same appendix reprinted.

To be more specific, I know that GAO called on OMB long before this administration, and you were there, asking them to implement some specific recommendations. As best I can determine, not a single recommendation GAO made back in 2005 has been implemented by OMB, and I don't even see any plans to implement it.

In the fiscal 2002 budget, OMB announced that IRS had a 10-year panel sample that would facilitate the evaluation of tax expenditures; and as recently as 2006, OMB described this data set as permitting, quote, "more extensive and better analysis of many tax provisions than can be performed using only annual data."

2008, just before you came on board, marked the tenth year of that 10-year study. What are OMB's plan for that data system, data set, and what specific plans does OMB have, as you said, going forward, for gathering the data needed to perform the evaluation of tax expenditure programs? And how will the future be any different from the past years of neglect on this issue?

Mr. SCHRADER. First of all, I totally agree with the horizontal approach, and that the tax expenditure side should be part of that, along with the programs that we are talking about. So 100 percent agreement there.

I think a lot of these programs are actually more conducive to the evaluation than they are the measurement. So I think part of the evaluation push will coincide with looking at these types of programs.

And there is a lot going on. As I said, there are a lot of current programs that we are evaluating in terms of measurement, what we should keep and what we should not keep. And I will lean in to the area you are talking about. It is not an area that I have spent much time on to date, but it is certainly a priority going forward.

Mr. DOGGETT. Well, just in conclusion, Mr. Chairman, we are about to take up in coming weeks what are called the extenders tax provisions. This is an annual ritual where lobbyists come and talk to staff of the Ways and Means Committee and the Senate Finance Committee, and the extenders get extended with little or no evaluation or consideration of whether they serve any worthy purpose whatsoever.

The last 14 budgets, well before your time, that have come out of the executive branch have bemoaned the fact that evaluating tax expenditures was a significant challenge. To date, no one has accepted that challenge. These are a huge part of the budget. At a minimum, the GAO's recommendation of 2005 to place the tax expenditure for higher education next to the direct expenditure for higher education would help the public and the Congress in evaluating what resources we are allocating for good purpose or ill.

But I would just urge you, as I will be urging in the strongest terms when we consider the President's budget this next year, that this needs attention and needs attention yesterday.

And I appreciate your service and your attention to this matter.

Mr. ZIENTS. Thank you.

Chairman SPRATT. Thank you.

Mr. Austria.

Mr. AUSTRIA. Thank you, Mr. Chairman.

And, Mr. Zients, thank you for your testimony today. I appreciate it very much, as this committee, I am sure, does. And I think the question again comes down to how we here in Congress and the administration can ensure that citizens, the taxpayers, get the most out of the tax dollars that they send to Washington, D.C.; and I want to bring up some of the things that you talked about as far as efficiency and effective.

I think, unfortunately, all too often what is forgotten about government programs is that no matter how important or well intentioned they might be, they impose a cost on the economy. Every dollar spent by the government is a dollar taken away from someone else who might spend or invest it on growth-producing activities. So when we decide what we want government to engage in, whether it be a large or small activity, we should consider the cost of collecting the taxes, increasing the debt compared to the value of the government's programs.

Do you incorporate in your analysis the government's performance at all? That would be my first question.

Mr. ZIENTS. The performance?

Mr. AUSTRIA. The performance as to how much money it is costing to collect the taxes, to run the plan efficiently, because again, every tax dollar that we are spending here in government is being taken out of the private sector.

Mr. ZIENTS. I think that is really at the heart of what I view my team's mission, which is to make sure that where we are spending dollars, we are spending them wisely; that programs that don't work we identify and we either fix or terminate, and programs that do work we continue to drive their performance and make them better.

So, yes, I think the performance of government is front and center for what we do. I think it is important, as I said earlier, to understand how we best serve you and your needs as to which programs, which metrics, which cross-agency goals are most important, and make sure that we design a system that you find useful as you go about your important work.

Mr. AUSTRIA. Mr. Zients, let me also just kind of follow up and again kind of throw in a little bit of my opinion.

I think one of the fundamental problems with government programs is that they lack any natural incentive to promote efficiency. And that is why I think what you do is so important.

So for a number of years now, we have been paying agencies more through cap adjustments—and I want to talk about that—you know, to do what they should be doing in my opinion, anyway, and that is attacking waste, fraud, and abuse. With that in mind, I have got two questions.

If we really want to promote greater efficiency in government agencies, don't we at some point have to simply just restrict their budgets and force them to get by with tighter limits and work more efficiently and more effectively with the dollars that they have?

Mr. ZIENTS. I think it is hard to generalize. But certainly, I think looking at how efficient they are and insisting we become more effi-

cient, as has the private sector across time, is a very good discipline.

I think—one of the observations I have from 20 years in the private sector is, a lot of the efficiency gains and service quality gains have been driven by information technology. And there are pockets of information technology sophistication and leading-edge use in the government. But for the most part, we are way behind. And I think that we need to understand how we leverage information technology and other breakthroughs in management and operations to drive better efficiency, which happens also to be correlated with better service.

So I think a discipline of "you should be getting better and better each year" is a good discipline, whether that is through lower dollars or lower budgets or higher output; it can be a combination depending on the situation.

Mr. AUSTRIA. Mr. Chairman, one follow-up to that.

I think, in any case, the testimony you have given today—the analysis, the metrics, I think, are useful; but I think, as a committee member, you know, when can we expect to see some results?

And I want to follow up on what the Congresswoman from Wyoming, Ms. Lummis, was talking about as far as being able to see from a transparency standpoint that efficiency, that effectiveness, starting to see savings results from these efforts.

Mr. ZIENTS. I think it is extremely important that we get results fast.

I think—Congressman Schrader and I were talking beforehand. And this is not an overnight effort; this is a complex system that we are going to put in place that is going to drive performance, hopefully for many, many years to come.

That said, I think it is important that we have some fast results. I think I highlighted a few of those with the IT Dashboard as an example in the testimony. But there are also areas like contracting where we spend $530 billion a year. We have put a stake in the ground, the President put a stake in the ground on March 4 that we are going to save $40 billion by fiscal year 2011. So we are right now reviewing plans from each agency as to how they are going to bring forward their $40 billion.

So while we are building a system that is going to be built to last and serve, hopefully, many Congresses, I want to make it clear that we are very interested in having immediate results that save taxpayer dollars and improve the services that we provide.

Mr. AUSTRIA. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Zients, for being with us today. One of the things that concerns me is the fact that CBO doesn't score prevention. In the health care bill there are some prevention activities that just aren't scored. I serve as Chair of the Crime Subcommittee, and prevention strategies are not scored; and, in fact, wasteful strategies aren't scored either.

Pew Research Forum calculated that any incarceration rate over 500 per 100,000 was actually counterproductive. We are already at 700 per 100,000. Some communities lock up minorities at the rate 4,000 per 100,000, and still we are passing mandatory minimums and other things that just will make the situation worse.

How would performance budgeting help us get out of this mess?

Mr. ZIENTS. I think that as to the health care piece of it is not a place where I have spent a lot of personal time. It is something that the President and Director Orszag are obviously deep in on.

Other metrics that are performance based, like the ones you described should be part of what we measure—agency performance and how we measure it. So it is not a terrain that I have personally spent a lot of time on, but what you are describing are the types of outcome-based metrics that should be part of what we are doing.

Mr. SCOTT. You mentioned saving money in contracting. Everybody knows that you can save money in contracting by bundling contracts and skipping the bid process and just going—letting people pick and choose and not going through the expense of a formal bid. You would give up, however, the opportunities of small businesses to participate in fairness, because if people can pick their friends, if you are not a friend, you don't get covered.

How would you balance efficiency and cost effectiveness with making the contracting process fair and open to all, including small businesses?

Mr. ZIENTS. Right. I absolutely agree with the importance of small and minority-owned businesses in the contracting process. What you just described didn't strike me as efficient.

Actually, I think there is not enough competition in contracting. Too often there is only one bid or there is no bid, and it goes to one contractor. So I think increasing competition is a good thing to contribute to increasing efficiency. Too often we rely on what are called high-risk contracting vehicles, so cost-reimbursement contracts or time-and-material contracts, or as I said, contracts that aren't competed, are all high-risk vehicles.

We have asked every agency to reduce the percent by 10 percent.

So I think the sort of loose network that you described—returning of favors, if you will—I am not sure how much of that exists; but to the extent that exists, I would argue, that is inefficient. And that is the kind of—there is the kind of practice we want to change through increasing competition and moving more towards fixed-price contracts while at the same time absolutely understanding the importance of the small business minority communities.

Mr. SCOTT. In my former work in the State senate in Virginia, we worked with trying to coordinate agencies with similar or overlapping missions and tried to coordinate those activities from a mission perspective.

In the education area, you kick the kid out of school with no services that would save them money in the education service; but if someone from the criminal justice system is around the table, they might suggest that is not a good policy.

How does the performance budgeting—how does the performance budgeting work across agencies in making sure they are properly coordinated?

Mr. ZIENTS. I think you are exactly right, and we can learn from States like Virginia. And I think today we don't do a good job. Today, it is really done in these silos at the level of over 1,000 different programs. So I think through the high-priority performance goal exercise that I described, we have already identified several situations where agencies are coming to the table for the first time

to coordinate on their share of high-priority performance goals. This is a start, but the system that we are envisioning, the system that we will develop, will absolutely not start at the level of how we are organized, but instead start at the level of serving, in your example, an individual student.

Mr. SCOTT. You mentioned Virginia. Virginia has frequently been designated the best-managed State in the country. What is Virginia doing that we should learn from?

Mr. ZIENTS. Virginia has a handful of important goals, outcomes-based goals at the State level, that they make public. They benchmark their performance versus other States. They have performance agreements with the folks who are running those agencies, who are responsible for meeting those goals, regular reviews of performance against. And then those goals in turn cascade through the agencies down to individuals.

So it is—I think it is Virginia is a leading State. The results have followed. As you said, they have been recognized by Pew and others over and over again as a well-managed State. So I think there is a lot we can learn from the States. And we want to build on the best of the States' efforts, Oregon, Texas, Virginia come to mind; cities, Baltimore, New York, and other cities; and then pockets of good performance through the Federal Government and take sort of a best-practice approach.

We don't need to reinvent the wheel. But I think there is a lot to learn from Virginia and other States.

Chairman SPRATT. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. I do have a question that I want to get to in a minute, but I have to comment on a couple things that have been said here.

The first—and I am sorry he has left—was Mr. Austria saying that every dollar that comes into the Federal Treasury is a dollar that we deprive the private sector of. And I would just like to remind Mr. Austria and those others who continually try to demonize government that last year, at the request of the Bush administration, we allocated $700 billion to bail out the private sector. And in fact, $300 billion or so of that is still out there in the private sector helping to alleviate their problems.

We have about $290 billion from the American Recovery Act that went back into American citizens' pockets, which presumably is out there in the private sector being spent and/or saved. And there are examples of that. There is example after example of Federal tax dollars actually going not only to support the private sector but to go into the private sector.

The second comment I want to make is one you made, Mr. Zients, when you talked about the efficiency of the private sector. And certainly there are things that are done in the private sector that probably should be replicated in the Federal Government. But there are a lot of things, having spent most of my life in the private sector, that they are not always the most efficient way of operating. And all we have to look at is the number of eight-digit salaries that have gone to people who have run companies into the ground.

Anyway, that being said, I do have a question.

One of the inevitable things that we do here when we pass legislation is to create unintended consequences; and in fact, probably

everything we do creates unintended consequences. Is there a way that the performance measures that you are setting up will catch unintended consequences of programs and agencies, or is that something that we need to leave in the oversight function of Congress?

Mr. ZIENTS. I think the rigorous review of how programs will do, are doing, versus what they set out to do, will inevitably uncover some of those. But I don't think it is the—it is not the intention, it is not the primary objective of the programs. But I think that those reviews of how programs are doing versus their targets and goals, my experience so far in the Federal Government and in the private sector is oftentimes you will find those unintended consequences.

I do want to comment in that having spent my whole career in the other Washington, if you will, in the local business community, I do think there are things we can learn from the private sector. But I do want to tell you that I bring a lot of humility to how different this sector is, how big it is, and how a lot of what happens here is unique to this sector, and how there are a lot of good things happening in the Federal Government. So I don't want you to misinterpret the private sector.

Hopefully, there is some transference possible, but I don't think that is the lead by any stretch.

Mr. YARMUTH. I take it and I agree with you absolutely.

Kind of extending that question a little bit about unintended consequences, how is your system and your program going to relate to Inspectors General and the GAO in terms of how—what is the relationship going to be?

Mr. ZIENTS. Yes. One of my roles is to chair the inspector general counsels, I do spend a lot of time with IGs and I think they play a very important function. I think that we want them to continue to play the role they play so effectively. At the same time, I think they do have ideas about how we can prevent waste, fraud, and abuse. So I am encouraging that community to continue, obviously, the role it plays and to keep it very independent and strong.

At the same time, start to bring forward, as I think the Recovery Act has shown, the ability to preempt rather than simply look backwards in a rearview mirror.

So I think IGs are very important in their watchdog capacity and also the capacity of helping us identify how we can be better. I have worked with GAO now on several issues and have a lot of respect for the rigor of their analytics, and we are working together on several GAO high-risk-list issues, including security clearance, where I was here a few weeks ago to testify. And I found it very helpful to work closely with GAO to understand not only what is the problem, but how do we actually solve the problem. So I think both GAO and IGs have a very critical role in this moving-forward agenda.

Mr. YARMUTH. One last comment. Having spent 25 years or so in the media before I came to this job, it is going to be interesting to see whether the good stories, the success stories that you have to tell are covered as well as the negative stories you have to tell.

I am all for transparency, but I hope we get balanced coverage.

Mr. ZIENTS. I couldn't agree more. And I do think there are pockets of good performance, and hopefully we will create many more together.

I think it is important to recognize those and to celebrate those, while at the same time where there are problems we are transparent and we uncover them and we do things to fix those problems.

But I think recognition and reward and positive publicity is part of the package here.

Mr. YARMUTH. Thank you very much.

Chairman SPRATT. Thank you. Mr. Becerra.

Mr. BECERRA. Mr. Chairman, can I pass?

Chairman SPRATT. Sure. Ms. Schwartz.

Ms. SCHWARTZ. Thank you. I appreciate weighing in on this hearing and hearing some of your comments.

I wanted to follow up on a couple of things that you said in response to some of the questions. First, I did want to say I appreciate some of the goals that have already been set, and they are pretty demanding goals, I think, in terms of the way you do Federal contracting and making sure that those are Federal contracts to the private sector and making sure that, I think you have said—my notes say $40 billion in savings is the goal, and 7 percent savings by 2011 in baseline spending and reducing dollars obligated under high risks that are no-bid contracts by 10 percent. Those are all pretty ambitious goals and look forward to your meeting them.

What I wanted to ask about is I think what is actually maybe more complicated because those goals can be met. The subcontracting to the private sector is very important, making sure we evaluate how those dollars are being spent. But the issue of program evaluation and how you actually do plan in a time-sensitive way to do the kind of evaluation of what is working and what isn't; not only each program by itself, but in the context of what our priorities and goals are for that department, for the Nation. You know, it is a program to be working, but if it is doing something nice over there but really doesn't meet our basic priorities in the kind of economy, the kind of revenue-sensitive situation we have for the budget for the government, it seems to me that you are looking at not only does the program work or not, but does it actually meet our overall goals that we have set for that department.

So even if the program is functioning well but does not meet our overall goals, what kind of action are you going to take on that, is really my first question.

And I did want to follow up on your question about health IT. You acknowledge that—not health IT, but information technology that you are using to monitor programs, again, I assume, in a time-sensitive way, and to create more efficiency within government.

If you could also speak to—you acknowledge that it is a problem, but—two questions about that. One is it takes an investment to put in the kind of information technology—I am well aware of this because of the health information technology that I have worked on. But that takes some cost to us, spending money to get systems computerized, really make sure we have the right software, make sure it is interoperable, make sure that that information is shared publicly and used by managers to make decisions.

Could you speak to not just acknowledging the importance of using technology, information technology, but then how are you going to, one, move it up to scale and then use it in a way to do the kind of timely evaluation of our programs that I talked about in the first part of my question?

Mr. ZIENTS. I think in the first part what matters, I think, we are uncovering through that high-priority performance goal exercise; so, which programs really fit with those handful of priorities. And that is the beginning of a prioritization exercise, so that things that matter less either are not funded at all or funding is reduced to those areas and funneled to those areas that matter more.

The evaluation memo that went out from Director Orszag is, I think, has laid out the vector of what you are describing, which is, let's take everything that we have done historically on evaluation and make it transparent so nothing is on the back shelf anymore; let's build agency capabilities to do more evaluations; let's have agencies work together to evaluate programs or issues that run across agency. And then if we are going to make it part of the funding of the fiscal year 2011 budget, is to fund more evaluations.

I think we need more rigorous evaluation of what we are doing. And some of those evaluations do take time but others take less time. And I think when we spend those dollars on evaluation, we need to prioritize and do it in those areas that we believe are most—have the highest spend and where we believe that the evaluation will have insights to really drive future decisions. On IT——

Ms. SCHWARTZ. Just to finish up on that. So is the evaluation being done by the government agency, of are you building that into money that is being spent for a program to say they have to report back on their effectiveness and cost?

Mr. ZIENTS. Agencies will do rigorous third-party evaluations of how they are performing versus their own targets but also against alternatives and control samples, so it will be very rigorous and independent.

The IT piece, it is a little bit—and again I am generalizing here because there are pockets of success—but it is a little bit lose/lose in that I do believe in many areas we are behind where we should be on IT, yet we spend a lot of money. We spend $76 billion a year on information technology and we have too many projects that are behind schedule or over budget or never are implemented or don't achieve their intended results.

Now, this is not unique to our sector. It is hard in the private sector also to do large-scale IT. But we need to really think through how we have the project management capabilities to get this done. We move pretty slowly on IT, and as we all know, technology moves fast; so sometimes it takes several years just to begin a program, a project. And by the time we start it, sometimes the technology is a few generations behind.

We also need to have technology driven and owned by senior leaders. When IT is done in a silo, it is inevitably unsuccessful. So we need to, I believe, improve IT project management from spec development through completion.

Ms. SCHWARTZ. But again, it is not just getting the information and posting it. Transparency is important but it is then the use of that information to help informed decisions.

Mr. ZIENTS. I absolutely agree. The information is only as good as how much it is used to drive the decisions.

Ms. SCHWARTZ. I think my time is up. Good luck.

Mr. ZIENTS. Thank you.

Chairman SPRATT. Mr. Becerra.

Mr. BECERRA. Mr. Chairman, thank you very much. Mr. Zients, thank you very much for your testimony.

Let me—I believe other members may have asked this, and I apologize that I wasn't here for those questions. Any number of agencies can produce any number of dollars in savings depending on how efficient we can make them be in terms of their management. Some agencies are bigger than others. You can go after FEMA which is a small agency overall, with a very, very important mission when it is called upon to do it, versus, say, the Department of—or the Social Security Administration, which is a huge agency, or the Department of Defense, the largest of all our government departments. So you can get a different level of bang for the efficiency in the buck.

I would like to focus on a couple of things. IRS. IRS probably is the largest producer of savings available out there for us in terms of its mission, what it does. It collects taxes. And if the studies are correct, some quarter of a trillion dollars in taxes go uncollected on an annual basis. Part of that is because we likely aren't focusing the personnel that we have at IRS in the best areas to gain the most efficiency, because there are some people who probably owe the government $1,000 in unpaid taxes and there are probably a lot of entities out there that owe the government millions in unpaid taxes. And unless they focus correctly, we may collect $1,000 from that one individual American and let lots of companies get away without paying the millions that they owe the government in taxes.

And so when it comes to expenditure programs, would your agency be involved in trying to help the IRS determine how to best focus its attention so that a nonprofit agency that is collecting money—there are tax deductions that go with that, and therefore are foregoing tax revenues—that we are making sure that that agency is actually using its money for the intended nonprofit purpose instead of paying their executives high salaries. Or do we want to make sure that if we have a program like the first-time home buyer tax credit, that we are not sending money off to a 4-year old who applies for a first-time home buyer tax credit, so that we are not being defrauded out of those $8,000 in tax credits that we are giving to Americans.

Mr. ZIENTS. Let me start at the beginning of your question, which is prioritization. There are efforts, and we have talked about a few of them today, the performance management system that is the main focus of the hearing today, contracting, information technology, where they really are horizontal across agencies. The work we do hopefully applies to FEMA in your example and the IRS. So we want to create those institutional capabilities across the government in performance management, contracting, information technology and some other areas.

That said, there are certainly areas where we believe they are at the intersection of large and inefficient, and that is where we want to focus more of our energy.

So to bring that same philosophy to the IRS, there is a tax gap of I think $300 billion. And closing that tax gap is, I am sure, important for the IRS and for all of us. And within the IRS, the commissioner should be prioritizing to say where is that intersection of it is big and I can get it done.

So that philosophy of systemic horizontal improvement but at the same time focusing in on some areas that need special attention in getting early results and returning, in this situation, dollars to the taxpayers or dollars to the government is exactly the philosophy that we are embarked on.

Mr. BECERRA. I think many of us would have a great deal of interest in supporting and observing what you do if we had a clear sense that in terms of trying to extract efficiency in the management of government we really went after the big apples.

IRS, I suspect you will find, is strapped. It doesn't have enough personnel to go out there and do all the work it needs to do. And that is because too often it gets a bad rap; that it is just out there like the bad cop trying to get Granny to pay her taxes when, in fact, there are many, many very wealthy individuals or corporations that are not doing what Granny has done, and that is paid her taxes.

I would hope that what we are able to find in the work that you do is you will focus in on the big guys, the Department of Defense which does all these no-bid contracts or cost-plus contracts, which cost the taxpayers tremendous amounts of dollars, IRS and other agencies, and figure out what they need to do. In some cases we shouldn't just blame them, because they don't have enough personnel to do the work; in some cases we should try to help them be more efficient.

But when you let $250 billion to $300 billion go on an annual basis because it is uncollected taxes, that is probably the biggest—the biggest inefficiency we can have in government.

Mr. ZIENTS. I agree with your philosophy. Contracting, saving $40 billion across 2 years, of the $530 billion two-thirds of that is DOD. So clearly if we are going to move the dial and achieve our $40 billion goal, which we are committed to doing, hopefully exceeding, DOD has to be front and center in that effort. And they are, and they are making good progress.

Mr. BECERRA. Thank you. Thank you, Mr. Chairman.

Chairman SPRATT. Let me pick up on that point because as you go through the portfolio business at DOD, you will sooner or later run into the SAR, the Selected Acquisition Report. Have you or your office done any work in this area with DOD to improve upon or at least to see how well working the Selected Acquisition Report is?

Mr. ZIENTS. As part of my responsibilities I oversee the Office of Federal Procurement Policy, which interacts with DOD and the civilian agencies on procurement and is the lead policy group. I am not familiar with the details of SARs but I do know that DOD, as I said before, is far and away the largest contractor. They are making good progress on increasing competition; reducing the use of cost reimbursement contracts; moving to fixed price; and also looking at have we in some situations contracted out or outsourced in-

herently governmental functions or areas that we need to make sure we have the capacity to perform our critical function.

So I think DOD is—I am impressed by their focus. They obviously have a lot to do when you are contracting for over $300 billion in the context of, you know, two wars and all the rest. But I think they are making good progress and they will contribute to their share, or hopefully even more of the $40 billion target.

Chairman SPRATT. I am glad you mentioned the outsourcing because that is a big issue of concern in the Department of Defense, how much we are spending on outsourcing. And it has a repercussion, too, within the Department in the sense you aren't training and bringing on board people who would otherwise be developing the management talents that you need internally are instead being displaced by outside contractors who charge substantially more than you would be paying for the talent inside.

I worked years ago as a young officer in the Army with the development of the SAR. I didn't have much to do with it, but it was in the office I was working. The guy sitting across from me was Hank Paulson. One of the other guys in the room was Walt Minnick, who is now in the Congress. When I came back here in 1983 I went to see—I got on the Armed Services Committee and I went to check out the SAR, the Selected Acquisition Report. When I pulled it—that is about 13 years after I had been in the service—I saw it was essentially the same document it was in 1971 when I left here. It had not evolved, it had not improved, it was about the same document. It was a variance analysis document for measuring cost, schedule and technical performance. And I guess over the years looking and dealing with the SAR, the one conclusion I have drawn is if it is used and it works, it will become more useful; and if it is not used and it is sort of done as something perfunctory that has to be done, then it doesn't evolve, it doesn't become more useful.

The SAR should be much much more sophisticated than it is presently, but it hasn't been used on the Congress well enough. When we have tried to dictate and put it in legislative language it always fails—the translation of it into real action on the bureaucratic side failed us.

I would urge you to take a close look at that because it is way overdue on overhaul and improvement. And in particular, you mostly talk about judging performance, which is backward, looking how results have been produced. The SAR needs to be adapted so that it is forward-looking. And there are certain things that are picked out in advance to be watched from a variance analysis standpoint, so that if something is going awry, you will know that soon enough to take some preventive action so you don't have to lose a lot of money and learn the hard way that the system is not going to be up to specs.

Mr. ZIENTS. I completely agree. We need to have forward—this conversation we were having earlier with Congressman Schrader—we need to have forward metrics that we are tracking our progress against, and if we are not meeting or exceeding those, alarm bells should go off and we need to fix it.

You know, with SAR and others, I think there is too much of a compliance mentality rather than let's use this to drive results.

And where that is happening, we should either revamp and create something that passes the standard of we are going to use it to manage performance or we should get rid of it, because it is just clutter and taking up time. I think on acquisition, one of the root-cause problems is the workforce itself on acquisitions as we doubled contracting across the last 5 years.

Chairman SPRATT. I will give you two examples. Some years ago—because I sponsored some legislation to change the SAR. When I was hiring a legislative assistant to do military and defense work for me, I put in the RFP, so to speak, that I would like to have somebody that had that ability to work with Selected Acquisition Reports, forbearance analysis, because I would like to be doing some work in that area. And I got two or three applications from the Beltway consultants of people who were doing SARS, and I was curious as to how it was they were doing SARS.

What I found out is that the program management officers in many cases themselves outsource the SAR, get an outside management consulting firm to do the work that they should be doing. And if they are not capable of doing it, they shouldn't be in the management position with respect to that program.

Mr. ZIENTS. As part of the contracting work, we have asked each agency to identify an organization where they believe they might be overly relying on contractors. A significant portion of the 23 or 24 agencies that are doing the pilot selected their acquisition organization because they have contractors doing acquisition. So that is an area it is not unusual to have contractors in the acquisition area. It doesn't mean that that is always incorrect. But I think that it is data that so many of the agencies pick that area of acquisition as an area we are potentially over-relying on contractors.

Chairman SPRATT. Which brings me to the next point. And that is, we shouldn't get so lost in devising management reporting systems that we forget that the real payoff comes from getting good managers.

Mr. ZIENTS. I 100 percent agree.

Chairman SPRATT. They are useful and helpful, but they are no substitute for getting good people.

Mr. ZIENTS. If you want great management you need great people.

Chairman SPRATT. How do we do that? That is the sleeper issue, it seems to me, within the efficiency and effectiveness of the Federal Government. How do we attract——

Mr. ZIENTS. Well, we have to have a hiring process that actually attracts the best and brightest. If it takes 6 months, on average, to hire someone—my experience in the private sector is the best talent doesn't loiter for 6 months, it finds another home. So we need to be able to hire the best talent and to hire the best talent you have to streamline the process.

We need to make sure that we are providing enough training and continuing education. We need to make sure we have an appraisal system that rewards those that are performing well and enables us to give out feedback and potential out-counseling for those who are underperforming.

So I think there is a lot that we need to do on the human resources side, working closely with Director Barry at OPM, and it

is an area of a lot of focus; because I 100 percent agree with you, if you want good management get great people.

Chairman SPRATT. You need to be doing some face-to-face interviewing too, if I can tell you how to run your shop. I know this is free advice and worth what it cost. But so much of your civil service applications today are generated by the Internet.

Mr. ZIENTS. To support your point I am so struck by—again, not to keep coming back to the private sector because it doesn't have all the answers—but how important part of a senior manager or any manager's time recruiting and coaching is and how central it is to their performance review in the private sector—again, with exceptions because there are good pockets of performance here too, but for the most part it is not as front and center for managers to be doing the recruiting and doing the coaching, and we need to change that.

Chairman SPRATT. Two areas where I really think you need help, big-time, top-flight help—IT, health IT, on which we are spending billions, literally billions. I think it was $18 billion on the Recovery Act by itself, more money to come with the health care reform bill that is before us right now. It is clearly something where we have got to spend, where lots of money can be wasted if it is not closely supervised by people who are capable of doing it.

And secondly, maybe even more importantly, with higher stakes, is financial regulation, the financial institution regulation. We have got to get people at the FDIC, the examiners, the people on the ground who are out there making day-to-day assessments of the quality of loans that banks are generating and many other things: investment quality, risk management, things of this nature. We have got to get better people than we have had. Not to disparage anybody, it is just that the problem has outgrown, I think, the capacity of many of our regulators.

Do you have a plan for that? I know this is a little bit outside the scope of management performance, but in truth it is one of the keys to management performance and assessment.

Mr. ZIENTS. They aren't two areas that I am deep in personally, but I agree with you they are a high priority.

Chairman SPRATT. Are there other members? Mr. Schrader, do you wish to ask further questions.

Mr. SCHRADER. Just, if I may, kind of a closing comment. I am excited about the prospects of your office and working with Congress and getting better results, the tendency for our bodies to micromanage all these agencies. I don't know about everybody else here, but I am a veterinarian, and so my ability to micromanage the Defense Department is probably miniscule. Some of the members have been here a long time and have greater expertise, but I can manage results.

I don't have to be an expert in weapons procurement if we set targets and look to see whether or not the procurement process is getting us where we need to go. I think that is pretty clear. And I would hope that as you work through the process, that the outcomes that are worked up in concert with Congress are posted on a Web site so that—and actually I would hope they become part of every appropriation bill at the end of the Congress; that we can look back and see what the benchmarks were, what our targets

were, how close we got, why we didn't get there, and use that to inform the discussion. Because sometimes I think we got to avoid the "gotcha" mentality.

I also believe strongly that while I agree that certain agencies should probably be doing some of these things anyway, the real world in my little corner of the universe, in a small business, is that I reward employees for extra effort and behavior. And that gets me results, that gets me great results. I do better economically. I think my clients do better economically. And I think that same thing would hold true here in the government; that our taxpayers would do better if these resources are strategically invested.

And working across the silos is so critical, Mr. Zients. I agree with you 100 percent. There are numerous States that have ways of addressing that, making the management more efficient, cutting through the middle management bureaucracy—whether it is a private industry or certainly in the public sector—is absolutely critical. And I would urge you to look at those examples that are out there, going forward.

This Congress, myself in particular, is very interested in working with you in the short term and in the long term to make sure that outcomes-based budgeting becomes part of the Federal psyche. Thank you. I yield back.

Chairman SPRATT. Mrs. Lummis, any questions?

Mrs. LUMMIS. No thank you, Mr. Chairman. I do very much appreciate your presence here today and the attention to the subject. It is a worthwhile expenditure of time.

Chairman SPRATT. Ms. Schwartz.

Ms. SCHWARTZ. No questions.

Chairman SPRATT. Mr. Director, your talents, experience, and ability and your presentation today speak well of the administration's commitment to the goals that you set out. And count on us to work with you in any way we can to bring these to fruition.

Thank you very much for what you are doing and thank you for taking time to come and lay it out for us this morning. We very much appreciate your being here.

Mr. ZIENTS. Thank you.

Chairman SPRATT. At this point, I would like to ask unanimous consent that members who did not have the opportunity to ask questions be given 7 days to submit questions for the record. Any member who would like to submit an opening statement may do so as well. Without objection so ordered. Thank you again.

[Questions for the record and their responses follow:]

QUESTIONS FOR THE RECORD SUBMITTED BY MESSRS. RYAN AND ADERHOLT AND THE RESPONSES BY MR. ZIENTS

QUESTIONS FROM RANKING MEMBER PAUL RYAN

1. Mr. Zients, you mentioned in your testimony that you want to create a partnership with the Budget Committee because it is in a unique position to look at government-wide program performance and help ensure that OMB's measurements are used by Congress. After 16 years of GPRA, 7 years of PART, and almost a year into the new Administration, your agency must have a running list of programs that are duplicative, ineffective, have outlived their usefulness, or are in need of cross-agency coordination. Will you please provide us with a list of these programs so that we can get started?

The Administration has identified 121 terminations, reductions, and other areas of savings that will save approximately $17 billion. The Terminations, Reductions

and Savings volume of the Budget the Administration proposed in May 2009 identifies programs that do not accomplish their intended objectives, are not efficient, or that replicate efforts being completed by another initiative—and recommends these programs for either termination or reduction. These changes range from eliminating entitlements to banks and lenders making student loans that will cost taxpayers $41 billion over the next decade to ending a $7 million education program that was used by only 15 school districts and with no evidence that it was improving student achievements. No matter their size, these cuts and reductions are all important to setting the right priorities with spending. As part of the FY 2011 budget that will be released in February will identify additional programs for termination and look forward to working with you on those proposals.

2. Mr. Zients, are there any legislative changes that can be made that would help the Administration's performance budgeting effort?

I believe the Government Performance and Results Act (GPRA), relevant Executive Orders, and requirements for outcomes measurement in several laws provide a powerful legal foundation on which to build and do not see the need for changes at this time. My views on that may change, though, as we gain experience so I would like to hold open the possibility of answering that question until after we get a chance to see how well our performance management approach is working and what barriers we encounter.

3. Mr. Zients, you stated at the hearing that performance evaluations will be rigorous and conducted by a third party. Who will be the third party evaluators?

The Administration is committed to rigorous, independent program evaluations and has devoted time and resources to improving the evaluation of programs throughout the Federal government. The Director's October 7th "Increased Emphasis on Program Evaluations" memo is that latest sign of that commitment. The third-party contractors who have the expertise to conduct rigorous evaluations will vary from agency to agency and from program to program. A competitive process is typically used to select the contractors who perform these evaluations.

QUESTIONS FROM REP. ROBERT B. ADERHOLT

1. You state in your testimony that "Secretaries and Deputies will be charged with the setting of agency goals." What do you view Congress's role to be in the setting of these goals?

OMB has asked agencies to determine the priority goals they will work to achieve given existing legislative and budget authority. The goals reflect near-term priorities for agency senior leadership, and are a subset of the efforts agencies will undertake to implement the laws passed by Congress. OMB has asked agencies to include the goals in their annual performance plans and Congressional Budget Justification, and to engage Congress as appropriate to discuss these priorities.

We welcome efforts by Congress to help agencies achieve these important performance improvements, including monitoring agency progress and helping to overcome any barriers which arise. We will work to facilitate this by ensuring you have accurate and timely reporting available on progress.

2. You state in your testimony that "A clear line must link agency strategic goals and measurements to programs and employees." If done properly, this is a good way to identify underperforming employees. When your performancebased budgeting initiatives identify such employees, what is done? At what point are underperforming employees to be terminated?

It is critical for Federal employees to understand how their efforts contribute to achieving the broader agency mission, and for managers to be able to consider the achievement of ultimate outcomes when evaluating the performance of individual employees. Guidelines for employee performance measurement are currently set by each Federal agency under regulations issued by the Office of Personnel Management. We will work to ensure the government-wide framework we establish enables agencies to link the measures they use to evaluate individual employees in the broader context of the strategic planning and performance reporting framework for the agency.

3. It is my understanding that the Administration has abandoned the Program Assessment Rating Tool (PART) which received the 2005 Innovation Award from Harvard University's John F. Kennedy School of Government. Is this true? If so, can you cite cases in which PART failed to successfully assess certain programs? Could the Administration not make improvements to PART instead of abandoning it?

Some components of the PART were successful while others were problematic. We are reviewing the PART now to determine which elements should be continued as part of our performance management framework, and which should be discontinued.

4. This past year, the Social Security Administration (SSA) came under scrutiny for hosting a lavish retreat for many of its employees. Were there any goals set under your performancebased budgeting initiative for this retreat? If so, were any of the goals met and what did you do with the results?

OMB leads performance management efforts on a government-wide basis, and coordinates performance measurement activities at the agency and program level. We are not involved in setting performance measures for individual events.

[Whereupon, at 11:28 a.m., the committee was adjourned.]

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