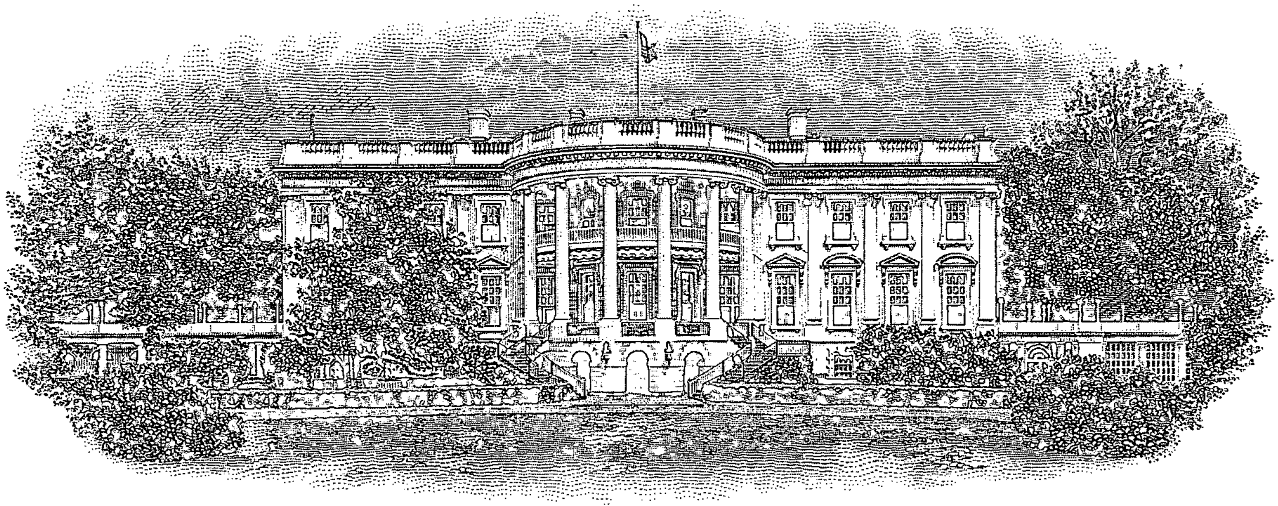

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

TASK FORCE REPORT ON FEDERAL MANAGEMENT SYSTEMS

SUBMITTED TO THE SUBCOMMITTEE FOR CONSIDERATION AT ITS MEETING ON JUNE 13, 1983

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Co-Chairs:
Joseph E. Connor, Jr.
Harry E. Figgie, Jr.
John E. Fisher
Daniel W. Lufkin
J. Paul Sticht

Approved For Release 2008/05/05 : CIA-RDP85B01152R001201540001-6

THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

Mr. J. Peter Grace
Chairman, Executive Committee
President's Private Sector Survey on Cost Control
1850 K Street, N.W.
Washington, D.C. 20006

Dear Mr. Chairman:

This is the Report of the Federal Management Systems Task Force of the President's Private Sector Survey (PPSS) on Cost Control.

Our Task Force's charge was to review the overall administration, processes, systems and structure of Executive Branch management, and to identify areas for improvement in operations through the application of current private sector techniques and practices. We identified the following areas in which significant management structure and procedural weaknesses exist:

- organization and process,
- management information systems,
- budget, planning and evaluation,
- management continuity, and
- communication.

Significant opportunities for improvement exist in each of these areas. The Executive Summary highlights our findings and recommendations. In brief, our recommendations will strengthen and streamline Executive Branch management, resulting in an effective process of centralized policy formulation and coordination of activities, while preserving, where appropriate, decentralized department and agency operations. A more thorough discussion of findings and recommendations is presented in the Appendix accompanying this report.

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The work of our Task Force has represented an enormous challenge and resulted in a tremendous feeling of accomplishment. We are convinced that the recommendations we have made will contribute in a significant manner to the improvement of the Federal management system. We thank you for the opportunity of working with you on this important project.

Very truly yours,

Joseph E. Connor, Jr.
Chairman
Price Waterhouse

Harry E. Figgie, Jr.
Chairman and Chief Executive Officer
Figgie International, Inc.

John E. Fisher
Chairman
Nationwide Insurance Companies

Daniel W. Lufkin
Chairman of Finance Committee
Columbia Pictures Industries, Inc.

J. Paul Sticht
Chairman
R. J. Reynolds Industries, Inc.

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PREFACE

On June 30, 1982, President Reagan signed Executive Order 12369 formally establishing the President's Private Sector Survey on Cost Control (PPSSCC) in the Executive Branch of the Federal Government. An Executive Committee under the chairmanship of J. Peter Grace was established, consisting of 161 high-level private sector executives--mostly chairmen and chief executive officers--from many of the nation's leading corporations.

Briefly stated, the President directed the PPSSCC to:

- o Identify opportunities for increased efficiency and reduced costs achievable by executive action or legislation.
- o Determine areas where managerial accountability can be enhanced and administrative controls improved.
- o Suggest short- and long-term managerial operating improvements.
- o Specify areas where further study can be justified by potential savings.
- o Provide information and data relating to governmental expenditures, indebtedness, and personnel management.

The Executive Order also provided that "the Committee is to be funded, staffed and equipped . . . by the private sector without cost to the Federal Government." To implement this objective, the Foundation for the President's Private Sector Survey on Cost Control was established. It formed a Management Office which organized thirty-six "task forces," each co-chaired by two or more members of the Executive Committee, to do the "preliminary reports." These are listed below:

Agriculture
Air Force
Automated Data Processing/Office Automation
Boards/Commissions-Banking
Boards/Commissions-Business Related
Commerce
Defense-Office of Secretary
Education
Energy (including Federal Energy Regulatory Commission and Nuclear Regulatory Commission)
Environmental Protection Agency/Small Business Administration/Federal Emergency Management Agency
Federal Construction Management
Federal Feeding
Federal Hospital Management
Federal Management Systems
Financial Asset Management
Health & Human Services-Department Management/Human Development Services/ACTION
Health & Human Services-Public Health Service/Health Care Financing Admin.
Health & Human Services-Social Security Aministration
Housing & Urban Development
Interior
Justice
Labor
Land, Facilities and Personal Property Management
Low Income Standards and Benefits
Navy
Personnel Management
Privatization
Procurement/Contracts/Inventory Management
Real Property Management
Research and Development (National Science Foundation/National Aeronautics & Space Admin.)
State/AID/USIA
Transportation
Treasury
User Charges
Veterans Administration

Twenty-two of these task forces were assigned to study specific departments and agencies, and the remaining fourteen studied functions cutting across government such as personnel, data processing and procurement. Apart from the co-chairpersons, none of the task force members were members of the Executive Committee, nor did the task forces have any authority to make recommendations to departments and agencies or to the President.

Each of the 36 task forces prepared a draft report. This is one such task force report. Each, with a few exceptions, also prepared an appendix providing more detailed information supporting the tentative recommendations contained in the task force report. Those appendices are on file at the Department of Commerce's Central Reference and Records Inspection Facility. It should be noted that tentative recommendations relating to any one federal agency may be included not only in the appropriate agency task force report but also in the reports of the functional cross-cutting task forces.

All of the task force draft reports will be considered and acted upon in meetings open to the public by a Subcommittee of the Executive Committee of PPSSCC, along with other statements and recommendations. Accordingly, all tentative recommendations contained in this task force report are subject to possible changes resulting from the Subcommittee's deliberations. In addition, in identifying the implementation authority for each recommendation, the Task Force drew upon all available data at its disposal. Because of the complexities of the appropriations process, as well as historical precedents, further data could result in a change in the PPSS-identified authority.

It is important to note that cost savings, revenue generation, and cash acceleration opportunities in this draft report may duplicate similar dollar opportunities reported in other task force reports. Thus, there may be instances of double counting of dollar opportunities between task force reports. These duplications will be netted-out in the Final Summary Report to the President. Additionally, dollar estimates in this draft report are based on reasonable and defensible assumptions, including standard three-year projections based on first, second, and third year partial or full implementation will occur. Accordingly, estimated savings or revenue opportunities are understandably of a "planning" quality and not of a "budget" quality. Therefore, the reader should guard against drawing conclusions or making dollar projections based on the disclosures contained only in this draft report.

Following action upon all of the task force reports, the Executive Committee will adopt a Final Summary Report to the President, summarizing the scope of its individual task force recommendations and offering general conclusions and advice. This Summary Report is tentatively scheduled for release on or about June 30, 1983.

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EXECUTIVE SUMMARY AND PERSPECTIVE

EXECUTIVE SUMMARY

This report presents recommendations for significant changes in the Federal management process. Task Force recommendations address both short- and long-term concerns; however, the emphasis is firmly on actions to enhance management of the Government over the long run. Current Federal management activities have evolved over many years with little recognition of the need to provide central guidance and direction to achieve a well-coordinated overall process.

Task Force conclusions are based on the identification of serious structural and procedural problems in Executive Branch management processes, organization, information flow, budgeting, planning and evaluation procedures, continuity of management, and communication practices. In a fundamental sense, the recommendations for cost reduction identified by all of the President's Private Sector Survey task forces address many of the symptoms of these problems. The core problems themselves, however, must be eliminated so that the symptoms do not recur in future years.

The need for effective management is dramatized by the sheer size and complexity of Government. For example:

- Fiscal year 1982 outlays of $728 billion are more than double the combined sales of Exxon, Mobil, General Motors, Texaco, and Standard Oil of California (the top five U.S. companies in sales).

- Government outlays are equivalent to approximately $3,200 per person in the United States or $12,800 per year for a family of four.

- One-third of all U.S. land mass is owned by the Federal Government, the equivalent of all states east of the Mississippi River plus Texas.

- 2.6 billion square feet of building space is owned by the Federal Government, the equivalent of four times the office space in the Nation's ten largest city centers.

- Government outlays represent almost one-fourth of the Gross National Product (GNP).

Although there are differences in operating styles and requirements between the public and private sectors of our economy, it is imperative that a business-like approach be taken in the management of the Executive Branch. We have conducted our study and developed our recommendations on the principle that private sector approaches can help improve managing the Government's business.

Aggressively applying the key elements of a business-like approach, our recommendations will:

- o create an organization and process capable of effectively directing and coordinating Executive Branch management activities;
- o foster the development of management information systems which can provide reliable, timely, and compatible information to senior Government managers;
- o redirect and expand the budgeting, planning and evaluation processes;
- o overcome the weaknesses inherent in current systems resulting from a lack of management continuity; and
- o develop mechanisms for effective communication of policies and objectives between the Executive Office of the President and executive departments and agencies.

To bring into focus the extensive presentations of the five themes listed above, the significant findings and recommendations of this Task Force are summarized in the following sections of this summary. Complete descriptions of our findings and recommendations are provided in the context of ten "issue papers" that comprise Section II, the major portion of this report.

In brief, we identified the following management weaknesses inherent in the current management process:

Organization and process -- within the Executive Branch, responsibilities for developing and implementing administrative policies are not clearly assigned. Duplications, conflicts and blurred lines of authority among the various units within the Executive Branch abound. For example, both the Office of Management and Budget (OMB) and the General Services Administration (GSA) have procurement policy responsibilities; OMB, GSA and the Department of Commerce have Government-wide automated data processing

(ADP) policymaking responsibilities; and GSA shares real property disposition policymaking with the Property Review Board.

Significantly, there is also an absence of direction and coordination in key areas. For example, no agency is clearly responsible for developing and coordinating financial management policies. The result is that the Government has experienced significant difficulties in establishing procedures for effective cash management, debt and receivables collection, inventory and other asset management, and financial reporting to senior officials.

A measure of the impact of this fragmentation in administrative management policymaking is the lack of high-level attention focused on significant opportunities for reducing Government costs. This is best demonstrated by the following selected PPSS Task Force reports,1/ which recommend:

- nearly $50 billion in potential savings over three years from improved policies and practices in the human resources area (see the Personnel Task Force Report);

- over $54 billion in cash acceleration opportunities and potential revenue enhancements, and cost savings totaling $25 billion over three years from improved management of cash flow, receivables and other financial assets (see the Financial Asset Management Task Force Report);

- over $20 billion in potential savings over three years from improved procurement, contracting and inventory management policies and practices (see the Procurement/Contracts/Inventory Management Task Force Report); and

- over $6 billion in potential savings over three years from improved utilization of automated data processing and office automation equipment and services (see the Automated Data Processing/Office Automation Task Force Report).

1/ Estimated savings are compiled as of May 15, 1983; however, those from reports of task forces which have not yet been released may be subject to change prior to release.

Finally, the failure to provide for centralized policy setting and coordination has created span-of-control problems, with multiple administrative departments and agencies reporting to the President and the Executive Office of the President.

The overall management function delegated to OMB was originally intended to provide the needed direction and coordination of Executive Branch management activities. Our findings indicate, however, that this objective has not been achieved. The simple truth is that the current OMB operations do not differ substantially from those of its predecessor, the Bureau of the Budget. OMB continues to be preoccupied with the annual budgetary process, which claims most of its resources and drives all of its other activities. (Issues FMS 1 and FMS 3 describe these problems in more detail.)

Management information systems -- in virtually all administrative areas -- payroll, personnel, accounting, and asset management, for example -- departments and agencies have developed independent information systems and related procedures, taking little advantage of the experience or work of other departments and agencies. Joint agency operation of systems or the use of private service bureaus to process transactions are rarely considered. Current methods of development and operation are inefficient, often counterproductive, and very costly (see Issue FMS 2).

In addition to the cost involved, there is frequently no commonality or compatibility of data across departments and agencies, leaving the senior levels of Government without a practical means of collecting summarized management information. As a result, it has been exceedingly difficult to extract from existing systems timely financial and related data concerned with such items as collection of amounts due the Government, location and utilization of real and personal property, inventories of material and supplies, and on an administrative level, an identification of the data processing systems currently in use.

Further, ADP systems in use are frequently the result of expedient and temporary modifications and therefore do not incorporate technological advances in hardware and software.

Budgeting, planning and evaluation -- planning for future years is largely ignored at both the agency and central Government levels. Identifying, communicating and monitoring the accomplishments of major Administration objectives is often ineffective (see Issue FMS 6).

Management of resources is primarily confined to current year budgets, obligations and outlays. The management of Government assets -- for example, capital planning and cash management -- receives little attention, contributing to such problems as the deterioration of the nation's facilities (see Issue FMS 5) and the loss of Federal funds through inadequate cash management practices (see issue FMS 3).

The budget is not fully used as a "management" tool by OMB or the departments and agencies. Accounting for actual expenditures is usually a separate process from budget preparation and analysis; and budget appropriation classifications are not related to the needs and practices of agency management (see Issue FMS 3). Differing from the private sector, the Government stresses budget preparation, while putting less emphasis on budget execution and control.

Effective planning and management of resources is virtually impossible because of the current "one-year" budget requirement. The annual budgeting and appropriations process focuses concern on only the subsequent fiscal year. The current cycle requires over a year-and-a-half to produce a one-year budget, diverts the time and attention of Executive Branch officials and places a burden on state, local and private recipients of Federal funds (see Section IV, Cost Control Opportunity for Further Study).

Evaluation of program results and collection of program data for planning and management purposes are also not carried out in a rigorous and systematic manner. Reliable information is not available to enable the Administration to choose among alternative program options (see Issue FMS 10).

<u>Continuity of management</u> -- because of the rapid turnover of key executives, a condition endemic to the political process, Government functions lack continuity of management. Key appointed positions turn over every 18 to 24 months. It is not possible to implement and sustain meaningful management improvement in an environment characterized by persistent changes in management. Private sector profit incentives for superior management performance are not present and the Government has not developed its own motivational approaches such as widespread senior level recognition of the successful accomplishment of goals and objectives (see Issues FMS 1 and FMS 8).

<u>Communications</u> -- communication of Administration and agency objectives, plans and accomplishments is lacking within the Executive Branch. Career professionals and employees are not provided with suitable insights into what

the Administration expects their agencies to accomplish. Because of the lack of communication, valuable human resources are wasted on misdirected efforts (see Issues FMS 7, FMS 8 and FMS 9).

Specifically, we recommend that the actions outlined on the following pages be taken to improve the process of Executive Branch management.

1. Organization and Process

An Office of Federal Management (OFM) should be established in the Executive Office of the President (EOP)(See Issue FMS 1). OFM will be responsible for policy development and direction in the areas of financial management, budgeting and planning, human resources, administration (including information resources management, procurement and property management), and management improvement. This Office would furnish the needed direction and coordination of Executive Branch management processes by consolidating current fragmented and overlapping management responsibilities into an organizational structure with clearly assigned lines of authority and specific responsibilities. Currently, many of these policymaking roles are assigned to GSA and the Office of Personnel Management (OPM).

OFM will include the budget functions of OMB and otherwise serve as the President's management staff for effecting major improvements in processes and systems, communication and information flow.

OFM should establish a unit which will be responsible for developing a systematic program for identifying and implementing management improvements on an ongoing basis. This capability is essential to sustained improvement of management systems and timely implementation of PPSS recommendations.

GSA and OPM should report directly to OFM for policy direction in carrying out their primary role of developing and implementing procedures and regulations in their respective areas of responsibility. This recommended reporting relationship is based on the general private sector model that employs a corporate staff to ensure a coordinated administrative structure. GSA and OPM should transfer to departments and agencies the responsibilities for all operating functions (for example, maintenance of office buildings) as are cost justified.

The Task Force considered several alternatives to the recommended structure of OFM, including: the establishment of separate offices for budget and other management activities or the merger of GSA and OPM with OMB either within or outside of the Executive Office of the President. Based on analyses of both the Executive Branch and the private sector, the Task Force concluded that:

- Policies established in the budget, financial management, human resources and administrative areas are interrelated and lack of coordination in these efforts would lead to fragmentation, inconsistent policies and waste of resources.

- The Executive Office of the President is the only office in the Executive Branch with the authority and perspective on overall operations to institute long-term improvements.

- Both GSA and OPM should continue their recent shifts of operating functions to the individual departments and agencies. However, as identified by the PPSS Task Forces on Personnel, Procurement/Contracts/Inventory Management and Automated Data Processing/Office Automation, there will likely remain several key operating activities that are more cost effective when performed by GSA and OPM versus the departments and agencies (e.g., operation of the retirement system).

- Including routine operating functions in the Executive Office of the President (EOP) would divert the staff's time and attention from their important policymaking roles and place inappropriate operating functions in the EOP. According to the Ash Council, "the effectiveness of the Executive Office is determined as much by what is excluded as by what is included...[the Office's prestige] can be diluted by including permanently with the Executive Office units which operate programs... As the Brownlow Committee put it thirty years ago, the Executive Office should perform only those functions the responsibility for which cannot be delegated by the President."2/

2/ Roy Ash, "Memorandum to the President" (Washington, D.C., October 26, 1970).

The Task Force, therefore, recommends that OFM provide central direction and policy oversight for budget and other management issues while operating functions are delegated, wherever possible, to the agencies.

A "comptrollership" or "financial management" function should be established in OFM (see Issue FMS 3). Currently, no central Government organization is responsible for directing and coordinating the Federal Government's accounting and financial reporting activities. This "missing link" in financial management has been responsible for inadequate agency and Government-wide financial accounting and reporting; inconsistent application of accounting procedures among agencies; an inability to extract from systems reliable and useful financial data; duplication of system development efforts; and a failure to provide for centralized reporting of results. The financial management function of OFM should include the accounting and reporting activities of the Department of the Treasury, OMB, GSA (for Government-wide property reporting) and the Joint Financial Management improvement program (JFMIP).

2. Management Information

OFM should develop common Government-wide ADP software systems and related procedures for use in such administrative areas as payroll, accounts receivable, retirement/pension, general accounting and accounts payable, and fixed-asset accounting (see Issue FMS 2). OFM would be responsible for overall direction of this program. Benefits would result from reduced developmental and duplicative activities by Federal agencies, and from the use of Government-wide information to manage department and agency activities more effectively. The Task Force recommends that implementation of a common payroll system receive the highest priority. Acquisition and testing of a common payroll system should be completed within three years. There are currently over 300 payroll systems in the Federal Government.

The Task Force also recommends increased joint operations of common systems by departments and agencies and the use of private service bureaus to process transactions for multiple agencies. The feasibility of these operational approaches should be determined during the process of designing each common system.

OFM should direct the development and implementation of management information systems necessary to support EOP and central agency management needs (see Issues FMS 1, FMS 2, FMS 3 and FMS 4). Senior officials currently do not have access to management information on a regular and timely basis to ensure that policies and programs are implemented and progressing according to plans. OFM should direct the development of the data systems required to measure overall agency and program performance, establish accountability for agency and program activities, identify problem areas, and support the development of overall Government policies.

3. Budgeting, Planning and Evaluation

The Executive Branch should implement a planning system by which long-term Administration goals and activities would be identified, communicated and implemented (see Issue FMS 6). OFM should issue "mission objectives" to Federal departments and agencies, outlining the specific objectives of the Administration in relevant program and administrative areas. Agencies should be responsible for preparing, on both long- and short-term bases, action plans for implementation of Presidential mission objectives. Monitoring the accomplishment of these plans would be fully integrated with OFM's ongoing budget and management activities.

The Executive Branch should establish an audit support division within OFM (see Issue FMS 4). This division should coordinate Executive Branch audit activities to address the many audit weaknesses identified by the various PPSS Task Forces. Its activities should include the coordination of audit resource allocation across Government, the development of performance standards and audit programs and guidelines, and provision of technical assistance to agencies and departments in audit specialty areas including ADP auditing and statistical sampling.

A Federal planning and budgeting process for capital expenditures should be instituted (see Issue FMS 5). OFM should implement improved capital asset analyses within the current budget process, and adopt a new Government-wide capital budgeting system to be integrated with overall resource and planning allocation systems. This action would result in better management and utilization of capital assets and funds, long-term improvements in the use of the Nation's physical assets, planned maintenance and repair activities, and long-term cost reductions.

The budget process should be strengthened to enhance its capability to improve Government-wide management. Our Report recommends greater use of the budget process as a management tool for agency and central level officials. This can be accomplished by revising appropriation classifications to better match management needs and integrating the financial management and budget processes (see Issue FMS 3). The Task Force has also concluded that the current annual budget process hinders the agency managers' ability to conduct comprehensive planning and analysis of programs beyond the current fiscal year. Our Report, therefore, recommends further study of the feasibility of adopting a biennial budget process to provide more consideration to long-term management needs (see Section IV, Cost Control Opportunities for Further Study).

More rigorous and systematic evaluations of Federal programs should be conducted to provide "results-oriented" data for effective program management (see Issue FMS 10). Departments and agencies should annually identify key programs to be evaluated, and develop plans to conduct those evaluations and utilize their results. These evaluations should be conducted in an objective and rigorous manner so as to provide necessary information on program beneficiaries, results, problems, and costs.

4. Continuity of Management

Key OFM officials should be appointed on a long-term basis and have strong management backgrounds (see Issue FMS 1). Senior OFM officials for Financial Management, Human Resources, Administration, Budget and Planning, and Management Improvement should be selected for long-term appointments to increase the potential for management continuity and achievement of objectives. The Task Force recommends a new "contractual" approach for second-tier OFM officials that would provide them with the needed security and tenure to carry out long-term improvements, while preserving the ability of the President to have a loyal and compatible team (Issue FMS 1 describes this approach in further detail).

OFM should assist in the selection of key department and agency administrative officials (e.g., Assistant Secretaries for Management, Comptrollers, etc.) based on technical and managerial qualifications. OFM should also work closely with agency administrative staffs on an ongoing basis to improve the quality of related activities.

The Task Force notes that appointees are currently selected primarily on their technical and political qualifications. The missing aspect is often managerial experience. Our recommendations call for increased emphasis on prior demonstrated managerial experience for key administrative management positions.

5. Communication

A high priority program should be implemented to improve communications within the Executive Branch (see Issues FMS 7, FMS 8 and FMS 9). A systematic communications program directed by OFM will ensure that human resources are utilized more effectively to carry out government activities. Specifically, the Task Force recommends positive and direct communication from senior Executive Office and agency officials to Government employees, use of survey and feedback systems to increase upward communication, and an expanded orientation program for appointed officials.

More specific technical and administrative guidance should be provided to the agency Inspectors General (IGs) through the President's Council on Integrity and Efficiency (see Issue FMS 4). Considerable progress has been made in recent years in the development of IG audit programs. However, the Task Force found significant administrative and technical inconsistencies in the manner in which these functions are performed by individual agencies. Operational weaknesses can only be effectively corrected by improved central coordination of IG activities. Inspectors General should also be required to increase the attention devoted to the evaluation of internal control systems and their enhancement of ADP audit capabilities.

* * * * *

The Task Force has concluded that Executive Branch processes must be strengthened and streamlined to permit more efficient, timely and cost-effective management. Implementation of our recommendations often will require short-term expenditures, with the expectation of significant long-term payback opportunities. The Task Force is confident that in all cases our recommendations will result in increased Government efficiency and effectiveness.

The Task Force urges that the Administration expeditiously establish OFM with its recommended responsibilities and organization. With this first step, a major program should begin for implementing the many changes in the Federal management process described in this report.

THE REPORT RECOMMENDATIONS - A PERSPECTIVE

It is important that the recommendations in this Task Force report be placed in perspective. They are the product of an unprecedented and wide-ranging survey that was performed in a politically charged atmosphere by private sector executives and specialists whose services were volunteered -- often on a part-time basis. This staff had the formidable task of bringing their expertise to bear on largely unfamiliar and complex Federal operations in the short span of a few months. Frequently, these efforts were expended while holding down other full- or part-time employment.

Despite these difficult and perplexing challenges -- all of which were anticipated at the onset -- a great deal of valuable work was performed. The recommendations contained in this Report, if implemented, will result in real and significant savings and other benefits to American taxpayers whose hard work and personal sacrifices foot the bill for these Federal programs and operations.

We have sought to be realistic about the recommendations reported. The great majority of them, we believe, are fully substantiated. However, it would be misleading for us to leave the impression that each and every recommendation is rooted in a uniformly high level of research, analysis, and substantiation. The press of time, other business commitments, lack of adequate resources, and other constraints did not always permit the luxury of achieving this desired uniformity.

As a result, and to promote a realistic expectation of recommendations reported, we have evaluated the "supportability" of the recommendations on their management merits and have grouped them into three categories.

- Category I -- Fully substantiated and defensible. Recommendations in this category are, in the opinion of the Task Force, convincing and deserving of prompt implementation.

- o Category II -- Substantially documented and supportable. Recommendations in this category may not be fully rationalized or documented in the Report, but all indications point to the desirability and defensibility of proceeding with implementation.

- o Category III -- Potentially justifiable and supportable. Recommendations in this category, while meritorious, are not regarded as fully supported in the Report, due to time, personnel resources, and other constraints, but are deemed worthy of further analysis to determine the full extent of their merit for implementation.

These category descriptors do not take into account political, social or economic conditions which may alter the supportability for implementing these recommendations. Accordingly, by grouping the recommendations along the above categories, it is possible to assess more effectively the cost savings that can be expected. This analysis permits summary estimates of: (1) firm, (2) probable, and (3) potential savings opportunities, while recognizing that the proposed savings dollars themselves are of a "planning estimate" quality (i.e., generally statistically derived) and not yet of a "budget quality."

The Report Recommendations - An Assessment

Based on the above perspective and categorization, an assessment of the reported recommendations is contained in the matrix on the following page.

Issue and Recommendation		Three year Savings Opportunities ($ millions) Category I	Category II	Category III
FMS 1	Executive Branch Management and Administration	* (S)		
FMS 2	Government-wide Management Information Systems	** (S)		
FMS 3	Financial Management	* (S)		
FMS 4	Audit	* (S)		
FMS 5	Capital Budgeting	* (S)		
FMS 6	Planning	* (S)		
FMS 7	Internal Communications Systems	* (S)		
FMS 8	Orientation of Appointees	* (S)		
FMS 9	Survey/Feedback Systems	* (S)		
FMS 10	Improvement of Federal Evaluation	* (S)		
	Total Savings	** (S)		

* Savings not quantifiable.

** Costs for the acquisition and testing of a common payroll system are estimated to be $11 million over the first three years. Cumulative net savings over 13 years (years 1-3 of acquisition and testing, and years 4-13 of installing at the various agencies) will total $734.9 million.

I. INTRODUCTION

I. INTRODUCTION

Background

The Federal Management Systems Task Force examined management issues that cut across all divisions of the Executive Branch including administration and management, information systems, financial management and auditing, planning and budgeting, internal communication, and the evaluation of program results. These issues affect all Federal departments and agencies and impact on both the efficiency and effectiveness with which an administration can implement its policies.

Briefly stated, the 10 specific issues are:

FMS 1	Administration and Management,
FMS 2	Management Information Systems,
FMS 3	Financial Management,
FMS 4	Auditing,
FMS 5	Capital Budgeting,
FMS 6	Planning,
FMS 7	Communications Systems,
FMS 8	Orientation,
FMS 9	Survey/Feedback Systems,
FMS 10	Evaluation Improvement,

The Task Force's findings, conclusions and recommendations for each of these issues are presented in Section II of this report. In addition, in Section IV: Cost Control Opportunities for Further Study, the Task Force presents a discussion of Biennial Budgeting. Further support for our work can be found in the separately bound Appendices. When viewed in their entirety, these issues represent the Task Force's views on the overall Federal management system.

Methodology

The Task Force's reviews and analyses are based on information provided by literally thousands of interviews conducted by all President's Private Sector Survey Task Forces. Interviews were held with the Executive Office of the President, Federal departments and agencies, state governments, academic institutions and private sector organizations. The Task Force also reviewed Government publications, Congressional testimony, public statements by members of Congress, publications from private sector organizations, and professional literature. A complete list of those interviewed and a bibliography of material reviewed are included in the Appendices.

Task Force Membership

The Task Force served under five co-chairs:

- o Joseph E. Connor, Jr., Price Waterhouse
- o Harry E. Figgie, Jr., Figgie International Inc.
- o John E. Fisher, Nationwide Insurance Companies
- o Daniel W. Lufkin, Columbia Pictures Industries
- o J. Paul Sticht, R.J. Reynolds Industries, Inc.

The day-to-day operations of the Task Force were directed by Lewis J. Krulwich of Price Waterhouse. Francesco A. Calabrese of Ensco, Inc., served as Desk Officer.

Members of the Task Force and external advisors are listed in Section V of this report.

Acknowledgements

The Task Force is grateful to the many representatives of both the public and private sectors who were so generous with their time during interviews and who assembled the large amounts of information often requested of them. Without their assistance, our work would not have been as thorough nor would it have been completed as expeditiously as it was.

Organization of Task Force Report

This report is organized into the following sections:

- o Section II, Issue and Recommendation Summaries -- 10 subsections, each discussing one of the issues listed on the previous page.

- o Section III, Summary List of Recommendations -- a list of all Task Force recommendations ordered by the organization responsible for implementation.

- o Section IV, Cost Control Opportunities for Further Study -- a discussion of whether the Federal Government should adopt a biennial budget cycle. Because of the complexity of this issue, the Task

Force presents its conclusions and recommendations, but feels that further study by the Government is necessary before implementation of those recommendations.

- Section V, Task Force Membership -- a roster of those who served as members of the Task Force and those who served as advisors.

II. ISSUE AND RECOMMENDATION SUMMARIES

II. ISSUE AND RECOMMENDATION SUMMARIES

FEDERAL MANAGEMENT SYSTEMS

FMS 1: ADMINISTRATION AND MANAGEMENT -- FUNCTIONS, METHODS AND ORGANIZATION

Issue

How can the overall management of Government-wide administrative functions be strengthened?

In the context of this issue, the term "administrative functions" includes procurement, information resources management, financial management, human resources management, property management, budgeting and planning.

In this issue, the Task Force addresses the following questions:

- How are each of these functions currently being performed?
- What methods should be used to manage the functions?
- How should administrative management responsibilities be assigned?

Background

Executive Branch management of administrative functions can be divided into three categories:

- development, direction and monitoring of overall Executive Branch policies;
- issuance of regulations and procedures to support policy and direction; and
- conduct of day-to-day operations in accordance with regulations and procedures.

In each of these three areas, the authorities and responsibilities of Executive Branch management are assigned to a range of departments and agencies.

The "central" agencies of the Executive Branch have primary responsibility for the development of policies and regulations/procedures. These agencies include the Office of Management and Budget (OMB) in the Executive Office of the President (EOP), the General Services Administration (GSA), the Office of Personnel Management (OPM) and the Department of the Treasury. This issue also includes discussion of several activities of the General Accounting Office (GAO) which is part of the Legislative Branch.

OMB has responsibility for establishing overall policies in the areas of budget, procurement and information resources management. It also has a strong role in other administrative areas that it accomplishes chiefly through the budget process and through the issuance of directives to the departments and agencies. GSA is assigned responsibility for policies in the areas of automated data processing (ADP), procurement, property, records, and telecommunications. OPM provides policy oversight for Federal civilian personnel management. Treasury has a major role in developing economic, financial, tax, fiscal, and currency policies. The role of GAO includes promulgating accounting standards and reviewing and approving agency accounting systems.

The "central" agencies issue circulars, bulletins, directives and regulations to describe Executive Branch policies and transmit them to the departments and agencies to implement.

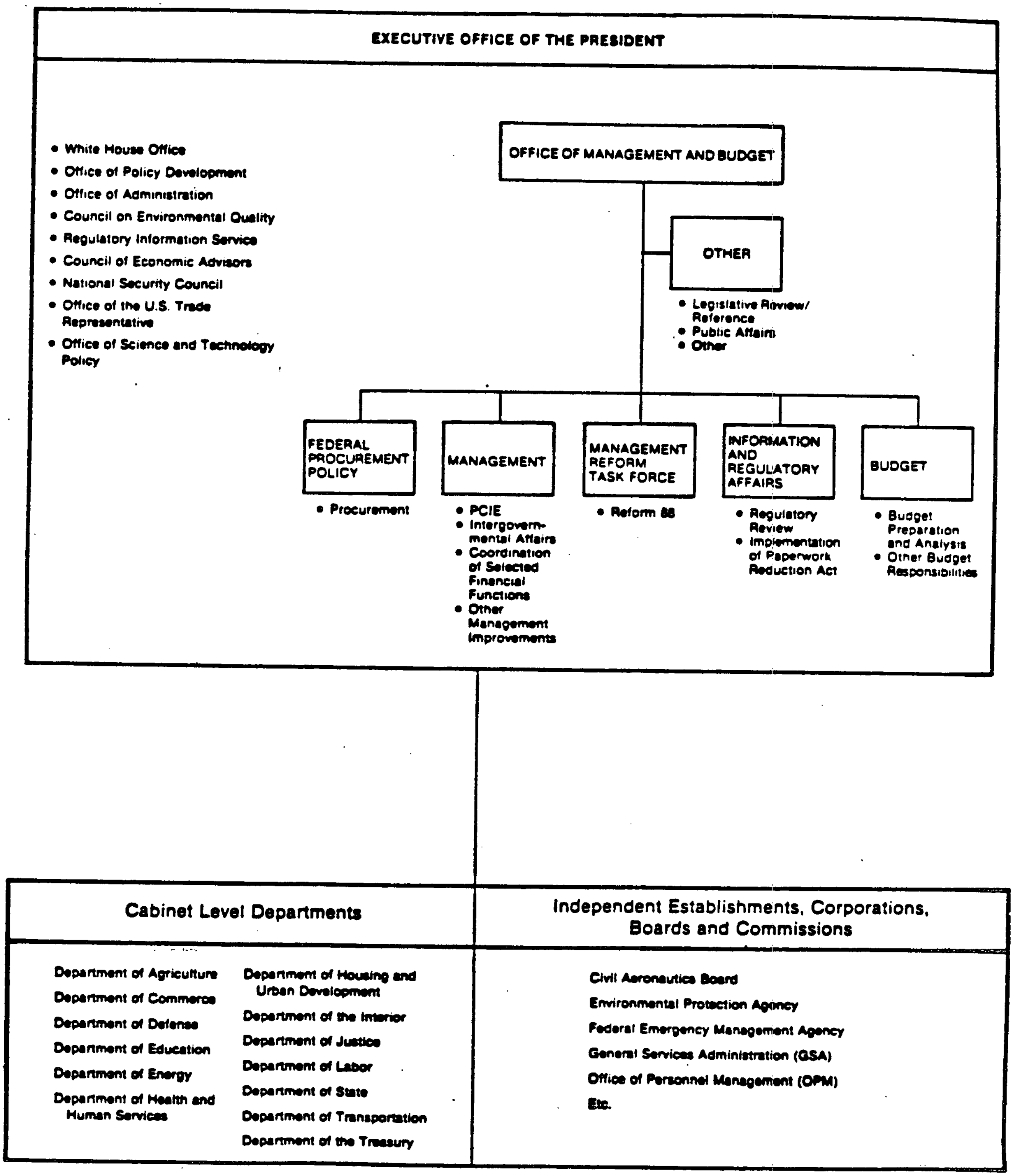
Ongoing operations are shared by the central agencies and Executive Branch departments and agencies. For example, OPM administers selected civil service exams, while GSA provides centralized services to agencies in procurement, building operations and telecommunications. Departments and agencies have their own staffs to develop budgets, operate financial management and other systems, hire staff and provide services to other agencies and the public.

Figure II-1 summarizes the functional organization of OMB and its relationship to other Executive Branch agencies. Exhibit II-1 at the end of this issue summarizes the responsibilities and budgets for EOP, OMB, GSA, OPM, Treasury, and GAO.

[Figure II-1 on following page]

Figure II-1

OFFICE OF MANAGEMENT AND BUDGET
CURRENT FUNCTIONAL ORGANIZATION



Methodology

The Task Force reviewed information from the following sources:

- o interviews with division heads and senior government officials in OMB, GSA, OPM, Treasury, GAO, and EOP. Those interviewed are listed in the Additional Materials section of the Appendix;

- o interviews with representatives from the corporate staffs of the General Electric Company, R.J. Reynolds Industries, Inc., W.R. Grace & Co., ITT Corporation, IBM Corporation, 3M, and Figgie International Inc. These corporations were selected for their size and diversity of services and procedures, geographic dispersion, and organizational complexity. The corporations also generally have significant "service" industry components, increasing their comparability to the Government;

- o interviews with Director and Assistant Secretary level officials in Executive Branch agencies, including the Departments of Defense (DOD), Interior, Housing and Urban Development (HUD), and Health and Human Services (HHS);

- o a telephone and mail survey of human resources representatives in five corporations;

- o prior studies of the Executive Branch (including the Brownlow Committee, first and second Hoover Commissions, the Ash Council and the President's Reorganization Project of 1978). The Task Force also reviewed studies by GAO, the National Academy of Public Administration (NAPA) and others; and

- o other President's Private Sector Survey (PPSS) task force reports.

The Task Force used the material gathered and interviews conducted to develop:

- o an understanding of Federal administrative functions, management of those functions and assignment of functions to organizations;

- an understanding of several private sector approaches to managing administrative functions; and

- an approach for improving Federal management systems based on analogies between the corporate headquarters staff functions for human resources, finance, and administrative operations and those of the "central" government agencies.

Throughout the analysis, the Task Force focused on problems in the areas of human resources, finance, administration, and management that exist in the Executive Branch, but that have been successfully addressed by private sector organizations. Although corporations differ from the Government by several dimensions, including size, purpose, and unity of direction, many of the management problems faced by the two sectors are similar.

Findings

No single department or agency is responsible for overall Executive Branch administrative direction and policy setting. Responsibilities for property, financial management, human resources, and ADP management are distributed among many agencies. This condition results from a long history of uncoordinated and often conflicting legislation and administrative actions:

- Property management. The Federal Property and Administrative Services Act of 1949 created GSA and assigned the Administrator authority to "prescribe policies and methods of procurement." In 1974, however, the Office of Federal Procurement Policy was established within OMB (P.L. 93-400) to provide "overall direction of procurement policy... and prescribe policies, regulations, procedures, and forms." In real property disposition, the Federal Property and Administrative Services Act requires the GSA Administrator to "prescribe policies and methods to promote the maximum utilization of excess property." Executive Order 12348 established a Property Review Board to "develop and review Federal real property acquisition, utilization and disposal policies with respect to their relationship to other Federal policies."

- Financial management. Responsibilities are shared by OMB, Treasury and GSA in the Executive Branch, and GAO and the Joint Financial Management Improvement Program (JFMIP) in the Legislative Branch. No single organization is responsible for establishing Federal financial management policy or coordinating activities (see Issue FMS 3 for a discussion of financial management concerns).

- Human resources management. Responsibilities are shared by OPM, departments and agencies, and OMB. OPM provides primary policy oversight for Government-wide civilian personnel activities. Agencies establish positions based on OMB position controls, and hire and train personnel for those positions. OMB focuses on position control and not on other elements of human resources management. In this area, the Federal Personnel Management Project found that one of the key structural weaknesses in Federal personnel practices is the "failure to provide the President with an appropriate staff organization for directing the positive personnel management responsibilities in his position as Chief Executive." 1/

- ADP management. The Brooks Bill of 1965 assigned to GSA the responsibility of managing ADP acquisitions and promoting sharing among agencies; to OMB, the responsibility to provide "policy guidance to promote effective and economic application and utilization of ADP equipment and to evaluate ADP management performance;" 2/ and to the National Bureau of Standards in the Department of Commerce, the development of uniform Federal ADP standards. The Paperwork Reduction Act of 1980 assigned OMB the responsibility for "developing and implementing policies, principles, standards, and guidelines for automatic data processing and telecommunications ... and overseeing the establishment of standards." 3/

1/ Federal Personnel Management Project, Roles, Functions and Organizations for Federal Personnel Management and Related Special Issues, Option Paper #2 (Washington, D.C., September 1977).

2/ P.L. 89-306, October 30, 1965.

3/ P.L. 96-511, December 11, 1980.

The impact of this fragmentation is a lack of attention focused on significant opportunities for cost reduction and management improvements. This is best illustrated by the recommendations of several PPSS task force reports. For example:

- The PPSS task forces recommend approximately $10 billion in potential savings and revenue enhancements in FY 1983 from improved debt management policies and procedures in the Executive Branch. For example, the Housing and Urban Development (HUD) Task Force recommends the installation and implementation of an automated accounting system, and the implementation of procedural and organizational changes to increase HUD's cash collections by at least 30 percent resulting in annual Cash Flow improvements of over $86 million.

- The PPSS task forces recommend over $2 billion in potential savings from improved cash management practices. For example, the Department of Interior Task Force estimates interest cost savings of $23 to $59 million over a three year period by accelerating the collection of key receipts and reducing excess cash balances held by recipients.

- The Personnel Task Force recommends about $50 billion in potential savings in the human resources area. That Task Force found:

  - Retirement benefits for Federal employees are substantially higher than in the private sector. Federal benefits are 29 percent of the total Government payroll compared to 14 percent of the payroll in the private sector.

  - Executive positions with substantially different responsibilities receive the same salary, discouraging key executives from accepting positions with greater responsibility. For example, an Assistant Secretary with responsibility for supervising a major segment of a Cabinet Department is, in some cases, paid the same salary as the Personnel Director of a subordinate bureau.

  - While the executive pay ceiling has increased by only 5.5 percent from 1977 to 1981, retired Federal employees received cost-of-living adjustments of 55 percent. The Task Force concluded that the Government is losing its most valuable experienced career personnel -- 65 percent of eligible employees retired in 1980 compared to 20 percent in 1978.

Management practices varied among the seven corporations reviewed, although authority for administrative policies in all cases was centralized in the corporate office. This authority was clearly defined and highly visible. Corporate staffs focus on establishing broad guidelines and participating in important corporate-wide activities. Thus they avoid committing limited corporate resources to detailed administrative and operational matters. Corporate staff direct their efforts to solving major problems and exploring opportunities for cost reduction in the operating divisions, rather than monitoring compliance with detailed operating rules and procedures.

Reporting relationships between central agency staffs (OMB, OPM, GSA, Treasury) and their agency counterparts for administrative functions are generally ill-defined. Relationships are informal and depend heavily on the ability and willingness of individuals to work together as opposed to establishing clearly defined reporting lines. Department and agency staff responsible for such areas as procurement, personnel and accounting report directly to the agency heads with no defined reporting responsibilities to the central agencies. Accordingly, the central agencies have limited ability to improve the quality of administrative management across the Executive Branch. The ability to influence the departments and agencies usually depends on the prestige and power associated with the budget process and other resource allocation processes.

In the seven corporations studied, reporting relationships between the corporate staff and operating division staff for administrative functions varied, but were generally well defined. For example:

- In some corporations, operating division staff report directly to their functional counterparts in the corporate office (particularly in the financial area).

- In some corporations, corporate staff review the operating plans of administrative staffs in the operating divisions, provide input into the selection of key operating personnel and monitor division performance. Operating division staff, however, continue to report directly to their division supervisors with an indirect reporting relationship to the corporate staff.

Management information provided to the central agencies of the Executive Branch is incomplete. While some sources of department/agency and Government-wide data are available (e.g., OPM's Central Personnel Data System and GSA's Central Procurement Data System), the Executive Branch has not emphasized developing aggregate management information across departments and agencies. For example, OMB recently noted that it has insufficient information to monitor:

- Government cash balances;
- personnel resources and skill availability; or
- total Federal funds committed to individual states or localities. 4/

GAO has repeatedly cited inadequate planning, budgeting, and financial controls and insufficient user involvement as Government-wide management information problems. 5/

In addition to the lack of aggregate data on Executive Branch activities, the central agencies often do not have the ability to retrieve rapidly and use effectively information on the activities of individual agencies. In many cases, the individual agencies do not routinely collect the information necessary for the central agencies to monitor program performance. For example, although over 125 management reports are produced on the Farmers Home Administration loan (FmHA)programs, information is not generated on the "aging" of the loan portfolio and the number of borrowers eligible for graduation (see the PPSS Department of Agriculture Task Force Report). This makes:

- analysis of agency activities difficult; and

4/ Joseph Wright, Deputy Director of OMB, to the Cabinet, August 1982, Washington, D.C.

5/ Comptroller General of the United States, Government-wide Guidelines and Management Assistance Center Needed to Improve ADP Systems Development Washington, D.C., General Accounting Office, 1981).

- collection of Government-wide data cumbersome and time consuming.

The private sector has long recognized the importance of corporate-wide management information systems. In reviewing seven corporations, the Task Force found that all seven had management information systems that provide information to top-level corporate leadership. For example:

- summary financial information on corporate operating units -- the corporate staff develop standard report formats, and divisions submit reports in these formats on a regular basis to the corporate office;

- strategic planning, production and marketing information; and

- financial statements, submitted quarterly and annually to the board of directors.

Corporate staff closely monitor the financial and operating divisions' performance on a regular basis to identify key problem areas. Staff focus on operating divisions with specific problems.

Congressional impact on the routine administrative activities of the Executive Branch is substantial. Oversight of Executive Branch administrative activities is exercised by a decentralized Congressional system in which numerous committees, subcommittees and staff affect the day-to-day operations of agencies.

The Congressional Research Service (CRS) noted in a report to the Senate Committee on Governmental Affairs that: "The combined practices of writing detailed specifications, including titles and functions for agency sub-units, into legislation, extending the confirmation requirement to additional and lower offices, expanding the use of the legislative veto over administrative decisions, and the increased use of annual authorizations for programs have resulted in the development of a new relationship between Congress on the one hand and the President and the executive agencies on the other.... Congress is now a much more active competitor in exerting influence over executive agency organization and policy than it was even a decade ago." 6/

Among the examples of Congressional involvement are:

- Delegation of procurement authority. The House Government Operations Committee reviews requests for delegation of procurement authority over $250,000 for non-competitive bids and over $500,000 for competitive bids for ADP equipment. According to a report prepared by the Committee for Economic Development, Congressional staff can stop a procurement by requesting a "hold" on agency processing. 7/ The President's Reorganization Project of 1978 found that "in the absence of leadership from OMB, GSA and Commerce, the House Government Operations Committee is becoming the *de facto* manager of the Federal Government's information technology resources." 8/

- Property disposal. GSA must submit to Congress a request to dispose of negotiated sales of real or personal property with a fair market value over $1,000. This procedure has caused substantial delays in the disposal of property. 9/

6/ Congressional Research Service, *The Federal Executive Establishment: Evolution and Trends*, prepared for the Committee on Governmental Affairs, U.S. Senate (Washington, D.C., May 1980).

7/ Kenneth Duberstein (Vice President, Committee for Economic Development), "The Role of Congress," Washington, D.C.

8/ President's Reorganization Report, *Federal Data Processing Reorganization Study*, Central Agencies Team Report (Washington, D.C., December 1978).

9/ Duberstein, *op. cit.*

- Creation of administrative offices. Congress created two offices in OMB (Office of Federal Procurement Policy and Office of Information and Regulatory Affairs), specifically identifying their responsibilities and their reporting relationships to the Director of OMB.

The effect that this Congressional oversight has on the workload and efficiency of agencies was best identified by GAO which found that agencies produce approximately 4,000 reports required by Congress, and that these reports cost at least $80 million annually to prepare. 10/

GSA and OPM focus heavily on providing operational services in addition to coordinating administrative management across agencies. In reviewing GSA's 33-year history, the Task Force discovered confusion between GSA's central coordination responsibilities and its role of providing operational support for other agencies.

The Hoover Commission (prior to the creation of GSA) recommended establishing a General Services Office to serve as a policymaking agency. In enacting the Federal Property and Administrative Services Act of 1949, Congress gave GSA wide discretion in determining whether to centralize or decentralize the operation of general services functions. For those operating functions that were given to individual agencies, GSA was required to provide Executive Branch policy and regulations.

From the beginning, operations dominated GSA. When operational responsibilities were added in real property management, Federal records centers and interagency motor pools, GSA's emphasis on operations was increased.

As a result, according to a study by the National Academy of Public Administration (NAPA), "while the operational functions of GSA were proliferating, attention to the regulatory responsibilities often was neglected ... [consequently], few if any agencies have suffered as much [as GSA] from a confusion of expectations about the essential mission to be achieved, much less the manner in which the mission should be conducted." 11/

10/ Comptroller General of the United States, A Systematic Management Approach is Needed for Congressional Reporting Requirements (Washington, D.C., General Accounting Office, November 1981).

11/ National Academy of Public Administration, Evaluation of the General Services Administration (Washington, D.C., December 31, 1980).

Task Force interviews revealed that the current GSA Administrator is moving toward delegating selected operating functions to agencies. For example, GSA has initiated a pilot project to delegate the operation and maintenance of Government-owned buildings to four participating agencies.

In the area of human resources management, many operating functions have been delegated to the agencies since 1978. The Civil Service Reform Act of 1978 provided OPM with authority to delegate personnel functions (with certain exceptions) to the departments and agencies. As a result, OPM has delegated 31 specific personnel authorities to all agencies and 24 additional authorities on an individual agreement basis. A list of these delegated authorities is included in the Appendix.

Even with the delegations, however, OPM has a major involvement in the day-to-day administration of the departments and agencies in such areas as benefit programs, competitive examinations and classifications. For example, OPM develops position qualification and classification standards, allocates Senior Executive Service (SES) slots to agencies, and conducts training programs for agency staff. OPM also investigates potential appointees for Federal employment and monitors local election polls for the Department of Justice.

In the private corporations studied, the role of the corporate headquarters office in operating centralized services was clearly defined. The corporate office provides centralized services to the operating divisions only where it can be demonstrated to be cost effective. While many factors typically influence a decision to centralize or decentralize, cost-effectiveness is usually the key consideration. For example, companies may negotiate corporate-wide contracts for common-use items to achieve significant purchase price discounts. Such a centralized purchasing agreement, however, is normally used when the total costs of the purchase (including central overhead) are less than those incurred under a decentralized purchasing operation. The operating divisions generally have the flexibility to purchase items from outside vendors when the price for those items is lower than the corporate-wide price for the same item. Follow-up audits determine whether the operating divisions adhered to corporate policy.

Tenure in key management positions is short, resulting in a lack of continuity in management. The average tenure for political appointees in agencies and departments is 18 months. In GSA, there have been nine Administrators, ten Deputy Administrators, and 14 Commissioners for procurement activities in the past ten years. 12/

According to a study conducted by NAPA, the constant turnover in top management "is seen as the principal reason for the failure to develop a strong and effective staff both in GSA and in the associated administrative services areas of the other Federal agencies." In addition, the "differing management concepts, policies and operational procedures" brought in by new administrators have "substantially altered the direction and principles of the organization. Thus, it is easy to see why GSA has been subjected to criticism for its management inconsistencies." 13/

One problem in retaining top administrators is the pay differential between executives in the Executive Branch and the private sector. GAO has noted that changes are required in the pay scale for Federal executives if "pay distinctions are to accurately reflect differences between levels of responsibility and performance and agencies are to avoid serious recruitment and retention problems." 14/ Other factors influencing the retention of executives are discussed in Issue FMS 8 the PPSS Personnel Task Force Report and various other task force reports (i.e. Department of Health and Human Services -- Health Finance Administration and Public Health Service; Hospital Management; and Department of Education).

Previous recommendations to strengthen management practices in the Government have not been successfully implemented. Studies conducted by the Brownlow Committee, the two Hoover Commissions, the Ash Council and others have recommended strengthening Executive Branch management capability. In fact, according to CRS, "most of the studies of the executive branch in the past have recommended that changes be made to centralize the policy, management and staff functions of the Executive Branch, while decentralizing or regionalizing the conduct of operations and delivery of services." 15/

12/ General Services Administration, "Background Information for the GSA Advisory Board Meeting" (Washington, D.C., January 1982).

13/ NAPA, *op. cit.*

14/ Comptroller General of the United States, *Federal Executive Pay Compression Worsens* (Washington, D.C., July 1980).

15/ Congressional Research Service, *op. cit.*

Many of the study recommendations have been partially implemented. For example, the Ash Council recommended that the management capabilities of the Bureau of the Budget (BOB) be strengthened through a reorganization of its responsibilities. As a result, an Executive Order was issued renaming BOB the Office of Management and Budget and charging it with the responsibility to improve "government organization, information and management systems,... review organizational structures and management processes of the Executive Branch and recommend needed changes...[develop] new information systems to provide the President with the performance and other data he needs but does not now get ... [and] take the lead in devising programs for the development of career executive talent throughout the Government." 16/

Expectations for OMB were high. In 1970, the first OMB director, George Shultz, described the agency as follows: "The Office of Management and Budget will be in a position to implement the President's desire for strong, effective and responsive management... The new emphasis on management and the newly created management divisions will provide the basis for more effective program coordination and evaluation." 17/

However, the management function in OMB today can be characterized as:

- A low priority -- according to NAPA and others, "during recent years, especially in the decade of the 70s, the management function in OMB has been persistently downgraded to the point where the present staff capability is inadequate in relation to need...the overriding domination of the budget function as the driving mechanism in presidential decisionmaking has tended to displace the management function... The potential for mutual reinforcement between the two functions [budget and management] remains largely unrealized." 18/

  It should be noted, however, that the OMB's that the OMB's current initiative (Reform 88) is perhaps the most comprehensive and significant management program emanating from OMB since its formation in 1970.

16/ Reorganization Plan No. 2 of 1970, President's Message.

17/ Press Release, Friday, August 7, 1970. Records of the Bureau of the Budget B2-1 (1970).

18/ National Academy of Public Administration, "Strengthening OMB's Role in Improving the Management of the Federal Government" (Washington, D.C., February 1981).

- <u>A coordination role in which interagency committees and task forces are often used</u> -- examples include the President's Council on Integrity and Efficiency (PCIE), where OMB representatives and agency IGs undertake specific projects (e.g., on cash management, internal controls); and Reform 88, where a Steering Committee composed of OMB representatives and 12 Assistant Secretaries for Administration/Management and IGs oversee task force operations. The OMB staff work through consensus building among the departments and informal relationships with agency staff, rather than through clearly defined reporting lines. Unlike the budget side of OMB, the management side has little power (i.e., approval authority or "teeth") over the actions of agency staff.

- <u>Lacking clearly defined responsibilities and accountability</u> -- while certain OMB management functions are defined by statute (e.g., those for the Office of Federal Procurement Policy and the Office of Information and Regulatory Affairs), many of the functions are not well defined. For example, OMB issues selected accounting circulars (e.g., A-50 on "Audit Follow-up" and A-102 on "Uniform Guidelines for Grants to State and Local Governments"), but does not exert a leadership role in defining agency financial management policies, procedures or systems. While OMB may react to selected financial management issues, the specific roles and responsibilities of OMB for Government-wide financial management practices are unclear. Given the lack of well-defined responsibilities, it is difficult to measure the "success" of the management side of OMB.

- <u>Lacking a continuous long-term focus</u> -- priorities of the management staff shift with each incoming administration. For example, OMB focused primarily on organization and reorganization studies during the Nixon Administration, management-by-objectives initiatives during the Ford Administration, organization studies and personnel reform during the Carter Administration, and regulatory reform and selected projects (e.g., debt collection), during the first half of the Reagan Administration. Long-term needs for management attention often suffer while staff focus on specific high priority concerns of the current administration. This limits OMB's ability to implement a comprehensive strategy for management improvement.

Clearly, the Ash Council vision of OMB as a "fundamental departure [from BOB] and innovation" which would "embody a concept of management that goes well beyond the present emphasis on budget" 19/ has not been achieved.

Conclusions

The assignment of responsibility for management of the administrative, information resources, financial, property, and human resources functions among many agencies has resulted in unclear and, in some cases, overlapping responsibilities among agencies; major gaps in administrative areas; unclear relationships between central and other agencies; and an inability to implement major management improvements in the Executive Branch.

The lack of Government-wide management information inhibits the ability of central agencies to improve Executive Branch administrative functions. Without key indicators of agency performance, central agencies tend to "control" agency operations by standardizing procedures and promulgating regulations. The agencies with problems or those with well managed administrative functions are obscured because the information that would identify them is not available. Standard management-by-exception practices employed by the private sector are, therefore, not sufficiently used in the Government.

Recommendations

Improving the management of administrative activities should be based on the principles of: (a) a clear definition and division of responsibilities; (b) effective management information systems; and (c) the appointment of senior officials with extensive managerial experience for long-term service.

Exhibit II-2 at the end of this issue describes a model Federal management system, developed by the Task Force for the purpose of testing the study findings. It also portrays the findings on which it is based and our recommendations for improvement. The key elements of this model are common to both the private and public sectors and include policy and direction, procedures and lines of communication to link the two.

19/ Roy Ash, "Memorandum to the President", (Washington, D.C., October 17, 1969).

Our recommendations are described in more detail below.

FMS 1-1: An Office of Federal Management (OFM) should be established within EOP to provide centralized leadership and policy direction. OFM, with OMB as its core, will be responsible for the budget process and assume strong management roles in finance, human resources, administrative services, and management improvement. The intent of the Task Force in recommending the name Office of Federal Management is to demonstrate clearly the focus of the agency -- direction and leadership of management activities.

EOP should be the focal point to direct and improve Federal management processes. It is the only office that has the needed authority and stature to institute long-term improvements. Other agencies, such as GSA, have neither the perspective on overall operations, nor the authority to ensure long-term government commitment to change.

The Task Force recognizes that OMB was originally intended to perform some of the recommended "management" activities; however, OMB has not differed substantially from its predecessor, BOB. OMB emphasizes budgeting and provides limited leadership to the Government in other management areas. Upgrading management responsibilities to the level of the current budgeting role of OMB conforms to the original intent of the Executive Branch in 1970 to establish a strong management role in OMB. Implementation of the Task Force recommendation will require a substantial change in the activities and style of the current OMB. An aggressive and visible role is proposed, based on clear authority and responsibility.

OFM should differ significantly from the current operation of OMB:

- Specific, well-defined management responsibilities should be assumed by OFM. The definition and division of responsibilities for administrative functions should be clear to OFM and the agencies.

- Key OFM officials should have strong management backgrounds and be appointed on a long-term basis (see FMS 1, FMS 2 and FMS 3).

- OFM should oversee a coordinated administrative structure in which GSA and OPM report directly to OFM and clear-working relationships are established between OFM and its functional counterparts in the agencies. OFM staff should provide technical input into the selection and evaluation of key agency officials (e.g., Assistant Secretaries for Administration/Management) and input into agency plans and performance.

- o Effective management information systems should be developed to measure agency performance, identify and respond to problems in the Executive Branch and measure the impact of policy changes.

- o OFM responsibilities for financial management, human resources, administrative services and management improvement should be emphasized as well as its responsibilities for budgeting. The budget should not dominate OFM's other management responsibilities. The Task Force expects that OFM's expanded management direction and oversight roles will reduce the need for similar detailed Congressional Committee involvement with "routine" agency activities. A change in Congressional "monitoring" of the Executive Branch can evolve as greater confidence is gained in OFM activities.

The Task Force considered several alternatives to the recommended structure of OFM, including establishing separate budget and management offices or combining GSA and OPM with OMB either within or outside of EOP. Based on analyses of both the Executive Branch and the private sector, the Task Force concluded that:

- o Policies established in the budget, financial management, human resources and administrative areas are interrelated. Lack of coordination in these efforts leads to inconsistent application of policies and misuse of resources.

- o EOP is the only office in the Executive Branch with the authority and perspective on overall operations to institute long-term improvements.

- o There is a long history of Government agencies such as GSA having both operating and policy functions, but concentrating on their operating roles to the detriment of their policy functions.

- o Including routine operating functions in EOP would divert the staff's time and attention from important policymaking roles and place inappropriate operating functions in EOP. According to the Ash Council, "the effectiveness of the Executive Office is determined as much by what is excluded as by what is included...[the Office's prestige] can be diluted by including permanently with the Executive Office units which operate programs... As the Brownlow Committee put it thirty years ago, the Executive Office should perform only those functions the responsibility for which cannot be delegated by the President." 20/

- OFM should provide central direction and policy oversight for budget and other management issues while operating functions should be delegated, wherever possible, to the agencies.

Overall responsibilities of OFM should include:

- establishment of a strong management capability in EOP;
- establishment of a senior financial officer for the Executive Branch (see Issue FMS 3);
- improvement of management practices across the Executive Branch;
- central policy direction and leadership in human resources, information resources management, procurement, and property management functions;
- existing OMB functions in budgeting, legislative review/clearance, intergovernmental relations and public affairs; and
- development of common administrative procedures and systems (see Issue FMS 2).

The Task Force recognizes that the five functional areas in OFM have interrelated responsibilities and that effective communication must be established among them. This includes joint meetings of functional staff in OFM with the agencies and joint input into agency plans, budgets and performance.

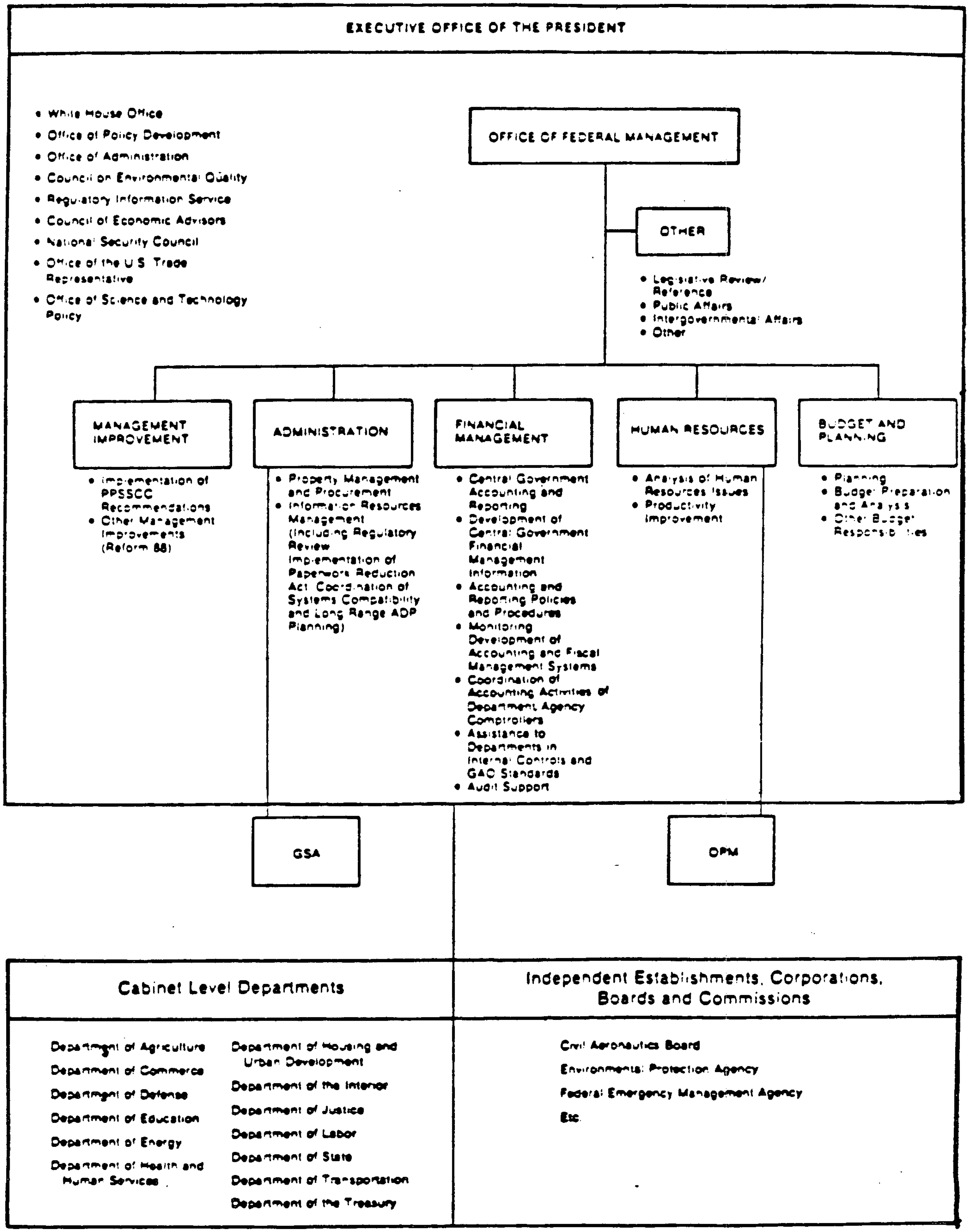
Figure II-2 summarizes the recommended functional organization of OFM and its relationship to GSA and OPM. Refer to Figure II-1, shown earlier in this issue, for the current functional organization of OMB.

[Figure II-2 on following page]

20/ Roy Ash, "Memorandum to the President" (Washington, D.C., October 26, 1970).

Figure II-2

OFFICE OF FEDERAL MANAGEMENT
RECOMMENDED FUNCTIONAL ORGANIZATION



FMS 1-2: OFM should undertake an agenda of high priority issues to improve management practices and address an agenda of high priority management initiatives with significant long-term cost savings and benefits. The agenda should include the following:

- Financial management -- OFM should develop an appropriate form of annual external financial reporting that should be prepared by the Federal Government; review the feasibility of modifying present budget classifications; identify central Government financial management objectives and related accounting systems information requirements; develop accounting policies and procedures; and enhance overall financial management activities (see Issue FMS 3).

- Human resource management -- OFM should provide direction to OPM and the agencies for productivity improvement programs and resource planning and allocation; establish policies in the areas of pay, benefits and labor management relations; improve communications within the Executive Branch; and improve the availability and quality level of data regarding human resources activities (see Issues FMS 7, FMS 8, FMS 9 and FMS 10).

- Administration -- OFM should provide direction for the development of a single procurement system; develop and maintain an inventory of Federal property; develop data systems for management; and expand the current responsibilities of the Office of Information and Regulatory Affairs in OMB to include central direction for the development of common ADP software systems (see Issue FMS 2) and the identification of the management information requirements of OFM.

- Budgeting, planning and evaluation -- OFM should implement improvements in capital budgeting and planning (see Issues FMS 5 and FMS 6); make greater use of the budget process as a management tool for agency and central level leadership through revising appropriation classifications to better meet management needs and integrating financial management and budget processes (see Issue FMS 3); and provide direction to the agencies for developing evaluation plans and improving the availability and quality of data regarding budgeting and program performance (see Issue FMS 10). The Task Force also recommends that the desirability of budgeting on a biennial basis be studied to provide more consideration to long-term management needs (see Section IV, Cost Control Opportunities for Further Study).

- o Management improvements -- OFM should be responsible for implementing PPSS Task Force recommendations and other management improvements.

FMS 1-3: OFM officials for financial management, human resources, administration, management improvement, and budget and planning should have strong management backgrounds and be appointed on a long-term basis. The selection of key officials for financial management, human resources, administration, budget and planning, and management improvement is a critical factor to the success of OFM. OFM officials should have strong management backgrounds with both public and private sector experience in their particular functional areas. These officials should be encouraged to serve on a long-term basis to the greatest extent possible.

In the past, there have been many recommendations made to reduce the turnover of key Government positions. Most of the changes made have involved conversion of the positions from a political appointment to the career civil service. The Task Force considered this approach and concluded that a new method was required to attract the best talent for each position. The Task Force recommends a new "contractual" approach for the second tier of OFM officials (heads of each functional area) which would provide them with the needed security and tenure to carry out long-term improvements and preserve the ability of the President to have a loyal and compatible team. OFM officals would be appointed under contract for specific terms of office (described below). The President would be able to replace these officials, subject to their contractual agreements, which would assure compensation for the life of the contract. This approach combines the needed characteristics of longer-term Government service with private sector flexibility and employee incentives.

The Task Force recommends the following methods of appointment for OFM officials:

- o The Director of OFM should be appointed by and serve at the pleasure of the President (with Senate confirmation); he/she should be a member of the Cabinet.

- The senior financial officer should be appointed on the basis of a model similar to that of the Comptroller General of the United States, emphasizing long-term service. The President should select a candidate from a list of qualified candidates recommended by Congress and other recognized and knowledgeable authorities. The candidate would be subject to Senate confirmation and serve under contract for a 15-year term to assure continuity in the development of financial management systems.

- The heads of the management improvement, administration, human resources, and budget and planning areas should be selected for at least a five-year period to provide continuity across administrations. These officials should be appointed under five-year contracts.

In considering term appointments for OFM officials, the Task Force notes that precedents exist for the President to select officials using this approach:

- the five Commissioners of the Securities and Exchange Commission are appointed for five-year terms with staggered expiration dates;

- Federal judges are appointed for life;

- the Comptroller General of the United States is appointed by the President for a 15-year term;

- the three Presidentially appointed members of the Federal Home Loan Bank Board serve four-year terms with staggered expiration dates;

- the members of the Board of Governors of the Federal Reserve Board are appointed for 14-year terms while the Chairman is appointed for a four-year term;

- the five Commissioners of the Federal Trade Commission are appointed for seven-year terms; and

- the six members of the International Trade Commission are appointed for nine-year terms.

While the ability of the President to remove these officials is usually limited, under the new contractual arrangement described above, the President will have the needed flexibility to remove the OFM officials while the officials will have the needed security (for the contract period) to carry out long-term improvements.

FMS 1-4: GSA and OPM should report directly to OFM; a clear working relationship should be established between OFM and its functional counterparts in all departments and agencies. GSA and OPM should report directly to OFM for policy direction in developing and implementing procedures in their respective areas of responsibility. This recommended reporting relationship is based on the general private sector model which employs a corporate staff to ensure a coordinated administrative structure.

OFM should provide technical input into the selection and evaluation of key department and agency officials such as the Assistant Secretaries for Management/Administration and Comptrollers. These positions should be filled with experienced, highly qualified individuals with expertise in their particular functional area. OFM's role should be one of guidance; the agency Secretaries should continue to have the ultimate responsibility for the selection and evaluation of their agency officials.

OFM should establish clear working relationships with its functional counterparts in the agencies. This should include regular meetings and review and input into agency plans, budgets and performance.

FMS 1-5: Effective management information systems to support central leadership should be developed. OFM and other central agency staff must have access to summary management information from the agencies to ensure that policies and programs are implemented and are progressing properly. This information would be used to:

- measure overall performance to assure that the Government's missions are being accomplished;
- establish accountability among personnel responsible for administration of the programs;
- identify and respond in a timely manner to problems of concern throughout the Executive Branch;
- measure the impact of policy changes; and
- track trends in performance that require policy change.

OFM staff should lead an Executive Branch effort to achieve discipline in reporting financial and operating results. A comprehensive, long-term information strategy is needed to:

- o identify the information needed to effectively manage Government operations;
- o assess current status;
- o develop an implementation plan; and
- o coordinate the implementation effort.

The Appendix to this report describes an overall information system concept for providing the necessary management data to OFM and senior department and agency officials.

FMS 1-6: GSA and OPM should continue efforts to delegate responsibility for operations and only provide centralized services to agencies, where cost-effective. The Task Force recommends that GSA and OPM be responsible for developing Executive Branch operational procedures and regulations and for coordinating Government-wide activities related to their functional areas.

When it is cost-effective to provide services centrally, GSA and OPM should provide such services with proper documentation of their cost-effectiveness. For example, the GSA Office of Federal Supply and Services should recover its costs completely by being reimbursed by users who pay a share of the inventory carrying charges and overhead as well as the cost of their procurement. Accounting procedures should be developed to determine appropriate unit charges. This approach will:

- o make the cost-effectiveness of centralized procurement visible, since cost comparisons with alternate sources of supply could be made; and
- o provide an increased incentive for efficient management.

Agencies should be encouraged to use GSA's centralized procurement unless they can obtain the same goods or services (which meet the procurement requirements) from an outside vendor at a lower price than that offered by GSA. Post audits should be conducted by the agency IGs to assess the correctness of these decisions and, if applicable, appropriate corrective measures taken.

GSA should continue to delegate operating functions to the agencies such as the operation and maintenance of buildings and review of agency procurement requests for ADP equipment and services (see the PPSS Automated Data Processing/Office Automation Task Force Report). GSA should assume an active leadership role only where it is more cost-effective or efficient to operate functions centrally. This includes, for example, the design and construction of Federal buildings (which require specialized expertise in architecture and engineering).

OPM should continue to delegate detailed operating functions where appropriate to the agencies. This includes training programs for Government employees, competitive examinations (e.g., administration of tests for Army volunteers) and local election poll monitoring. OPM should administer only those programs which are not appropriate to transfer to OFM or the departments/agencies. This includes, for example, administration of the retirement program (e.g., claims processing, fund management), administration of health benefits and life insurance programs (e.g., rate negotiation), development of qualification standards and evaluation of agency compliance with personnel regulations.

Savings and Impact Analysis

The management practices recommended herein are commonly used in the private sector, where corporations must operate efficiently in order to survive in the market place. Corporations typically formulate policy and direction at the corporate level and rely upon feedback from management information systems to ensure that policy is being followed and that divisions are operating profitably. The Federal Government should use this approach to its benefit.

The benefits from the implementation of the Task Force recommendations would be:

- a coordinated administrative process and structure capable of effectively directing and coordinating Executive Branch management activities;
- clear assignment of responsibility for administrative functions, eliminating existing duplications, conflicts and unclear authority among the various units within the Executive Branch;
- development of management information systems to provide reliable, timely and compatible data to EOP and senior department/agency officials;

- continuity in key management positions to implement needed management improvements across the Executive Branch;

- ongoing identification and implementation of needed management improvements across the Executive Branch; and

- an effective, clearly identified staff capable of directing the implementation of the Administration's program.

Costs to implement OFM will be based on the following: more specific responsibility for current OMB staffs (e.g., information resources management); transfers of personnel and other costs from departments/agencies to OFM (e.g., financial management staff in Treasury, see Issue FMS 3); and addition of new staff to OFM (e.g., human resources; information resources management -- FMS 2; financial management -- FMS 3; and planning -- FMS 6). In addition, the Task Force recommends that OFM focus on policy, direction and coordination to minimize the need for significantly increasing the size of the Executive Branch.

The most significant short-term costs will be incurred in the implementation of management information systems for OFM. OFM should perform functional analyses of the management information required and devise a plan for the implementation of these systems. The Appendix includes the Task Force recommendations for an information system concept, with implementation approaches. The Task Force concludes that the short-term costs can not be estimated without first specifying OFM's precise organization and reporting structure.

Implementation

OFM can be created by Executive Order of the President, as was OMB. However, selected recommended responsibilities of OFM will require legislative action.

The Task Force, therefore, recommends a three-step plan to implement the recommendations. The President should:

- Issue an Executive Order to establish OFM and the units responsible for budget and planning, financial management, human resources, administration, and other management improvement areas.

- Initiate efforts within the new OFM to determine how management information flow might be improved and to draft new legislation, additional Executive Orders, and Presidential statements to Federal employees. Development of effective management information systems to support central leadership will require a long-term commitment by OFM. Priority should be given to establishing a process to assess current capabilities, determine information requirements and develop a plan to implement the systems.

- Submit legislation to Congress to implement aspects of the recommendations that require statutory change. The transfer of selected Treasury reporting requirements to OFM, the implementation of the recommended terms, and selection of the senior financial officer (see Issue FMS-3) and other second tier OFM officials will require statutory change.

Exhibit II-1

CENTRAL ORGANIZATION

Organization	Authorization	Functions and Responsibilities	Staffing and FY 1983 Budget*
Executive Office of the President (EOP)	o Established by Reorganization Plan No. 1 of 1939	o Consists of: - The White House Office - Office of Management and Budget - Council of Economic Advisors - National Security Council - Office of Policy Development - Office of the U.S. Trade Representative - Council on Environmental Quality - Office of Science and Technology Policy - Office Administration - Regulatory Information Service	o 1,500 employees** o $101,900,000
Office of Management and Budget (OMB)	o Predecessor was Bureau of the Budget (BOB) created by Budget and Accounting Act of 1921 o Reorganized and renamed Office of Management and Budget in 1970 by by Executive Order	o Responsibilities include: - Preparation of the President's Budget - Oversight of budget execution - Coordination of department advice on proposed legislation - Improvement of administration management within the Government - Development of regulatory reform proposals and programs for paperwork reduction - Overall direction for Government-wide procurement - Other duties as directed by the President	o 600 employees o $38,595,000

* Represents Fiscal Year 1983 budget authority for Federal funds
** Includes OMB employees

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Exhibit II-1 (Cont'd)

Organization	Authorization	Functions and Responsibilities	Staffing and FY 1983 Budget
General Services Administration (GSA)	o Created by Federal Property and Administrative Services Act of 1949	o Responsibilities include: - Establishment of Government-wide policy in property, ADP, telecommunications, records, and procurement. - Operation of commodity centers, retail stores and warehouses - Design, construction and management of Federally-owned leased buildings - Provision of ADP telecommunications services and archives' records retention services. - Disposal of excess and surplus property - Acquisition of civilian vehicles and operation of interagency motor pools - Management of national stockpile of strategical materials	o 28,000 employees o $509,859,000

Exhibit II-1 (Cont'd)

Organization	Authorization	Functions and Responsibilities	Staffing and FY 1983 Budget
Office of Personnel Management (OPM)	o Predecessor was Civil Service Commission (CSC) established in 1883 to implement Federal merit system o Civil Service Reform Act of 1978 divided responsibilities of CSC between Merit Systems Protection Board and Office of Personnel Management	o Primary policy oversight for Federal civilian personnel management o Administration of nation-wide recruitment and and examination programs; Government-wide classification and pay systems; and employee benefit and retirement programs. o Other responsibilities include: - Training programs for Government employees - Investigations regarding selection and appointment process - Personnel guidance relevant to Government-wide Incentive Awards - Administration of Senior Executive Service (SES)	o 5,000 employees o $16,508,515,000

Exhibit II-1 (Cont'd)

Organization	Authorization	Functions and Responsibilities	Staffing and FY 1983 Budget
Department of the Treasury	o Established by Act of Congress in 1789	o Formulation of economic, financial, tax and fiscal policies o Division of Government Accounts and Reports (Bureau of Government Financial Operations) maintains central government accounting records and cash obligation financial data and issues reports on the financial status of the Government o Other responsibilities include: - Law enforcement - Currency manufacturing - Tax collection	o 112,000 employees o $125,218,590,000
General Accounting Office (GAO)	o Established by the Budget and Accounting Act of 1921	o Responsibilities include: - Development of accounting standards - Approval of agency accounting systems - Conduct of program and financial audits - Claims settlement and debt collection	o 5,100 employees o $255,014,000

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Exhibit II-2

DESCRIPTION OF A MODEL GOVERNMENT ADMINISTRATION SYSTEM

Elements of a Model Government Administrative System	Support (Findings) for Model System	Recommended Implementation of Model System
1. Development of Government-wide Policies		
1.1 There should be a clearly defined central authority for administrative policies	o Responsibility for government-wide direction and policy authority for administrative issues is fragmented. This leads to inconsistent application of policies, major gaps and the development of inadequate management systems o Policy authority in the private sector is clearly defined and highly visible.	o Establish an Office of Federal Management (OFM) to provide centralized leadership for management of Executive Branch administrative functions (FMS 1-1)
1.2 Central direction and leadership for key administrative functions should come from the Executive Office of the President.	o The Executive Office of the President is the "only place in the Executive Branch where all views may be considered from a government-wide perspective." (Ash Council) o Central direction for administrative issues in the private sector comes from the corporate office.	o FMS 1-1 described above
1.3 Central direction in budgetary, financial management, human resources and administrative areas should be coordinated.	o Policies set in the budget, financial management, human resources, and administrative areas are interrelated; lack of coordination in these efforts leads to inconsistent application of policies. o Corporate staff functions include budget finance, human resources, and administrative areas.	o FMS 1-1 described above.

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Exhibit II-2 (Cont'd)

Elements of a Model Government Administrative System	Support (Findings) for Model System	Recommended Implementation of Model System
1.4 The lines of authority should be clearly defined.	o OMB, GSA, OPM and the departments/agencies all report directly to the President. OMB significantly influences but does not direct the administrative activities of the department/agencies. o Relationships between central agency staffs and their agency counterparts for administrative functions are informal and depend heavily on the ability and willingness of individuals to work together as opposed to clearly defined reporting lines. o In the private sector, administrative staff in the operating units receive guidance directly from their counterparts in the corporate staff. Corporate staffs are involved in the selection, performance evaluations and dismissal of "key" staff in the operating units.	o Establish a direct reporting relationship from GSA and OPM to the OFM. Develop a clear working relationship between OPM and its functional counterparts in the departments and agencies. (FMS 1-4)
2. Development of Regulations and Detailed Procedures and Operation of Centralized Services		
2.1 Operation of administrative activities should be delegated to the departments/agencies unless centralized services are most cost-effective.	o GSA operates many administrative functions centrally. Information is not available, however, to monitor the cost-effectiveness of providing centralized services. (Measuring in procurement, for example, not only the size of the price discounts but the cost of overhead and inventory carrying costs.)	o Support and persuade GSA and OPM to delegate day-to-day operations to agencies and provide centralized services to agencies only where cost-effective or vital to national defense. (FMS 1-6)

Exhibit II-2 (Cont'd)

Elements of a Model Government Administrative System	Support (Findings) for Model System	Recommended Implementation of Model System
	o The Civil Service Reform Act of 1978 provided the OPM authority to delegate personnel functions (with certain exceptions) to the agencies. As a result, OPM delegated 31 personnel authorities to all agencies and 24 on an individual agreement basis. Even with the delegations. OPM has a major involvement in the day-to-day administration of agencies in benefit programs, examinations, classifications and security clearances.	
	o The role of the corporate office in operating centralized services is clearly defined: the corporate office provides centralized services only where it can be shown to be more cost-effective or more advantageous to the corporation. Centralized services are usually operated on a cost-recovery basis.	
2.2 GSA and OPM should write regulations and procedures for the policies set by the central group.	o Significant confusion has existed over GSA's role as a regulatory or operational agency: - The first Hoover Commission recommended the creation of a General Services Office as a regulatory agency. - The Act creating GSA provided the GSA Administrator with wide discretion to decide which operating functions to delegate to the agencies or operate centrally.	o FMS 1-6 described above.

Exhibit II-2 (Cont'd)

Elements of a Model Government Administrative System	Support (Findings) for Model System	Recommended Implementation of Model System
	- Operations have dominated the focus of GSA. According to a study conducted by NAPA, "GSA has failed to develop a broad policy regulation base, to delegate substantial authorities to agencies to monitor agencies or to monitor agency operations for adherence to policies: rather it has focused on expanding its operating base."	
3. Communication and Feedback on the Implementation of Government-wide Policies		
3.1 Information to monitor agency performance should be provided to the central group for key administrative areas.	o Information is not available on an on-going basis to monitor government cash balances, financial commitments and obligations, personnel resource availability and skills, or market value of government real estate. o The private sector uses information extensively to monitor operating unit performance. This includes summary financial information for all aspects of an operation, operational data and annual audits.	Develop effective management information systems to support central leadership (FMS 1-5). Undertake an agenda of high priority issues to improve government-wide management (FMS 1-2)

Exhibit II-2 (Cont'd)

Elements of a Model Government Administrative System	Support (Findings) for Model System	Recommended Implementation of Model System
3.2 Management continuity should be strongly supported. Central staff should be small, highly knowledgeable and encouraged to serve as long-term appointments.	o The average tenure for department Secretaries is about 18 to 24 months. GSA has had 9 Administrators and 10 Deputy Administrators in the last 10 years. The constant turnover in top management "is seen as the principal reason for the failure to develop a strong and effective staff both in GSA and in the associated administrative services areas of the other Federal agencies." (NAPA) o Key officials in the OMB, GSA and OPM are political appointments. o In the private sector, the corporate staff is small in number and highly qualified.	o Appoint senior OFM officials for Financial Management. Human Resources. Administration, Management Improvement and Budget and Planning with strong management backgrounds on a long-term basis (FMS 1-3)

II. ISSUE AND RECOMMENDATION SUMMARIES (CONT'D)

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 2: EXECUTIVE BRANCH INFORMATION SYSTEMS

Issue and Savings

Would the implementation of common automated administrative systems by Federal agencies reduce system development, maintenance, and operation costs and increase the availability and usefulness of Executive Branch management information?

In this context, a "common system" is defined as a set of software, procedures, and documentation for a specific administrative function or element of a function that could be used by many Federal agencies. The term "administrative functions" includes procurement, information management, human resource management, budgeting, and planning.

In investigating this issue the Task Force addressed the following questions:

- To what extent should automated administrative systems be common among agencies?
- How should the Executive Branch acquire and install common automated systems?
- What are the other benefits and impacts of common automated systems?

The Task Force found that the acquisition and implementation of common systems would save substantial resources and would improve overall management information. According to the Automated Data Processing/Office Automation (ADP/OA) Task Force, annual savings achieved from the acquisition and operation of common systems in Federal agencies could reach $1.2 billion per year by full implementation. The Federal Management Systems Task Force recommends that first priority be given to developing and installing a common payroll system. As such, this report estimates and projects savings for the payroll portion of the overall systems program.

While the acquisition of a common payroll system requires an investment in the first three years, it will achieve significant savings by the time the system is installed Government-wide. Specifically, the acquisition of a common payroll system would cost $3.3 million in the first year, $3.6 million in the second and $4.1 million in the third. By Year 13 (after full implementation), the Government would have achieved a cumulative net savings of $734.9 million with a decrease of approximately 2,000 staff-years of payroll clerical effort. (See Table II-1 on page 56).

Additional benefits would be achieved through the increased availability of management information. If common systems were designed, developed, and implemented, basic information would be more readily available to Executive Branch managers on a compatible basis from the many departments and agencies.

Background

Current automated administrative systems in the Executive Branch are generally based on computer program designs of the 1950s, updated and modified many times over the succeeding years. The major efforts of the Executive Branch to design administrative systems began in the 1950s. Over the next 30 years, these early systems were expanded and modified to accommodate new program activities and enlarged operations. At the same time, hardware and software technology as used in the private sector was advancing rapidly. However, the Executive Branch rarely took advantage of the technology through redesign of software, but most often modified and converted outdated systems.

The Executive Branch is currently faced with a dilemma. Agencies are rapidly acquiring the tools of modern technology: minicomputers, word processing and other office automation equipment, personal computers, etc. However, Executive Branch plans to redesign administrative functions to take advantage of technological advances and to provide common management information data banks are not in place.

Briefly, the agencies formally responsible for managing automated administrative system development and operation activities are:

- <u>Office of Management and Budget (OMB)</u> -- responsible for formulating Executive Branch-wide automated data processing (ADP) policy, reviewing agency information policies, and reviewing agency ADP budgets [responsibilities are largely based on the Brooks Bill (P.L. 89-306) and the Paperwork Reduction Act of 1980 (P.L. 96-511)].

- General Services Administration (GSA) -- responsible for exercising policy control over Federal ADP resources, coordinating joint use of ADP equipment and systems, providing ADP conversion assistance to agencies, and managing the ADP fund that is used for the procurement of Federal agency ADP services [responsibilities largely are based on Brooks Bill (P.L. 89-306)].

- Department of Commerce, National Bureau of Standards(NBS) -- responsible for providing agencies with technological services and establishing Federal data processing standards on software, design, and documentation. Includes publications of the Federal Information Processing Standards (FIPS) and technical articles on ADP [based on Brooks Bill (P.L. 89-306)].

- Individual Agencies -- responsible for managing administrative functions and automated systems to support those functions based on the mission of that agency. Required to establish an "Information Resource Manager" (IRM). IRM is responsible for "the conduct of and accountability for any [data processing or information system] acquisitions."1/

Methodology

The Task Force reviewed documents (Exhibit II-3 at the end of this issue) and conducted in-depth interviews with both Government and private sector officials. Interviews were conducted with Government division heads and senior officials of OMB, General Accounting Office (GAO),

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1/ Paperwork Reduction Act, P.L. 96-511, 1980.

GSA, NBS, Departments of Navy and Transportation (DOT), and other agencies. A list of interviewees is included in the Appendix. The Task Force used the material gathered and interviews conducted to develop an:

- o understanding of Federal administrative systems and Federal data processing capabilities;
- o understanding of the private sector's approach to development of automated administrative systems; and
- o approach for achieving commonality among Federal administrative systems.

The Executive Branch does not have detailed information adequate for estimating cost savings on either its cost to acquire, maintain, or operate computer-based administrative systems, or accurate inventories of these systems. The Task Force developed estimates of cost savings based on OMB summary data processing cost data and projections of future cost trends from GAO and other reports.

Findings

Similar administrative functions among agencies are supported by different automated systems. The research conducted by the Task Force indicates that there are common information and processing requirements for most administrative functions. For example, the GAO is required by law (31 USC 66a) to establish accounting principles and standards for agency accounting systems (GAO Title 2). The Joint Financial Management Improvement Program (JFMIP) identified a set of common features of Federal payroll systems.2/ Finally, the President's Reorganization Project (1978) found that "...the rules governing... major administrative systems are identical..."3/

2/ Do It Yourself - Compare and Improve Your Payroll System, JFMIP, 1981.

3/ Federal Data Processing Reorganization Study, President's Reorganization Study, 1978.

On the other hand, research revealed equally clear evidence of fragmented development, maintenance, and operation of automated administrative systems. GAO, in its annual review of agency accounting systems (1980),4/ identified over 300 separate systems, almost 100 of which were used for payroll. As further evidence, a current list of automated agency administrative systems does not exist. GAO, agencies and the Reform 88 Project of OMB could not provide us with comprehensive lists of automated administrative systems. Moreover, the Executive Branch does not have data on the costs to develop, maintain, and operate automated administrative systems that are implemented at agencies throughout the Executive Branch. For example, GAO is currently studying the potential for compatible agency payroll systems, yet it is unable to obtain accurate costs to develop, maintain, and operate payroll systems. GAO estimates that a year of effort by the study team would be required to develop these Executive Branch costs.

The effect of duplicate automated systems in the Executive Branch is best stated in a recent GAO report on the use of computer software technology: "We feel that much software effort is wasted...in developing redundant software."5/

The use of different and incompatible systems by departments and agencies has contributed to a lack of timely, compatible, and accurate management information for use by agency heads and central agencies [OMB, Office of Personnel Management (OPM), Department of the Treasury, GSA].

The Task Force found many instances in which information potentially useful for Executive Branch management was lacking. The following examples were identified through our interviews and investigations:

- budget versus actual obligations or outlays at more detailed levels than appropriations (for example, program, subprogram, project, activity, location, etc.);

4/ Status, Progress, and Problems in Federal Accounting During Fiscal Year 1980, GAO, AFMD-81-58, 1981.

5/ Wider Use of Better Computer Software Technology Can Improve Management Control and Reduce Costs, GAO, FGMSD-80-38, 1980.

- individuals receiving benefits from income maintenance, and other programs through more than one agency;
- inventory management information systems;
- location and utilization of real and personal property; and
- overall receivables due Federal agencies from various loan programs.

These examples provide an indication of the extent to which Executive Branch management information is unavailable to top level managers in departments and agencies, central agencies (OMB, Treasury, OPM, GSA), and the White House.

A substantial portion of the Executive Branch data processing technology is out-of-date. The Task Force found that two elements of data processing technology are out-of-date: the software and the computers (hardware). A report from the firm of A.D. Little states that: "Most of the ADP development personnel are occupied with monitoring old systems instead of developing or resystematizing new applications... [and] 24 percent of the government's general management computers are... roughly two generations out of date."6/

Additionally, the President's Private Sector Survey (PPSS) task forces for the Air Force, Army, Office of the Secretary of Defense, Treasury, Navy, Health and Human Services -- Social Security Administration, and ADP/OA noted that Executive Branch software and hardware are out of date. For example, the Department of the Treasury Task Force stated that the Integrated Data Retrieval System used by Internal Revenue Service (IRS) Service Centers runs on equipment that is 20 years old (CDC 3500s). This system is critical to IRS operations since it is used to process all individual tax forms. IRS expects to replace this system by 1985. The Appendix provides further details as to age of Government software and hardware.

6/ The Effects of Future Information Processing Technology in The Federal Government ADP Situation, A.D. Little, 1981.

Private industry has significantly reduced processing costs by using modern data processing technology to support payroll as well as other administrative functions. Federal data processing capabilities contrast sharply with the current technology routinely used in the private sector. For example, one software service company surveyed by the Task Force has developed a payroll system and installed it in over 1,800 different sites. This system can be installed on the hardware equipment of four different manufacturers.

This company supports the software package at all 1,800 sites, and routinely sends changes in software, documentation, and procedures (i.e., a "common system") to these sites. For instance, last year this company provided 85 different system modifications.

Another company surveyed by the Task Force offers payroll services to private industry. At one site, this company processed over 700,000 payroll checks, over 100,000 personnel actions, and over 10,000 new hires in one week. Companies using this service range from three to four employee operations to a major division of a top Fortune 500 corporation. The system supports many different types of payrolls ranging from simple payrolls for monthly salaried employees to complex payrolls for piece-work employees. The company charges between 75 cents and $2.00 per check to process payrolls. In contrast, the Department of the Army spends approximately $4.00 per check to process payrolls using an outdated payroll system and the Department of the Interior's Bureau of Reclamation charges $100 per year ($3.75 per check) for each employee it payrolls for other agencies.7/ It should be noted that in an interview with our Task Force, GAO cited the Bureau's payroll system as one of the best.

Software costs account for most data processing costs. In the past decade, a large share of data processing costs has shifted from hardware to software. The Automated Data Processing/Office Automation Task Force estimated that software currently accounts for 48 percent of the data processing costs. This percentage translates into $3.3 billion in software expenditures annually.8/

7/ Based on findings of the PPSS Army Task Force and interviews with Department of Interior's Bureau of Reclamation.

8/ ADP/OA Task Force estimate.

GAO has attributed the limited success of agencies in developing common automated systems to eliminate duplication to a lack of strong central leadership. Attempts to develop common systems have included:

- Studies of the feasibility of using common systems: for example, JFMIP Study on Payroll in 1971; the President's Reorganization Project in 1978; and the President's Council on Integrity and Efficiency with special focus on payroll.

- Executive Branch programs to foster sharing of systems: for example, OMB's and Reform 88 Project; GSA's Federal Software Program.

The Task Force findings indicate, however, that little actual progress has been made in developing common systems. GAO and others have noted in interviews that the limited progress has been caused by the lack of a central point for responsibility, lack of Government-wide commitment and focus, and the need for the investment of resources (funds and personnel) in the short-term to develop common systems.

Conclusions

Common automated administrative systems are technically feasible. Examination of Federal administrative systems and review of private industry practices, led the Task Force to conclude that common administrative systems are feasible for the Executive Branch. The requirements for many administrative systems are similar across agencies; and in the private sector, companies routinely acquire common automated administrative systems or services from vendors.

A new approach for the development and maintenance of common automated administrative systems is necessary. The many attempts by the Executive Branch to achieve commonality among administrative systems led the Task Force to conclude that a new approach for achieving commonality will be necessary. Previous efforts have not been effective primarily because strong central leadership and credibility were missing.

Common automated systems should assist in providing more timely, compatible, and accurate management information to agency heads and central administrative agencies (OMB, OPM, Treasury, GSA). Task Force findings revealed that substantial Executive Branch management information is currently unavailable. The establishment of common systems would provide an opportunity for improved agency and overall management. Management information requirements for agency heads and central agencies must be identified before a common system is acquired or developed. OMB and other central agencies should identify information flows that should occur between agency and OMB systems. Agencies, on the other hand, should identify information that should flow to high-ranking officials within the agency.

Software development and maintenance costs could be saved by acquiring common automated systems. The Executive Branch spends over $3 billion annually for software. If the Executive Branch were to acquire common administrative systems, significant savings could be achieved in developing, maintaining, and modifying these systems. Common systems would be acquired once and each maintenance and modification change would be made to a system only once. For example, instead of having to develop many modifications for a merit pay plan for almost 100 payroll systems (one for each existing payroll system), the modification could be developed once -- for the common payroll system.

Development of common automated systems is a long-term effort. It would be impractical to replace all existing administrative systems immediately with new common systems. The Government is too large (over 300 accounting systems alone), and agencies are actively replacing existing antiquated systems. Instead, old systems, as they become obsolete, should be replaced by a new common system.

Agencies will always have some unique ADP requirements. While administrative functions are generally based on the same laws and regulations, agencies have often implemented these functions differently. Some of these variations are unnecessary. However, agencies correctly view administrative functions in the context of their agencies, and common systems should support this view. The common systems that are developed for use by the agencies will therefore have to be capable of modification and "tailoring" to the individual characteristics of each agency.

Recommendations

FMS 2-1: Establish a program for replacing agency-unique automated systems with common systems. The Executive Branch should establish a centralized program to acquire, maintain, and modify Federal common systems. Under this program, common systems would be acquired centrally and provided to agencies for day-to-day operations.

The key elements of the program would be to:

- ensure that responsibility for common systems is centralized. Provide for central development, maintenance, and modification of common systems. Recognize that a single system would be used by most agencies and that the system must be maintained centrally.

- establish standard procedures and requirements across agencies to permit the acquisition and use of common systems. Recognize that standardization offers the opportunity to simplify current procedures and requirements and to move toward consolidation of administrative functions within an agency and across agencies.

- ensure flexible common systems so that agency-unique procedures and requirements could be supported. Recognize that agencies should be able to use parts of a common system (e.g., subsystem, module, or submodules), and should be able to integrate these parts into their own agency-unique procedures.

The Task Force also recommends increased joint operation of common systems by departments and agencies and the use of private service bureaus to process transactions for multiple agencies. The feasibility of these approaches should be determined during the process of designing each common system. The determinations, which will vary by function and agency, should be based primarily on the extent of agency-unique features and complexities, and nature of the particular administrative function.

FMS 2-2: Designate the Office of Federal Management (OFM) as responsible for policy guidance, system design, acquisition, and maintenance.9/ The program for system commonality should be established in a manner that would ensure both high-level support and attention and Executive

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9/ Issue FMS 1 of this report recommends establishment of an Office of Federal Management to assume responsibility for the direction of Federal management activities.

Branch-wide participation. The Task Force recommends that OFM provide overall guidance and direction to the program and that actual design, acquisition and maintenance of common systems be conducted by a newly created office in GSA.

A project office in GSA should be established to conduct the program and should be managed as follows:

- OFM: provides overall guidance and policy to the project office and agencies, including the identification of systems for standardization, decisions regarding required Government-wide management information, time schedules, and funds to be used;

- GSA: responsible for day-to-day administration of the project office. Would contract for services to support the program (as required), recruit staff, and manage the project office;

- Agencies: responsible for supporting OFM and GSA project office through a coordinating policy committee, individual working groups, and specialists on specific common systems. In most cases, one agency would be designated as a "pilot" for initial installation of a common system. This agency would be provided with required funds and be expected to provide additional expertise.

The Appendix further discusses the role and responsibilities of each agency in implementing a common system.

FMS 2-3: Identify the management information needed by agency heads and by central administrative agencies (OMB, OPM, Treasury, GSA). Key management information needs would be built into the common systems as each is designed. Thus, the Executive Branch would ensure that the information in a common payroll system had the same meaning across all agencies using the common system. Equally important, as multiple common systems are acquired, the Executive Branch will ensure consistency of information across systems and agencies.

With key management information defined similarly and available in common systems, roll-ups or summarizations would be quick, consistent, and accurate. For example, information available to agency heads could be summarized across agencies and submitted to central agencies.

A significant part of the effort in providing common management information within and across agencies would be to consolidate administrative functions whenever appropriate. Unnecessary department and agency-unique administrative requirements, including using different definitions of information, could be eliminated. Potentially, consolidation could save significant costs in supporting administrative functions.

Candidate functions for consolidated operations are the same as those candidates for common systems. These are payroll, general accounting, accounts receivable and payable, and retirement/pension systems. According to other PPSS Task Forces, significant savings could be achieved through consolidated operations. For example:

- Department of the Treasury Task Force: recommends consolidating existing service centers that process individual tax returns by reducing the number of service centers from ten to eight and modernizing existing computer systems. These actions would result in three year savings of \$38.6 million and additional revenues of \$15.0 million.

- Department of Energy Task Force: Recommends consolidating financial management functions (e.g., general ledger, budget, property, contracts, payables, receivables, etc.) in a central site. The Task Force estimates that annual savings could reach \$3.0 million annually.

FMS 2-4: Designate payroll as the first common system to be followed by accounts receivable, retirement/pension, general accounting, accounts payable, fixed-asset systems, and budgeting. The Task Force recommends that payroll be the first common system for the following reasons:

- payroll requirements across agencies are generally similar;

- requirements for payroll systems tend to change frequently, and these changes must now be made to all payroll systems instead of once to a common payroll system;

- private companies provide examples of the effective use of common payroll systems. Companies either purchase a general payroll system and install it themselves, or they purchase payroll services from service bureaus; and

- payroll is a highly visible system and Federal agency personnel widely agree that it should be the first common system developed.

After payroll, common systems in other administrative areas should be implemented according to the following priorities:

- High priority systems: accounts receivable, retirement/pension, general accounting, accounts payable, fixed assets, and budgeting.

- Medium priority systems: position control, personnel, cash management, disbursement, procurement, and inventory control.

- Low priority systems: recruitment, labor use, training/education, grants management, cost accounting, security, construction, and manufacturing.

The criteria used for assigning these priorities are described in the Appendix. They include the degree of similarity of requirements, degree of independence of an automated system from other systems, and potential for savings from maintenance of a common software.

The Appendix to this Report contains a workplan for the development and implementation of a common payroll system. The Task Force recommends that a project for a common payroll system receive highest priority. Through such a program, the acquisition and testing of a payroll system should be completed within three years.

Savings and Impact Analysis

The Executive Branch does not have accounting information on the cost to develop, maintain, modify, and operate its administrative systems. However, through reviews of GAO studies and OMB budget documents, the PPSS Automated Data Processing/Office Automation Task Force projected overall ADP costs for administrative systems. Executive Branch annual data processing costs for software development, maintenance and modification of administrative systems are estimated to be $3.3 billion annually.10/ In addition, the

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10/ ADP/OA Task Force.

Automated Data Processing/Office Automation Task Force estimates that of the $3.3 billion, approximately 20 percent could be saved through the use of common systems. Therefore, according to the ADP/OA Task Force, $660.0 million could be saved annually in constant 1982 dollars, or $1.2 billion could be saved yearly assuming a 10 percent inflation factor after full implementation.11/

Our Task Force estimates that potential savings from the use of a common payroll system across agencies would be $90.0 million annually in constant potential dollars. Since there may be practical difficulties in converting some systems, the Task Force conservatively estimates that 80 percent of the systems could be converted for an actual savings of $72.0 million annually in constant dollars. These savings include only those costs for acquisition, implementation and operation of the systems. They do not include overall benefits from the use of improved management information.

The potential savings from common payroll systems is derived from prior studies, Task Force interviews with private software service bureaus, and from GAO studies of agency software costs. Also the Task Force separately estimated these annual savings.

Specifically, the Task Force estimates that the Executive Branch could realize potential constant dollar savings of $90.0 million from a common payroll system as follows: $10 million per year in unneeded development activities; $30 million per year in software maintenance and modification costs; and $50 million per year in payroll operations (reduction of approximately 2,000 staff-years of payroll clerical effort). These estimates are based on current agency payroll systems and activities. See the Appendix for a discussion of the derivation of these estimates.

Table II-1 summarizes the savings calculations. Further details related to the calculations are included in the Appendix.

[Table II-1 on the following page]

11/ Ibid.

Table II - 1

ANNUAL SAVINGS (COSTS) FROM DEVELOPMENT AND INSTALLATIONS OF COMMON PAYROLL SYSTEMS

	FY 1	FY 2	FY 3	FY 4	FY 5	FY 6	FY 7	FY 8	FY 9	FY 10	FY 11	FY 12	FY 13	TOTAL
1. Acquisition costs ($ millions)	(3.3)	(3.3)	(3.4)											(10.0)
2. Maintenance and Modification Costs ($ millions)				(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(20.0)
3. Additional Number of Conversions				8	8	8	8	8	8	8	8	8	8	
4. Cumulative Number of Conversions				8	16	24	32	40	48	56	64	72	80	
5. Installation Costs ($ millions)				(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(80.0)
6. Subtotal Costs ($ millions)	(3.3)	(3.3)	(3.4)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(110.0)
7. Gross Savings ($ millions)				7.2	14.4	21.6	28.8	36.0	43.2	50.4	57.6	64.8	72.0	396.0
8. Net Savings in Constant Dollars ($ millions)	(3.3)	(3.3)	(3.4)	(2.8)	4.4	11.6	18.8	26.0	33.2	40.4	47.6	54.8	62.0	286.0
9. Inflation Factor (percent)	1.00	1.10	1.21	1.33	1.46	1.61	1.77	1.95	2.14	2.36	2.59	2.85	3.14	—
10. Net Savings in Inflated Dollars ($ millions)	(3.3)	(3.6)	(4.1)	(3.7)	6.4	18.7	33.3	50.7	71.0	95.3	123.3	156.2	194.7	734.9

The Appendix contains the development of a cost estimate for the resources needed to develop a common payroll system. Assuming constant dollars, the Task Force estimates that $110.0 million over a 13-year period (three years for acquisition of the common system and ten years of agency implementation or adoption) would be required to design/develop, maintain/modify, and implement a common payroll system in 80 different organizations. We have purposely taken a conservative approach in estimating costs to acquire and implement a common payroll system. It may be possible to acquire and install a Government-wide common payroll system within five years through a more ambitious implementation strategy.

We project that the net savings in constant dollars from acquiring a common payroll system would be $286.0 million for the first 13 years. Assuming an inflation factor of 10 percent per year, the net savings would be $734.9 over the 13-year period. For the first year the net cost would be $3.3 million, for the second $3.6 million, and for the third $4.1 million.

Implementation

A program for systems commonality should be implemented under the existing executive authority of the President and through revision to the Brooks Bill (P.L. 89-306). The Task Force recommends that the President issue an Executive Order that:

- provides the charter for a program for systems commonality;
- directs OFM to provide overall direction and leadership to the program;
- directs GSA to establish an organization to support the program; and
- directs agency heads to participate in the program.

The President should also submit legislation to Congress modifying the Brooks Bill by deleting or modifying a sentence in Sec. 111(g) that reads: "The [GSA] Administrator shall not interfere with, or attempt to control in any way, the use made of automatic data processing equipment or components thereof by any agency."

Exhibit II-3

KEY STUDIES REPORTS AND LAWS REVIEWED

- Joint Financial Management Improvement Program Payroll Study Team Report, "On Recommendation For a Single Computerized Payroll System for Federal Government Civilian Personnel," October, 1981.
- President's Reorganization Project, Federal Data Processing Reorganization Study, Operational Management Team Report, September, 1978.
- President's Council on Integrity and Efficiency Report, "ADP Government-Wide System Project," February 12, 1982.
- Joint Financial Management Improvement Program Report, "Do It Yourself – Compare and Improve Your Payroll System," April, 1981.
- Arthur D. Little Report, "The Effects of Future Information Processing Technology in the Federal Government ADP Situation," September, 1981.
- GAO Report, FGMS-90-38, "Wider Use of Better Computer Software Technology Can Improve Management Control and Reduce Costs," April 29, 1980.
- GAO Report, AFMD-81-20, "Governmentwide Guidelines and Management Assistance Center Needed to Improve ADP Systems Development," February 20, 1981.
- GAO Report, AFMD-81-25, "Federal Agencies Maintenance of Computer Programs, Expensive and Undermanaged," February 26, 1981.
- GAO Report, AFMD-81-58, "Status, Progress and Problems in Federal Agency Accounting During Fiscal 1980," June 25, 1981.
- GAO Report, AFMD-82-7, "Federal Agencies Still Need to Develop Greater Computer Audit Capabilities," October 16, 1981.
- Office of Management and Budget, Office of Information and Regulatory Affairs Report, "Resources for Federal Data Processing Activities in the FY 1982 Budget," February, 1981.
- Public Law 89-306, October 20, 1965 (the Brooks Bill).
- Public Law 96-511, December 11, 1980 (the Paperwork Reduction Act of 1980).

II. ISSUE AND RECOMMENDATION SUMMARIES (CONT'D)

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 3: FINANCIAL MANAGEMENT AND AUDIT FINANCIAL MANAGEMENT

Issue

Is there presently an appropriate level of guidance and coordination of Government-wide financial management activities to assure development of accounting systems that provide adequate management information at central Government, department and agency levels?

Federal Government financial management has evolved from the early 1900s when the Department of the Treasury performed all financial activities, to the present decentralized structure in which most financial management activities are carried out by individual departments and agencies with little central Government guidance, direction or supervision. The term "central Government financial management" includes the finance-related activities conducted by Treasury, the Office of Management and Budget (OMB), the General Accounting Office (GAO).

The issue being examined arises from the observations of Congressional, GAO 1/ and other department and agency critics that: (a) many accounting systems do not comply with GAO accounting standards; 2/ (b) there is no enforcement of compliance with GAO accounting standards; 3/ (c) existing systems do not provide compatible, consistent and

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1/ Address by Charles A. Bowsher, Comptroller General of The United States, before Association of Government Accountants, June 14, 1982.

2/ Status, Progress and Problems in Federal Agency Accounting During Fiscal 1980, GAO, June 25, 1981.

3/ Budget and Accounting Act of 1950 establishes requirement for GAO system approval but provides no time limit for achievement, or noncompliance penalty.

reliable information with which to manage operations effectively, (e.g., the recovery of amounts due the Government); 4/ (d) budget and accounting systems are not properly integrated 5/; (e) insufficient attention is devoted to the development of internal control systems; 6/ and, (f) financial management policy establishment is both inadequate and inconsistent.

The purpose of this investigation was to determine the appropriateness of these observations, assess their probable cause and make recommendations that will assist in correcting system weaknesses.

Background

Federal Accounting and Financial Management Process -- Central financial management responsibilities are diffused among several departments including Treasury, OMB, GAO, the Joint Financial Management Improvement Program (JFMIP), and the General Services Administration (GSA).

Treasury maintains the central government's official accounting records and prepares combined financial reports based primarily on cash and obligation data received from Executive Branch departments and agencies.

In recent years, OMB has increased its attention to the financial management process. Examples include the establishment, under President Carter, of a Financial Priorities Program to direct department and agency attention to such areas as internal control systems and debt collection, and, under President Reagan, organizing the President's Council on Integrity and Efficiency, an organization responsible for coordinating the activities of the individual Inspectors General (IGs). Most recently, OMB has announced the establishment of a new initiative referred to as the President's Task Force on Management Reform (Reform 88), to implement

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4/ Report on Strengthening Federal Credit Management, OMB, January 1981.

5/ Op. cit., Address by Charles A. Bowsher, June 14, 1982.

6/ Continuing and Widespread Weaknesses in Internal Controls Result in Losses Through Fraud, Waste and Abuse, GAO August 28, 1980.

major improvements in Government-wide administrative and management systems. The purpose of Reform 88 is to achieve short-term improvements in such areas as debt collection, cash management, elimination of excess Federal property, and internal controls; and long-term improvements in developing compatible agency administrative systems to provide key resource data to the White House, OMB and department heads.

However, neither OMB nor Treasury have demonstrated the willingness to provide the leadership necessary to coordinate effectively overall government-wide financial management activities. 7/ In some circumstances in which initiative has been taken, such as in the area of cash management as noted in the President's Private Sector Survey Department of the Treasury Task Force Report, "Treasury does not have the power to require other agencies to improve their cash management. In addition, programs to monitor compliance with regulations are inadequate".

GAO's financial management responsibilities include accounting, standard setting and review, and approval of department and agency accounting systems based upon its prescribed standards. Since GAO is in the Legislative Branch, it does not have line authority over the accounting functions within the departments and agencies. Nor does it appear appropriate that GAO be granted such authority since it would undoubtedly compromise its audit role. Accordingly, GAO's only means of achieving accounting system improvements is through its system approval function and the issuance of audit reports. Unfortunately, the system approval process does not achieve its intended objective since departments and agencies are under no time constraint to comply with this requirement.

The financial management responsibilities of GSA require less than ten employees who compile the Government's annual property report. 8/ The JFMIP staff of less than five, perform principally a coordination function, assisting GAO, Treasury, and OMB by performing financially related studies.

7/ Early History of the Joint Financial Management Improvement Program, Walter Frese, Ellsworth Morse, Jr. and Donald Kull, Page 268.

8/ In accordance with the Federal Property and Administrative Services Act of 1949.

The lack of a single organization responsible for the direction of financial management has contributed to the development of a large number of unique department and agency accounting systems with varying levels of sophistication. 9/ For example, the PPSS Treasury Task Force observed that the systems and procedures used by departments and agencies range from non-existent to extremely sophisticated.

State and local government comparison -- Historically, state and local governments have also experienced difficulty in developing and maintaining effective financial management systems. However, significant improvements have occurred since 1975 partially as a result of fiscal crises arising in cities such as New York and Cleveland, and partially as a result of increasing pressure and influence from the Federal Government. Only recently has the need for similar improvements at the Federal level been recognized.

Private Sector Correlary -- Private sector organizations comparable to the Federal Government in diversity and complexity of operations establish corporate level controllership (the term, comptrollership, is used in the Federal Government) functions to coordinate financial management activities. These coordination responsibilities include identifying financial management objectives and related information requirements necessary to monitor operations effectively, establishing accounting policies and procedures, maintaining corporate accounting records, and preparing external and corporate management reports.

In addition, corporate controllerships also establish procedures to monitor and enforce compliance with prescribed accounting and reporting policies. These central financial management functions provide the necessary guidance to subsidiaries and divisions to ensure a basic level of accountablity and consistency in financial reporting.

Results of Prior Studies -- The First and Second Hoover Commission studies were conducted approximately 30 years ago. Many of their recommendations were designed to improve the financial management process by increasing the level of central coordination and direction. Most of these recommendations have not been implemented. Rather, activities which took place in subsequent years have demonstrated an apparent

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9/ Status Progress and Problems in Federal Agency Accounting During Fiscal 1980, GAO, June 25, 1981.

lack of agreement with the Commissions' conclusions (by the failure to adopt many recommendations) and continued emphasis on the development of essentially autonomous departmental and agency systems. 10/

Methodology

The Task Force interviewed key financial personnel from the Departments of Interior, Defense (DOD), Army and Health and Human Services (HHS), as well as other central government executives from GAO, OMB and Treasury. We also held discussions with select members of the current and prior administrations and other governmental experts to obtain further insights into factors which influenced the current organizational structure, an assessment of the acceptability of alternative organizational structures, and a better understanding of the likely future demands on the Federal financial management process.

Pertinent books, periodicals, and other historical analyses were studied and members of other PPSS Task Forces, principally Treasury, Housing and Urban Development, Transportation, Air Force, Navy, Financial Asset Management, and Real Property Management, were interviewed to ensure a complete understanding of the system.

The thrust of the review was directed toward determining how effectively the current financial management process was functioning. The Task Force was also concerned about the present structure being suitable to provide effective future financial management and to meet demands for increased Federal Government accountability.

Findings

The Task Force's findings and recommendations relate to the two broad areas of organization and procedures and are presented and discussed under those headings.

1. Organizational Findings

Lack of leadership in directing Government-wide financial management has resulted in widely different practices in the departments and agencies.

10/ The GAO: The Quest for Accountability in American Government, Frederick C. Mosher, Page 117.

Departments and agencies currently provide inconsistent levels of authority and responsibility to the managers of accounting and financial management functions.

Government-wide job descriptions and qualifications and other personnel standards to ensure that individuals in key financial management positions are qualified to perform their responsibilities have not been developed.

As previously described, the central financial management responsibilities of the Federal Government are shared primarily by OMB, Treasury, GSA 11/ and GAO. As further described in the Appendix, the resources devoted to this function by these organizations generally represent a relatively minor part of their overall activities. Consequently, the process of instituting sound financial management does not have a committed sponsor willing to directly influence and guide the departments and agencies in the enhancement of their financial management systems.

As a result of this diffusion of responsibility, no individual central government organization has sufficient awareness of the reporting and accounting needs and capabilities of the departments and agencies to monitor and coordinate their activities effectively. (GAO has probably developed the most knowledge of department financial management requirements through its systems approval function.)

Until OMB's recent establishment of the Financial Priorities Program and Reform 88, none of the participants had demonstrated an inclination to accept responsibility for, or undertaken a leadership role in, coordinating the development of Federal financial management. However, many of the initiatives identified in those programs appear to have been largely reactive to concerns expressed by GAO and Congress rather than the result of studied evaluation of financial management shortcomings.

For example, while considerable attention has been devoted to debt collection, there appears to be little attention devoted to property and inventory management and accountability. Further, while OMB reports that aggressive

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11/ See Appendix. Less than 200 individuals in OMB (10 of 600), Treasury (150 of 112,000) and GSA (10 of 28,000) are involved in central financial management activities.

debt collection practices increased the amount of debt collected in 1982 by $2.1 billion over previous collection results, current efforts continue to be hampered by accounting and information system inadequacies and inconsistencies, a lack of sufficient policy direction and procedural standardization, and untimely and incomplete collection data. Numerous other PPSS Task Forces, including Housing and Urban Development (HUD), Treasury, Financial Asset Management, and Education attest to the pervasiveness and persistence of these problems. In the final analysis, the keys to implementing improvements in each area are increased central direction, guidance and monitoring.

Equally troublesome, department and agency comptrollers are assigned varying levels of responsibility for the adequacy of financial reporting within their organizational constituent divisions and bureaus. Consequently, they are often limited in their ability to influence component accounting systems. As a result, the effectiveness of subsidiary accounting and reporting systems varies within departments based on the quality of their comptrollership personnel, and the stature accorded financial management functions within each division or bureau. Examples include the Departments of Energy, Commerce, Interior and Defense where there are no line reporting relationships between the department comptrollers and their constituent division or bureau comptrollers.

The PPSS Department of Energy Task Force reported that the Comptroller of that Department, although responsible for the establishment of financial policy, does not have the authority to assure that policies are implemented in the Department's various component organizations. For example, the Comptroller is unable to enforce a uniform closing date for the Department's monthly financial statements.

As a result, rather than maintain department-wide systems, departments and agencies often permit the development of a wide spectrum of unique bureau and division systems which are in many cases incapable of being monitored even at the department level. Of equal significance, the systems are frequently incompatible within departments, thus prohibiting accumulation of meaningful department-level management information, let alone Government-wide information.

These circumstances occur in part because departments and agencies attribute varying levels of importance to financial management, which results in varying levels of responsibility being assigned to their comptrollership functions. This ranges from HUD, with no established department comptrollership function and accounting systems judged inadequate by the PPSS HUD Task Force 12/, to the Department of the Air Force, where senior organizational status is afforded the activity, and this Task Force's discussions and inquiries indicated a high level of systems sophistication. Accordingly, there is an obvious and not suprising parallel: departments and agencies which do not ascribe senior status to the comptrollership function, or worse, provide no such function, contribute significantly to the inadequacies of the current financial management systems.

The lack of consistent personnel policies in the financial area also has a significant effect on the ability to maintain high financial management staff quality and performance level throughout the Government. It is also believed to negatively affect the stature attributed to key positions in the financial mangement function in some departments and agencies.

In addition, the Task Force's interviews at the Departments of the Army and Interior suggested that the absence of appropriate and consistent job descriptions and qualification statements, and related pay scales, have adversely affected their ability to attract and retain qualified financial personnel.

Unless the current imbalances in the development of department and agency financial systems can be corrected, and a level of consistency achieved in system capabilities, it will never be possible to implement a meaningful level of central financial management direction, at either the department or Government-wide level.

2. Procedural Findings

There has been a failure to identify financial management objectives and related financial information requirements at the central government and department and agency levels.

Neither Treasury nor OMB has been delegated or accepted the responsibility of ensuring that departments and agencies

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12/ Determined through discussion with HUD Task Force, and reported in the HUD Task Force report.

comply in a timely fashion with existing legislated accounting requirements. Further, departments and agencies are under no time constraint to comply with legislated accounting standards and procedures.

Accounting standards promulgated to date by GAO require reexamination to determine their appropriateness and sufficiency.

No comprehensive accounting policies and procedures manual is maintained to effectively communicate guidelines for the implementation of GAO accounting standards to department and agency financial managers.

Congressional measurement of the results of department and agency activities, in terms of the existing budget classifications, discourages managers from utilizing alternative bases for reporting and managing operations.

No concise and comprehensive financial statements are presently prepared to summarize the results of operations and the financial position of the entire Federal Government, for use by both the Legislative and Executive Branch.

Unlike the requirements imposed upon other segments of the economy, both public and private, no external reporting or audit discipline is imposed on the Federal Government.

Many key management decision-makers at the central government, department and agency levels lack an understanding of how to use financial information to monitor and direct their operations.

In the development of a responsive and coordinated financial management system, it is essential that management first reach agreement as to its management objectives.

The accounting and financial reporting system of an organization must serve the needs and requirements of its management. To do so, it is essential that each level of management define its financial management objectives, or stated otherwise, identify how the accounting system is expected to serve their needs.

At the operating unit level, this involves identifying how the accumulation and reporting of financial transactions can assist management in the performance of program activities and provide basic safeguards for the organization's resources.

Each senior management level of the organization must similarly identify its financial management objectives or system requirements. Usually objectives or requirements stated by higher organizational levels (e.g., department and government-wide levels) relate to the providing of financial information necessary to monitor the achievement of organizational goals or the maintenance of reasonable management standards and safeguards. The latter relate to such areas as monitoring timely collection of receivables, maintaining reasonable levels of inventories, and timely payment of liabilities. These examples, of course, only relate to the general financial administration of activities; similar programmatic objectives would also be expected to be identified along with financial data requirements that would assist in their monitoring. The combined specifications of financial management objectives of the various management levels become the accounting system development guidelines or requirements.

While certain financial management objectives can be viewed as "typical," "routine" or "accepted" practices, such as the maintenance of timely, accurate and consistent financial records and reports, these basic objectives provide only the general framework around which an effectively tailored financial management system can be built in all organizations. However, in each case objectives must be tailored to organizational goals and characteristics, as well as unique management styles. To achieve financial management goals it is necessary that the team understand the style and strategy of its coaches. In this case OMB and Treasury, the Government's coaching staff, have not prepared an appropriate game plan -- expressed in terms of financial management objectives -- of what should be achieved and how to do it.

If managements fail to clearly identify and communicate financial management objectives, it is likely that accounting and financial management systems will produce a potpourri of seldom used information which will be costly to accumulate and serve no defined purpose or end result.

The areas identified in the Financial Priorities Program and Reform 88 represent a start at finanical management objective identification. However, much more effort and direction are required at all management levels of the Federal Government, particularly at the central government level.

History indicates that since the early 1940s, the pattern of development of the current generation of Federal Government financial management systems has focused on meeting department and agency needs, with little or no emphasis on central government financial management. 13/

Had timely and accurate information relative to loans and other receivables been routinely supplied to the central government, the recently detected debt collection problems would have been revealed at a much earlier date. The same is undoubtedly true for many other areas which may not be material on an individual department basis but are significant to the Federal Government as a whole. The inability to aggregate and analyze reliable data seriously impairs financial management. The Task Force cannot accept the premise that Federal Government operations are so unique that providing cross-cutting agency and department financial data in areas of common activity, be they cash, receivables, inventories, liabilities, revenue or expenditure, would not point the way to achieving greater economy of operation and more efficient use of the Government's limited resources.

The outcome of the past bottoms-up approach has been, not surprisingly, duplicate systems development, inadequate systems development, incompatible systems development and systems that do not comply with legislated accounting standards. 14/ Even more alarming, the systems are not capable of supporting the initiation of up-to-date financial management objectives such as cash management.

As previously noted, these circumstances have been compounded by a lack of Executive Branch leadership. No central government organization has been responsible for motivating departments and agencies to comply with the intent of legislated accounting requirements. In addition, while the 1950 accounting and auditing act requires compliance with GAO standards, it places no time limit on achieving compliance. Accordingly, more than 30 years after its passage, this provision has not been complied with by a significant number of departments and agencies. According to a 1981 GAO report, 108 of the Government's accounting systems had not been approved by the Comptroller General. Sixty-six of these systems were operating even though they had not been approved. Table II-2 on the following page summarizes the status of 301 accounting systems as of September 30, 1980.

[Table II-2 on following page]

13/ The GAO: The Quest for Accountability in American Government, Frederick C. Mosher, page 112.

14/ Status, Progress and Problems in Federal Agency Accounting during Fiscal Year 1980, GAO, June 25, 1981.

Table II-2

STATUS OF ACCOUNTING SYSTEMS AT SEPTEMBER 30, 1980

	Principles and standards		Subject to	System designs		
	Approved	Unapproved	approved	Approved	Unapproved but operating	Under development
Civilian departments and agencies:						
Agriculture	6	-	6	3	1	2
Commerce	8	-	8	7	1	-
Education	2	1	3	2	1	-
Energy	7	-	4	3	-	
Health and Human Services	29	-	29	6	23	-
Housing and Urban Development	2	-	2	1	1	-
Interior	15	-	15	11	-	4
Justice	11	-	11	10	1	1
Labor	2	-	2	2	-	-
State	8	-	8	4	2	2
Transportation	9	-	9	7	1	1
Treasury	20	-	20	18	1	1
General Services Administration	9	-	9	3	3	3
Veterans Administration	8	-	8	7	1	-
Other agencies	55	3	58	35	13	10
Total Civil	191	4	195	120	51	24
Percent	98	2	100	62	26	12
Department of Defense:						
Air Force	29	-	29	25	3	1
Army	14	-	14	9	3	2
Navy (including Marine Corps)	45	-	45	30	6	9
Defense agencies	17	-	17	9	3	5
Total Defense	105	-	105	73	15	17
Percent	100	-	100	70	14	16
District of Columbia government	1	-	1	-	-	1
Total	297	4	301	193	66	42
Percent	99	1	100	64	22	14

Source: General Accounting Office, Status, Progress, and Problems in Federal Agency Accounting During Fiscal 1980, June 25, 1981.

A recent evaluation of the status of the systems as of September 30, 1982 indicates no significant change from these numbers.

As in the private sector, it is the responsibility of central government, essentially the Government's corporate headquarters, to see that more is achieved from the combined efforts of the departments than they are able to achieve independently. That cannot be achieved simply with larger computers. It requires better information. Better information, in this case, is highly dependent on correcting the organizational and procedural weaknesses this Task Force has identified.

A further examination of the system reveals that the GAO accounting standards, which should provide the framework for achieving financial management objectives and system approvals, are in need of review. Originally drafted in compliance with the Accounting and Budgeting Act of 1950, they require revision if they are to serve as effective guidelines for future accounting system development and reflect technological changes which have occured since they were originally drafted. 15/ Such a revision is currently in process.

The absence of a comprehensive accounting policies and procedures manual has also seriously impaired the comparability, consistency, and reliability of data from department to department. Accounting standards are usually drafted in broad terms and require further policy and procedural guidance to assure their consistent implementation in the numerous departments and agencies. For example, while the standards specify that accounts receivable are to be recorded as assets 16/, policies and procedures should further define criteria for distinguishing among types of receivables and define the related receivable data elements (e.g., terms, due dates, past due status, collateral data, etc.) which should be collected, recorded and reported if information submitted by departments is expected to provide the basis for effective central Government monitoring of collection effectiveness.

15/ Address by Charles A. Bowsher, Comptroller General of the United States before the Association of Government Accountants, June 14, 1982.

16/ GAO Title 2.

As another example, the PPSS Treasury Task Force's review of Government payment procedures pointed out that even rudimentary policies and procedures for invoice processing, including payment and discount procedures, are not currently provided to departments and agencies. This absence of central procedures establishment has prompted Congress to legislate procedures the private sector recognizes as common business practices. 17/

A significant factor complicating the development of systems with a broad spectrum of financial management capabilities, is the form in which the current Federal budget is approved. Budget classifications are frequently not in harmony with the manner in which department and agency responsibilities are assigned and projects managed. 18/

In the private sector, the budget and accounting processes are "linked" as complementary management tools. Budgets are usually prepared on an organizational, responsibility-center basis, in a fashion that permits individuals to be held accountable for achievement of budget goals and expected financial performance. Accounting systems are designed and operated to report on whether or not budgets are achieved.

In the Federal Government, budgets are prepared principally to facilitate Executive and Legislative Branch approval of broad programmatic objectives and spending limitations, rather than as a guide and measure of operational performance. Budgets consist of a series of departmental appropriations. However, unlike the private sector, budgetary appropriations often bear little relationship to the assignment of management operational responsibility. For example, the appropriations for the Department of the Army include one appropriation for all military pay irrespective of where the individuals are stationed, or under which command they are located. Accordingly, the cost associated with military personnel stationed at Fort Benning, Georgia, are not readily discernible in the budget, nor is the base commander held directly accountable for such costs in the budgetary process. Similar examples could be cited in all other departments and agencies.

17/ Prompt Payment Act of 1982

18/ Testimony of Charles A. Bowsher, Comptroller General of the United States, before the Committee on Governmental Affairs, U.S. Senate, August 19, 1982.

Since it is widely recognized that the accounting systems currently in use are largely oriented toward assuring that appropriated funds are not exceeded, the accounting systems have little accounting orientation responsibility.

Many Federal financial managers recognize this serious deficiency in the current accounting and budget processes, and the inability to use either as an effective measure of a goal or responsibility achievement. While some departments and agencies have developed ancillary responsibility-center oriented systems, they are in the minority. Also, the frequent competition which persists between the legislative oversight -- "appropriation" -- and the internal management -- "responsibility" -- bases of measurement, serve only to cloud and confuse the communication of management objectives.

There is little doubt that the solution lies with a reallignment of the current budget appropriation process to a more responsibility-center orientation.

An additional budget issue involves the overall definitions of outlays and receipts. Task Force investigations suggest that these should be reexamined to assure that items currently excluded are properly classified. For example, U.S. deposits with the International Monetary Fund are not treated as outlays, but are considered to be cash assets. Thus, the recently discussed payment of $7.5 billion to the IMF would not be included in outlay or deficit figures. This is only one example of a major classification of expenditures issue.

Finally, the Federal Government presently does not issue concise and comprehensive annual financial statements to the public. Its current financial reports are not subjected to a comprehensive internal or external financial audit. While some of our Executive Office of the President (EOP) and senior agency interviewees contend that there is no demand for such reporting, others note that the absence of these requirements permits Federal systems to operate with many of the inaccuracies and inconsistencies that the discipline of annual audited financial statements is intended to eliminate.

Conclusions

The functions of accounting and financial reporting are currently conducted within the Federal Government on a highly decentralized basis with minimum central government direction or guidance. Presently, financial reporting is heavily focused on the reporting of expenditures and obligations against budgetary appropriations. However, many of the individuals interviewed concurred that the accumulation and reporting of financial data by the departments and agencies on a budget basis do not provide useful financial information for purposes of measuring or monitoring either program costs or the effectiveness of management responsibility centers.

It should be recognized, however, that the current diffusion of financial management responsibilities among departments and agencies has been intentionally designed to encourage the development of decentralized, highly tailored, department and agency systems. 19/ Accordingly, organizational uniqueness, rather than central coordination and consistency, has characterized the development and evolution of financial management systems in the Federal Government. The question raised is, of course, is this the proper direction for the future? The Task Force does not believe it is.

While departments and agencies have been encouraged to develop advanced accounting and financial management systems, no effective coordination has been provided by either OMB or Treasury to discourage the wide disparities in quality and sophistication that currently characterize the systems. Another result of this department-by-department approach to systems development, is that little effort has been expended to assure that individual systems possess the ability to provide comparable, reliable and timely data in areas that would appear to suggest the need for central government focus of attention. Therefore, it is not surprising that existing systems are frequently not capable of providing an adequate or appropriate basis for the central government's oversight of the management of assets and liabilities. These would include such areas as loans and other receivables, inventories, properties and liabilities other than contractual obligations.

In short, the systems have been cash and appropriation oriented, have deemphasized asset and liability management and have focused the majority of attention on department and agency rather than central management issues.

19/ Early History of the Joint Financial Management Improvement Program, Walter Frese, Ellsworth Morse, Jr. and Donald Kull, page 268.

With this type of focus, it is not hard to understand why the remains of last year's programs and expenditures, represented by uncollected loans, underutilized equipment, excess facilities and unused supply inventories or surpluses receives little management attention, particularly if the systems used to provide data are incapable of aggregating totals by department. In order to manage, it is necessary to identify the activity that requires management and the information needed to manage it and assess its performance.

Although the current level of department and agency system development and the lack of central coordination of accounting and reporting activities inhibits the Government's ability to prepare meaningful combined financial statements that conform to existing GAO accrual accounting standards, no concensus has emerged as to an appropriate alternative basis of government-wide reporting.

To correct these shortcomings, a restructuring of the accounting, financial reporting and central Government financial management functions will be required to provide for strong, well defined creative leadership of the financial management process. In addition, steps should be taken to improve the communication of accounting requirements, improve the definition of management objectives and raise the stature and personnel capabilities associated with Federal financial management.

The following recommendations are intended to assist in the development of such a redefined central government financial management structure.

Recommendations

As noted earlier in the Findings section the Task Force's observations and recommendations focus on two broad categories: organization and procedures. The following discussion will address the recommendations in that context.

1. Organizational Recommendations

FMS 3-1: An office responsible for financial management should be created in the Office of Federal Management (OFM) to improve the direction, coordination and administration of the financial management function throughout Government.

FMS 3-2: The financial management office should initiate efforts to assure that appropriately staffed comptrollership functions are incorporated into all departments and agencies. This should entail assisting in establishing common position qualification and description statements and instituting reporting relationships which will assure that areas of comptrollership responsibility and authority are properly interrelated.

To provide the strong central direction and coordination of the Federal Government's financial management structure, which the Task Force believes is essential to correcting current deficiency, the Task Force recommends the establishment of a newly created central government office to be responsible for financial management. The office should have equivalent organizational status with the current budget organization in OMB. 20/

Initially, the financial management office should combine the accounting and reporting activities, and related staffing levels presently contained within the operations of other central government organizations, including the Treasury Department's accounting and reporting activities (150 staff members); the financial management activities of OMB (ten staff members); the Government-wide property reporting functions of GSA (less than ten staff members); and the staff of JFMIP (staff of less than five). One of the first tasks of the new office should be to evaluate staff needs based upon operating objectives, responsibilities and timetables.

The office should be responsible for, among other duties: advising the President and department heads on financial matters; assisting department heads to institute sound internal controls and comply with GAO accounting and reporting standards; coordinating the accounting activities of department comptrollers; and performing central government accounting and reporting functions. The Task Force considered whether these functions should be performed by Treasury. However, it is recommended that the activities be organizationally aligned with the budget, rather than Treasury functions, as is frequently done in the private sector (separate controller and treasury functions).

As a means of improving communication within the comptrollership function, the Task Force also recommends the formation of an interagency President's Council on Financial Management. The members would include the comptrollers of the principal Executive Branch departments and agencies.

20/ Under the recommendations of issue FMS-1, Federal management responsibilities would be assumed by a new Office of Federal Management (OFM).

Chaired by the head of the financial management office, its purpose would be to improve the communication link between the departments and agencies, and the central government on financial matters.

The selection of the head of the office, essentially the Government's senior financial officer, must be addressed carefully. Not only should the individual possess outstanding technical and personal qualifications, but in addition, the term of office provided should be sufficiently long to assure continuity for the future development of financial management. As a model, the Task Force suggests that the selection process and the 15-year term of office prescribed for the Comptroller General of the United States have merit in these circumstances and accordingly recommend their adoption. Under that process, the President selects the Comptroller General, subject to Senate confirmation, from among a number of candidates recommended by a congressional panel.

It is also important to assure that by title, as well as delegated responsibilities, the individual heading the financial management office is characterized as the Government's senior financial officer. Ideally, the individual filling this position should be known as the Comptroller General. Since that title is currently ascribed to the person filling the role of Auditor General, the head of GAO, a title change between these two offices is recommended. If this is not considered practical or feasible, an equally distinctive title should be selected such as Senior Financial Officer or Director of Financial Management to describe the director of OFM.

It is also essential that the financial management office undertake a strong leadership role in establishing and significantly upgrading the comptrollership function in each department and agency. This will require working with OFM's new Office of Human Resources and the Office of Personnel Management (OPM) in redefining areas of reporting responsibility, and developing consistent and appropriate job descriptions, qualifications and salary scales to attract and retain qualified personnel in these positions.

2. Procedural Recommendations

FMS 3-3: Develop the appropriate form of annual external financial reporting that should be performed by the Federal Government. Once agreed upon, consideration should be given, over the long-term, to subjecting the annual report to audit.

FMS 3-4: The Legislative and Executive Branches should modify the present budgetary classifications. The intent should be to achieve greater correlation between congressional measurement of department and agency performance and program and department functional areas of responsibility.

FMS 3-5: The financial management office should redefine central government financial management objectives and related accounting system information requirements. These requirements should be used as a basis for modifying, as required, the Federal financial reporting systems at the central government and department and agency levels.

FMS 3-6: GAO should reexamine the sufficiency and appropriateness of previously issued accounting standards (Title 2). In conjunction, the financial management office should undertake the development of comprehensive accounting policies and procedures guidelines. In addition, a specific timetable for compliance with GAO standards should be mandated by law or the ineffective GAO systems approval provision of the Accounting and Auditing Act of 1950, repealed.

FMS 3-7: The financial management office should develop and implement a broadly-based program of financial management education.

Financial management systems should be designed to respond to requirements for financial information. In the private sector, one of the most significant information requirements relates to the preparation of the organizations' annual audited financial statements. 21/

While at present no requirement is imposed upon the Federal Government for the issuance of comprehensive annual financial statements, and in fact none are issued, several reasons for a change in this policy are evident. First, the Federal Government should not continue to pursue a course of holding itself to a lesser standard of accountability than is currently imposed on the private and many other segments of the public sector. Secondly, the requirement to issue an annual comprehensive report instills in the financial management system a sense of discipline which is difficult to

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21/ The desirability of an annual financial audit was suggested by Comptroller General of the United States Charles A. Bowsher in an address to the Annual Meeting of the American Institute of Certified Public Accountants (AICPA), October 4, 1982.

duplicate by any other means. Accordingly, the issue should not be whether or not an annual report is issued, but rather in what form.

Because of the controversy that has surrounded this issue in the past, OFM should designate a study group composed of public and private sector people to advise the Government on the specific form of annual report it should prepare.

Internal management uses of financial data also dictate the form of their financial management systems. The system must be designed to respond to management's need to measure its own effectiveness. The findings identified conflicting management effectiveness measures arising from perceived inadequacies in the current budget organization. Accordingly, it is recommended that the current budget classifications and organization be changed to incorporate a functional or responsibility-center approach to budgeting that would be a more appropriate basis for measuring operational effectiveness and expenditure requirements.

At another level, it has become apparent that Government has grown to such proportions and complexity that there is a need to consider more closely those areas of department and agency activity which, because of their commonality, could be more effectively monitored or administered on a government-wide basis. Initial efforts have been made to monitor receivables and properties. While the monitoring of receivables seems to be proceeding effectively, the properties area appears to require substantial improvement. Further, the areas of implementing user charges for appropriate government services and furthering the efforts toward shifting services from the public to the private sector need additional emphasis. It is time to review the current nature of all government operations to identify other opportunities for improving financial management through central coordination or administration of other accounting activities.

In defining the specifications of an integrated financial management system, it is also necessary to consider the requirements of accounting standards, policies and procedures. By integrated, the Task Force means systems constructed to operate under the same basic rules even though they may have differing hardware, software and configuration characteristics. The current department and agency systems do not permit a satisfactory level of integration, partially because of a failure to articulate clearly and completely accounting standards, policies and procedures. While GAO has formulated the existing standards, which require examination to determine their current adequacy, to date a comprehensive statement of accounting policies and procedures has not been assembled.

The Task Force is also of the opinion that the current requirement for GAO approval of accounting systems, according to their standards, has proven to be an ineffective means of achieving timely upgrading of accounting and financial management systems. Unless the process can be strengthened through the establishment of unalterable time limits for compliance, it should be terminated and alternatives sought that present a more realistic opportunity to achieve timely and broad-scope improvements in current systems. Chief executives of departments and agencies must be further encouraged to devote sufficient resources to the improvement of accounting and financial management systems.

Lastly, while many aspects of a financial management system are dictated by external reporting requirements, senior organizational unit demands for financial data, and mandated accounting standards, policies and procedures, the systems should fundamentally serve the informational needs of internal managers, in this case department and agency managers. In some cases, department and agency managers have neglected to use the systems for other than appropriatiation reporting because that is the basis on which Congress is holding them accountable. Others fail to realize system potentials because they lack the knowledge and training to perceive ways of using financial data to manage their operations. For this reason, the Task Force has recommended the initiation of a long-term education program to make managers and their evaluators, the legislature, more familiar with financial management technology.

The intended purpose of implementing these recommendations should be to achieve a level of developmental parity among accounting and financial management systems that will increase the quality and reliability of financial data available to department, agency and central government managers, and permit an expansion of the use of financial data to manage the business of Government.

Savings and Impact Analysis

Our recommendations relate to two principal areas of improvement and their benefits:

- Enhancement of the financial management organizational structure at both the central government and program department levels. The establishment of a financial management office and the establishment of a strengthened departmental comptrollership function would provide the following benefits:

- correction of the deficiencies and weaknesses in the current financial management process from the establishment of improved communication of requirements;

- clarification of reporting responsibilities and strengthened comptrollership capabilities throughout Government departments and agencies;

- delegation to the financial management office the Executive Branch responsibility for achieving compliance with legislated accounting standards; and

- an Executive Branch focal point for initiating improvements in central government financial management and response to public expectations for enhanced accountability of Government.

o Procedural changes that will provide a clearer focus on Federal Government financial management objectives. These changes involve the reevaluation of external and internal reporting requirements and the clarification of accounting standards, policies and procedures that would have the following lasting benefits:

  - improved overall quality of financial management and reporting in Government, and through annual external reporting, its public accountability;

  - a basis for reducing costs by eliminating redundant and excessive reporting and ensure the timeliness of desirable reporting requirements;

  - the opportunity to further enhance the level of internal controls surrounding government financial operations;

  - increased accuracy and reliability of financial data available for decision making;

- a basis for a more project- and functionally oriented approach toward performance evaluation; and

- a level of understanding of financial management concepts and accordingly, their future use.

One of the principal factors that have retarded the growth of financial management in the Federal Government has been the controversy which has surrounded the selection of an appropriate basis on which to measure the Government's performance. Should it be the cash, obligation or accrual basis? While time did not permit a study and resolution of this issue, it is our belief that all three serve a valid purpose in the financial management of Government and that adoption of one basis to the total exclusion of all others would be to deny management the opportunity to view issues from alternative perspectives.

It was the goal of our recommendations to improve the organizational structure and procedures to permit justified, but perhaps opposing, measurement focuses to coexist in a timely, accurate, consistent and therefore reliable environment.

Implementation

The creation of a financial management office could be achieved by Executive Order. However, the intent of our recommendation -- to incorporate into one central agency the responsibility for the financial management of the Federal Government -- could not be achieved without legislative action. The Secretary of the Treasury is currently required under the Accounting and Auditing Act of 1950 to prepare such reports for the President, Congress and the public, and to report financial operations of Government. The recommendations in this issue envision that this role will be subsequently performed by the financial management office.

Legislative action would also be required to implement the suggested selection and tenure requirements for the appointment of the head of the financial management office, which we recommended be patterned after the Comptroller's General selection procedures.

Even if difficulties are experienced in achieving legislative change to accommodate the transfer of these limited Treasury responsibilities, steps should be undertaken to formalize the organization of the financial management office as soon as possible. Neither the Treasury issue nor the selection and tenure issue should be viewed as serious impediments to achieving the majority of the benefits ascribed to this recommendation.

The first undertaking should be the recommended steps to strengthen department and agency comptrollership functions. This will involve working with OPM qualification, responsibility and salary matters. It may be possible to realign comptrollership reporting responsibilities through the issuance of an OFM directive.

The education program is expected to provide early dividends by improving managers' focus in their reexamination of departmental financial management objectives and related system requirements. The breadth, nature and quality of the education program recommended envisions reaching all senior management disciplines in the Executive and Legislative Branches. The program will require a considerable expenditure of effort and resources. Accordingly, steps to achieve this recommendation should be initiated early in the process.

The next step should involve a simultaneous effort to achieve three independent, but interrelated recommendations. They deal with obtaining an improved perspective on accounting system requirements through the reexamination of central government financial management objectives, an investigation to determine the feasibility of changing the current budget classification system, and the study of external reporting responsibilities. The outcome of these recommendations could have a significant effect on future departmental systems requirements.

While a reexamination of GAO accounting standards and the development of a comprehensive accounting policies and procedures manual can be initiated at an early date, they should not be finalized until the issues involved in the preceding recommendation implementation have been fully explored.

II. ISSUE AND RECOMMENDATION SUMMARIES (CONT'D)

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 4: FINANCIAL MANAGEMENT AND AUDIT

Issue

Does the Federal Government's internal audit organization function effectively on a decentralized, department and agency basis in the application of audit resources?

Background

Since 1978, Inspectors General (IGs) have been created by legislation in 19 Federal departments and agencies. 1/ They are responsible for previously separate departmental audit and investigative functions.

Each IG is appointed by the President with the advice and consent of the Senate. Each reports to and is supervised by the department head, but each also has reporting responsibilities to the Congressional committees responsible for departmental programs. The IGs' staffs include approximately 7,400 auditors and investigators, and their annual audit budgets total about $400 million. 2/ They represent most of the internal audit activities of the Executive Branch.

The Task Force's review focused on whether the decentralized audit functions in these 19 departments and agencies are organized to perform appropriate internal audit

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1/ E.g., P.L. 95-452, Inspector General Act of 1978.

2/ Total number of staff and budget costs for the 19 Inspectors General for fiscal year 1984 used by OMB in the preparation of the budget. While no precise division of these amounts between audit and investigative activities is readily available, it is estimated that approximately 70 percent of these amounts appear to be applied to the audit function. Details by department and agency are included in the Appendix.

procedures effectively and efficiently. The Task Force considered whether or not there is a need for the audit activities of the 19 IGs to be under central direction, since some form of central direction exists in most large, multi-location internal audit departments of private sector organizations.

Methodology

The Task Force interviewed the audit staffs of ten IGs, including two regional audit staffs in Philadelphia, and representatives of the General Accounting Office (GAO), Office of Management and Budget (OMB) and the President's Council on Integrity and Efficiency (PCIE). Questions were asked about the IG organizational structure, the nature of their work and how they perform administrative functions.

Pertinent legislation and legislative histories were studied, and the latest IGs' reports and audit plans were examined. A group of audit directors from nationally recognized organizations 3/ and a prominent member of auditing academia provided counsel during the course of the Task Force's work.

The Task Force observed that most private sector audit organizations provide central direction to (a) assure auditor independence from operating personnel; (b) provide for more efficient and consistent approaches to administrative functions such as training, development of sophisticated audit techniques and personnel practices; and (c) assure that the scope and nature of audit work performed is established with appropriate consideration for the overall organization as well as component unit requirements. The Task Force, therefore, focused on these three areas in its attempt to evaluate the appropriateness of the current decentralized organization of the Federal Government audit function.

3/ Organizations were selected from among those suggested by the Institute of Internal Auditors, and included Gulf Oil Corporation, General Electric Co., and AmSouth Bancorporation.

Findings

By changing the IGs' reporting responsibilities, Congress intended, and the current IGs believe they have achieved, greater independence in executing audit responsibilities. The legislative history of the Inspector General Act of 1978 indicates that prior to the legislation, Congress believed that auditors were often not independent because they reported to Assistant Secretaries of departments who were in charge of the programs being audited. The history further indicates that Congress intended to correct this weakness and provide an appropriate balance between independence and the needs of management by elevating auditors to the department head level and creating an additional reporting requirement to Congress. Based on discussions with IGs and a review of their reports, the Task Force found no evidence that Congressional intent to provide greater auditor independence has been achieved.

Many inconsistencies exist in the manner in which audit administrative functions are being performed by the 19 IGs. Such inconsistencies make evaluations of auditor performance and their allocation of audit resources impractical at this time. The Task Force's reviews and discussions with IGs indicate a high degree of inconsistency in the execution of many of their administrative activities. For example, the 19 IGs varied greatly in several ways: the specificity and sophistication of their audit plans and reports; 4/ the development of training strategy and courses; the terms and definitions used in audit documents; and the manner in which IG budgets are prepared and approved.

The Administration has recognized the need to provide centralized coordination of audit administrative functions through the recently established PCIE. PCIE is a formal organization of IGs created by an Executive Order on March 26, 1981. It conducts coordinating projects designed to enhance audit administrative activities. PCIE activities include:

- establishment of standing committees to assist IG operations in developing improved techniques in such areas as training, performance evaluation and reporting audit results;

4/ Current year's audit plans and most recent periodic reports obtained from 19 IGs.

- organizing or coordinating several interagency audits (i.e., audits conducted in several departments) in selected common audit areas such as Federal employee disability compensation, unliquidated obligations, and payrolls; and

- conducting projects such as a study currently underway to improve Executive Branch computer audit capabilities.

PCIE has no authority to direct the activities of the individual IGs. The Task Force has been informed that the advisory posture taken by PCIE is in recognition of the unique statutory reporting relationships of the IGs provided for in the legislation discussed earlier. All of the IGs serve as members of PCIE and the Task Force's interviews indicate that they all currently support PCIE efforts. At present, PCIE staff, located in OMB, consists of four part-time employees.

PCIE responsibilities do not currently include monitoring of the technical audit activities of the IGs or providing advice and counsel on technical audit matters. Based on a review of their present activities, PCIE's role has been limited to providing a focal point for addressing common, largely administrative issues such as training, planning and reporting.

The Task Force's experience, and discussions with audit directors in the private sector, indicate that large, decentralized audit organizations usually establish quality assurance programs to monitor the technical performance of their constituent audit units. These programs, which typically include field reviews of audit performance, are conducted to assure that: the scope of audit work is appropriate on an organization-wide basis; the manner in which the work is performed meets professional standards; and requirements for additional technical support of audit activities are identified.

The development of quality assurance programs recently received added impetus as a result of the Metcalf Committee 5/ inquiries into the quality of audit performance in the

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5/ Subcommittee on Reports, Accounting and Management of the Committee on Government Operations, U.S. Senate, December, 1976.

private sector. The Committee investigated the necessity for greater regulation of the public accounting profession. Its findings led to the establishment of voluntary programs of "peer review" which involve the evaluation of an accounting firm's auditing practices and procedures by professionals from other firms.

IGs have been preoccupied with grant contract auditing with resulting inappropriate attention being directed to internal organizational auditing. Internal auditing controls, with a view towards preventing fraud, waste, abuse and mismanagement, have not been emphasized before. Grant auditing entails evaluating the compliance of the recipients of Federal funds with the terms and conditions of grant agreements. IG literature, reports and planning documents currently give primary emphasis to reporting cost recoveries, questioned costs, and other immediate dollar savings attributable to grant auditing.

The Task Force's reviews indicate that internal auditors in the private sector often perform limited contract auditing but certainly not to the extent currently experienced by the IGs. Most contract auditing in the private sector is performed by personnel assigned to operating departments and, accordingly, contract audit efforts are clearly distinguishable from internal organizational audit activities.

Based on the Task Force's discussions and reviews, IGs have been preoccupied with grant auditing because the resultant identification of questioned costs and recoveries has attained a high degree of popularity with, and the attention of, Congress and some Administration officials.

IGs suggested that developing recommendations for improvements in internal controls has not been emphasized because auditors believe that the benefits of improved preventative internal controls are not readily discernable by management. Improving preventative controls cannot be as readily related to dollar savings as is detective auditing, which identifies the specific dollar impact of actual wrongdoing.

The recent Federal Manager's Financial Integrity Act and an OMB directive have created a requirement for the staffs of the IGs to devote more attention to internal controls. The Act requires the heads of Federal departments to report publicly on the adequacy of internal controls within their departments. The OMB directive 6/ requires department heads to perform continuing evaluations of internal controls. Although the IGs' role in this process has not been totally defined, the Task Force was advised that many of them will assist their department and agency heads in complying with the Act and OMB directive.

The current audit procedures used by many of the IGs' audit staffs do not include state-of-the-art audit techniques. Our discussions and reviews indicated that procedures such as flow-charting and statistical sampling are often not used by the audit staffs. There is also a need for the audit staffs to increase their automated data processing (ADP) audit capability. Interviewees stated that most IG personnel do not have adequate training and experience to evaluate and test ADP controls.

The IGs have difficulty attracting individuals to their staffs with essential specialized audit skills. IGs stated that under current Office of Personnel Management (OPM) procedures, promotional opportunities are only available to those employees on their audit staffs who have been assigned accounting and auditing personnel classifications. Although IGs can hire personnel with special talents outside of these classifications in such areas as ADP and statistics, they are unable to identify a career path for those individuals. There is a need for the development of special job classifications for IGs that will permit promotion in specialty areas.

The findings, conclusions, and recommendations of other PPSS Task Forces concerning internal auditing are compatible with those described in this issue. For example, the Department of Defense (DOD) Task Force recommended that audit personnel use more ADP audit techniques and increase their auditing of internal controls. The Department of Education Task Force also recommended placing more emphasis on ADP auditing. The Department of Energy (DOE) Task Force recommended establishment of a quality assurance program to monitor the maintenance of audit technical performance, and the Department of Justice Task Force, in their review of Government-wide IG operations, also recommended improving the administrative and technical coordination activities of PCIE.

6/ OMB Circular A-123.

Conclusions

There is a need to provide additional support and coordination of the auditors' many administrative needs and continuous monitoring of their technical performance. Such a need has already been recognized in the establishment of PCIE. However, PCIE activities should be broadened to include monitoring of the scope and quality of audit work currently performed, with a view toward providing counsel to the individual IGs on matters dealing with the depth and breadth of audit coverage (scope) and the application of technical audit procedures. To achieve these added responsibilities, the PCIE staff will require expansion.

The PCIE staff should be expanded even if its duties are not increased. While PCIE initiatives are to be applauded, Task Force review of the workload indicates that four part-time staff are insufficient to provide an appropriate level of timely support to the administrative functions conducted by IGs.

Recommendations

FMS 4-1: Establish within the financial management office of OFM a full-time audit support division headed by a director of audit coordination, replacing the part-time staff support now provided to the PCIE. 7/ The functions of this new group would be to assist PCIE in addressing common problem areas and deficiencies in audit administrative functions and technical performance areas. Its functions in achieving improvements in the administrative area would include:

- developing guidelines for planning and reporting;
- developing performance standards for IG audit activities;
- preparing programs and developing audit techniques in common areas such as payrolls, unliquidated obligations, etc.;
- developing training capabilities;

7/ Issues FMS-1 and FMS-3 recommended replacing OMB with OFM, which includes, among other units, an office responsible for financial management.

- maintaining a core staff of specialists in computer auditing and statistical sampling to advise and assist IGs; and
- working with OPM to develop appropriate job classifications and personnel policies.

From a technical standpoint, the role of the audit support division should include maintaining a continuing awareness of the technical performance aspects of Government-wide audit activities, and providing advice and recommendations for improvements. To enhance its ability to monitor the quality of audit work being performed on a Government-wide basis, the audit support division should also develop and oversee a quality assurance program. The departmental reviews inherent in such programs can be performed by the IGs on a peer review basis or under contract with other professional organizations. 8/

The role of the division is important from several perspectives, including: (a) providing the IGs and their respective department heads with independent counsel and advice on the formulation of audit plans and factors affecting the quality of performance of field work and reporting; (b) encouraging the establishment of audit plans which are balanced between Government-wide and departmental concerns; and (c) providing the President and Congress with insights into the consistency with which audit activities are being conducted and the level of professionalism associated with audit operations.

It is recommended that the division prepare an annual summary of its activities and observations as to the effectiveness of the conduct of Government-wide audit activities for issuance through PCIE to the President and Congress.

Although further study of staffing requirements is needed, the experience of the Task Force members indicate that the audit support division should initially consist of a permanent core staff of approximately ten professionals,

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8/ In other Government and business sectors quality assurance reviews are usually conducted by teams of professionals (peers) assembled from several unrelated organizations. The larger public accounting firms, however, usually engage another accounting firm to conduct the review.

including several individuals with computer auditing and statistical sampling training and experience. The core staff should be augmented, as needed, by temporarily assigned senior personnel from the various IG audit staffs who would serve on a tour-of-duty basis. Consideration should also be given to utilization of personnel from the private sector on a Presidential exchange program. The director of audit coordination should possess demonstrated skills in accounting, auditing, financial analysis, and public administration.

PCIE, as currently constituted, should continue to function. It should monitor the activities of the audit support division. The substance of the Task Force's recommendation is to strengthen PCIE activities through increased staff support in the form of the audit support division.

<u>FMS 4-2: IGs should segregate their grant audit functions in order to prevent the encroachment of that audit activity on the resources needed for internal control and other internal auditing responsibilities.</u> The segregation of grant auditing functions would involve identification of specific individuals to work exclusively on grant audit matters. This function should be established in a separate and distinct division within the offices of the Assistant Inspectors General-Audit.

Consideration was given to recommending the consolidation of all existing grant audit functions into a central Government-wide civilian grant and contract audit agency. Such an organization would operate on behalf of all Federal departments and agencies in a manner similar to the currently existing Defense Contract Audit Agency (DCAA) 9/.

9/ DCAA is an independent agency under the direction, authority, and control of the Assistant Secretary of Defense (Comptroller). DCAA performs all necessary contract audit functions for the Department of Defense and provides accounting and financial advisory services to all Defense components responsible for procurement and contract administration. These services are provided in connection with the negotiation, administration, and settlement of contracts and subcontracts. They include evaluating the acceptability of costs claimed or proposed by contractors and reviewing the efficiency and economy of contractor operations. Other Government agencies may request DCAA's services under appropriate arrangements.

This recommendation was not made for two reasons:

- the "single audit" program described earlier is in its infacy and should eventually diminish the resources required for grant auditing; and
- the emphasis on block grant legislation will probably diminish the need for grant audits in the future.

If the recommendation to segregate the grant auditing activities within the respective IGs' offices is not acceptable, or another alternative is not implemented to assure a more balanced emphasis among grant and other auditing responsibilities, then the establishment of a central civilian grant and contract audit agency should be examined. This organization would operate on behalf of all Federal departments and agencies in a manner similar to the currently existing DCAA.

FMS 4-3: IG Audit staffs should increase their level of attention to internal control evaluations and coordinate such efforts with independent control evaluations performed by management. A primary responsibility of internal auditing involves the independent evaluation and testing of internal control systems. Additionally, audit staffs should be encouraged to assist management by monitoring departmental and agency internal control evaluations required by OMB Circular A-123 and the Federal Managers' Financial Integrity Act of 1982. This dual role should include the following procedures:

- assist management in the design of internal control and risk vulnerability evaluation programs;
- assess the adequacy of management internal control and risk vulunerability evaluation procedures; and
- independently decide on the department's or agency's system of internal controls through review and testing.

FMS 4-4: IGs should upgrade their personnel capabilities related to internal control and ADP auditing. IGs, with the assistance of the audit support division, should create an ADP capability within their departments. The departmental ADP personnel should be capable of:

- evaluating general ADP controls;
- performing application and program systems reviews; and

- collaborating with the general audit staff on the performance of ADP audit tests.

As previously discussed, the audit support division should work with OPM to develop job classifications that will enable the IGs to attract qualified ADP personnel to their staffs.

Savings and Impact Analysis

The creation of an audit support division, with sufficient resources at its disposal, will provide the President, Congress and PCIE with an effective means to monitor and support the total Government-wide IG audit activities. At the same time, IGs should retain their relationships with their respective department and agency heads and Congress that are essential for effective auditing.

More specifically, the operations of the audit support division which will initially require about six additional people, will provide the following benefits:

- a reduction in cost and improvement in the efficiency with which administrative functions are performed;
- the development of reporting procedures which will permit independent evaluation of IG audit plans and associated resource requirements; and
- improvements in technical audit as well as administrative performance through the initiation of a quality assurance program.

Recommendations specifically addressing improvements in the current IG operations will provide the following benefits:

- significant enhancement of the IGs' roles in internal management through increased attention to their internal control evaluation responsibilities; and
- development within audit departments of the capability to fulfill their professional auditor responsibility for the audit of ADP systems and use of state-of-the-art audit techniques.

Implementation

The principal step in implementing the recommendations is for the President, through the Executive Order process, to establish the audit support division within a financial management office in OFM. The staffing requirements and ongoing responsibilities of the division are discussed above.

The initial activities of the division should address the specific issues identified in the recommendations. Division personnel should initiate discussions with IGs to provide assurances that their programs are altered to provide as recommended:

- o the segregation of grant audit functions from other audit functions;
- o an increase in their level of attention to internal control auditing; and
- o the upgrading of their capabilities regarding internal control and ADP auditing.

Implementing procedures in the manner and to the extent described in the recommendations will result in the achievement of essentially all of the benefits usually associated with a centrally directed corporate internal audit function, while preserving the continued autonomy of the individual IGs.

II. ISSUE AND RECOMMENDATION SUMMARIES (CONT'D)

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 5: CAPITAL BUDGETING

Issue

How can the planning and budgeting for capital expenditures and assets be improved?

For the purposes of this issue, capital expenditures are defined as long-term financial investments in assets representing large commitments of resources that commonly include land, buildings, facilities, equipment, and vehicles.

The Task Force has concluded that implementation of a Government-wide capital budgeting process would result in better management and utilization of capital assets and funds, long-term improvements in the nation's physical assets, planned maintenance and repair activities and long-term cost reductions.

Background

Concerns about the manner in which the Federal Government plans, budgets, and manages capital investments and assets have been evident since at least the Hoover Commission of 1949. The major issues resulting from these concerns are lack of planning for the replacement or modernization of the nation's physical infrastructure; dependency of state and local governments on Federal funds to meet capital needs; need for useful inventories and knowledge of capital items and projects; lack of analysis of alternative capital projects; and lack of a standard definition of "capital."

Special Analysis D of the President's FY 1984 budget defines "capital" (or "investment") outlays as "those that yield benefits in future years through the acquisition of physical or financial assets, or through expenditures for less tangible long-term benefits such as education." Reported capital outlays are significant. FY 1984 levels are estimated at $186.2 billion (21 percent of the total budget appropriation). Table II-3 summarizes Federal investmenttype outlays by type of investment.

Table II-3

SUMMARY OF TOTAL FEDERAL INVESTMENT-TYPE OUTLAYS
($ billions)

	1981	1982	1983 Estimate	1984 Budget
o Physical Assets	70.0	77.0	90.3	107.3
o Loans & Financial cial investments	26.7	26.3	22.3	8.1
o Education & training, R&D other	71.1	67.6	69.5	70.8
	167.8	170.9	182.1	186.2

Source: Table D-1 Summary of Total Federal Investment-Type outlays, 1981-1984, Special Analysis D, dated January 31, 1983.

Methods of improving capital budgeting have been addressed in numerous studies in the past. Both the Hoover Commission in 1949 and the Committee for Economic Development in 1959 recommended the adoption of a capital budget by the Federal Government. Recent studies by the General Accounting Office (GAO) have emphasized the need for improved capital investment planning at both Government-wide and agency levels.

GAO in a recent study recognizes the need for Federal capital planning: "This study points out the need for a cross-cutting analysis of and a policy direction for capital investment type outlays by category of investment and the creation of more broadly based and informed policy advisory units." 1/ In this study, the GAO noted several problems with Special Analysis D. For example, loans made by the Department of Agriculture (USDA) and other departments are included as the net amount of loans and repayments. The Analysis also does not include important investment outlays for entities that are not included in overall budget outlay figures ("off-budget"), such as the U.S. Postal Service (USPS).

GAO in the same study identified a set of organizational elements that contribute to successful capital planning processes. This set is provided in Exhibit II-4 at the end of this issue. The common theme of these elements is a commitment to the long-term effectiveness and efficiency of an organization, and a set of processes and systems to support that commitment.

H.R. 1244, The Federal Capital Investment Budget Act of 1983 introduced in February 1983, would require the President's budget to identify and summarize separately the capital investment expenditures of the United States and would provide for an inventory and assessment of the nation's public facilities. The Comptroller General, Charles A. Bowsher, has testified in support of this legislation.

In the private sector, capital budgeting and planning processes vary widely by industry and company. However, in companies with substantial expenditures for capital assets, planning usually involves separate consideration and budgeting of capital items from normal operating expenditures, use of quantitative analytical techniques comparing alternative investments (return on investment, discounted cash flow, etc.), and high visibility of major capital expenditures within the company. As the Task Force findings indicate, such features are virtually non-existent in the Government.

1/ Comptroller General of the United States, Federal Capital Budgeting: A Collection of Haphazard Practices, (Washington, D.C.: General Accounting Office, PAD-81-19, February 26, 1981).

Methodology

The methodology employed by the Task Force included:

- examining prior studies related to Federal capital assets including: Hoover Commission, Ash Council, GAO and CBO reports.

- conducting interviews (more than 40 upper level management interviews) including: Office of Management and Budget (OMB), White House staff, GAO, Council of Economic Advisors, CBO, government and private sector consultants, Department of Energy (DOE), Department of Transportation (DOT), Department of Labor (DOL), Federal Energy Regulatory Commission, Department of Justice (DOJ), and Department of Housing and Urban Development (HUD).

The Task Force used the material gathered and interviews conducted to develop:

- an understanding of budgeting for Federal capital expenditures;

- an understanding of the private sector's approach to capital budgeting; and

- an approach to improving the current methods of capital budgeting in the Federal Government.

Findings

Analyses of capital investment alternatives are not consistently performed in Federal agencies. The rigor and quality of analysis varies, as does the degree of capital investment planning. The findings of numerous GAO studies and the Task Force interviews indicate that Federal agencies take varied approaches to capital planning. For example:

- USPS prepares a five-year capital investment plan that becomes the basis for the financial plan for the budget year. The capital investment plan is directly included in the budget review of operating budgets. This "quasi-government" organization appears to have one of the most developed processes. 2/

2/ Ibid.

- The Corps of Engineers (COE) prepares a five-year investment program listing projects which will be available for initiation during that period based on estimated funding constraints. The investment program is defined as the construction of new water projects -- new construction. Alternatives and major repairs are not included in the investment program. Also, the investment program is reviewed separately from operating budgets. 3/

- GAO develops and submits to Congress a prospectus for capital projects describing each project and its costs. Investment is defined by the General Services Administration (GSA) as all new construction alternatives and major repairs except for one-for-one implements and equipment. Congress reviews and approves these projects separately. 4/

- The Veterans Administration (VA) prepares a five-year medical facility construction plan. This plan is considered in conjunction with operating budgets and overall program needs. Also, the VA manages and budgets maintenance, operations, and capital investment separately. 5/

As the above examples indicate, agencies are currently engaging in capital investment analysis to varying degrees. However, the Task Force found that most agencies lack a rigorous or consistent method of analyzing, evaluating and presenting capital projects. In addition, no standard or prescribed methods of analysis are applied to all capital projects. Without standard analytical techniques, setting priorities for capital projects both within and among agencies is difficult.

3/ Ibid.

4/ Comptroller General of the United States, Foresighted Planning and Budgeting Needed for Public Buildings Program, (Washington, D.C.: General Accounting Office, PAD-80-95, September 9, 1980).

5/ Op. cit., Comptroller General of the United States, Federal Capital Budgeting: A Collection of Haphazard Practices.

The PPSS Task Force for the Department of the Army noted that the Army has classified 69 of its installations as excess and 30 others as potentially excess. However, without effective capital planning in the Executive Branch, facilities continue to be maintained.

OMB Circular No. A-104 provides an aid in preparing comparative cost analysis for real property lease or purchase decisions. This analysis provides guidelines for the acquisition of property such as office buildings, warehouses, and associated land for which estimated land and construction costs or market value is $500,000 or more. According to Task Force interviews, agencies find this to be of limited use as a planning tool since it applies only to a limited portion of capital investments and does not analyze real property investments relative to other capital investments. Also, each agency independently interprets the Circular, making uniform application difficult.

<u>The current uncoordinated preparation by agencies of their capital investment plans prevents an overall assessment of Federal capital investment policies and practices.</u> Currently, the only document that summarizes capital investments at the Federal level is Special Analysis D, a supplement to the President's Budget.

Special Analysis D distinguishes investment-type outlays from operating outlays. However, a GAO study 6/ noted several limitations of Special Analysis D:

- o Capital investments are understated since capital outlays are netted against related receipts. For example, as previously noted, USDA loans are included as the net amount of new loans and repayments (and defaults) for each year.

- o Federal capital investment outlays are not completely portrayed since they do not include off-budget agencies (for example, USPS).

- o Definitions of physical capital differ resulting in incomparability among agencies.

- o The analysis displays capital outlays for three years only; hence it does not represent total capital stock or plans for expenditures.

6/ <u>Ibid</u>.

From a Government-wide viewpoint, major capital plans, assets and expenditures are not presented and identified clearly to the public in Special Analysis D or in any other available source. In addition, there is no overall analysis of capital expenditures or alternatives at the OMB level. Capital spending plans are assessed in the context of individual programs or agencies.

For example, Special Analysis D defines a capital investment, but agencies do not necessarily use this definition. According to Special Analysis D, investment outlays are defined as:

> "Those that yield benefits in future years through the acquisition of physical or financial assets, or through expenditures for less tangible long term benefits such as education."

Included in this category are:

- o the construction, rehabilitation and acquisition of physical assets;
- o education, training and vocational rehabilitation;
- o research and development;
- o international development; and
- o financial investments such as loans.

This definition is broad and goes beyond what the private sector defines as a capital outlay. The private sector typically defines investments in new physical assets (e.g., buildings, land, and equipment) as capital items. A full capital budget in the private sector includes cost reduction programs; capital costs incurred by new government, legal or company welfare requirements; and possibly research and development. 7/

OMB has recognized some of the weaknesses in Special Analysis D and expanded it in the FY 1984 Presidential Budget that was submitted to Congress on January 31, 1983.

7/ Higgins, J.C., Strategic and Operational Planning System, Prentice Hall International, London, 1980.

Special Analysis D now contains historical tables on outlays for capital investment from FY 1945 to FY 1984. These tables display outlays for defense, non-defense, and investment grants to State and local governments for capital investment. The tables are subdivided into major categories (e.g., defense procurement, highways, pollution control facilities, etc.). It should be noted, however, that the limitations noted above still apply.

Failure to implement comprehensive capital planning at the Federal level contributes to the deterioration of the nation's physical infrastructure (roads, bridges, dams, public buildings, etc.). Based on the analyses of many specialists, the lack of Federal capital planning has contributed to the deterioration of the nation's physical infrastructure. Planning for repairs, replacement, and maintenance is required to ensure that public services are maintained at an adequate level. Without such planning there is currently no ability to allocate funds rationally to projects of the highest priority.

The Task Force is not recommending that additional funds be spent on capital items. We have not analyzed specific funding levels and we do not suggest that current amounts are necessarily inappropriate. However, it is not possible for any large organization to assure that funds are spent on the needs of greatest priority without consistent, coordinated, and comprehensive planning processes.

In order to identify which public facilities most need Federal funds, an overall assessment of capital assets is required. An inventory of Federal capital assets would facilitate planning, while making the problem areas more visible to Federal managers and the public.

The rebuilding of the infrastructure has been termed a difficult and expensive Government responsibility of the 1980s and 1990s. Pat Choate, Senior Policy Analyst for Economics, TRW, Inc., estimates that local, state, and Federal governments would have to spend an estimated $2.5 to $3 trillion dollars in this decade alone just to maintain today's level of service on public facilities. Less than one-third of the necessary renovation can be achieved at current spending levels. 8/ Choate's findings are discussed in more depth in the Appendix.

8/ Pat Choate, "America in Ruins."

Inadequacies in the Federal capital budget process have negative impacts on the ability of the states to develop long-term capital budget plans. Methods of capital planning and levels of Federal expenditures have major impacts on planning efforts at other levels of government. Many states, including California, New York, and Pennsylvania, plan capital budgets on a five-year basis, yet Federal program dollars are provided only on an annual basis. In addition, states and cities frequently issue bonds to fund specific projects. Consequently, the uncertainty of the availability of future Federal funds hampers long-range planning efforts at the state level. Increased coordination among the various levels of government could contribute to maintaining the asset base. 9/

The Federal Government currently conducts no comprehensive inventory of its capital assets. The Federal Government maintains no overall inventory of its capital assets and their current condition. Without such an inventory, identifying maintenance needs and new item requirements as well as developing capital plans and budgets is not possible.

GSA maintains an inventory of public buildings and their associated assets, but it is not used as part of Government-wide planning. Other agencies maintain inventories of various components of total capital assets. DOT, for example, prepares an inventory and assessment of the condition of highways. However, no complete aggregate data on Federal capital investments are maintained. 10/

Currently "capital investment" is not uniformly defined by all Federal agencies. Each Federal agency uses its own definition of a "capital investment" in lieu of a uniform, universally accepted definition. This procedure makes a comparison of total capital investments among agencies meaningless.

9/ Op. cit., Comptroller General of the United States, Federal Capital Budgeting: A Collection of Haphazard Practices.

10/ Op. cit., Comptroller General of the United States, Foresighted Planning and Budgeting Needed for Public Buildings Program.

Conclusions

The Task Force has concluded that there is a need for improved budgeting and planning for capital assets and expenditures. Policymakers need a tool to analyze and set priorities for capital investment programs. In addition, the public deserves to view the projects which are undertaken. Current procedures emphasize the "pork-barrel" nature of expenditures rather than a clear, rational capital budgeting procedure.

The lack of standardized definitions and analytical techniques makes it difficult to evaluate capital investments across Federal agencies or set priorities for capital programs.

Furthermore, a standard definition of "capital investment" would facilitate evaluation of capital projects across agencies. Without a uniform definition, a summary of capital projects at the Federal level would be meaningless.

In addition, standard methods of capital analysis are needed to set priorities for projects within and among agencies. This would allow comparison of projects across agencies and facilitate the development of a broader capital plan at the Federal level.

Since all agencies are competing for limited Federal funds, increased coordination among agencies is needed to ensure that budgets for capital items are developed effectively. A system to set priorities for capital projects across agencies is required to ensure that only high priority projects are funded.

By instituting capital planning at the Federal level, state and local governments can coordinate their long-range capital plans with expected availability of future Federal funds. The current method of appropriating funds annually does not permit Federal, state and local agencies to plan adequately for future capital investments.

The Task Force recognizes that the first priority of budget analysis is to view agencies and programs in their totality (operating and capital items together) and to set priorities by program or activity. However, we have concluded that an additional, separate view and comparison of capital items would also be highly desirable.

Recommendations

FMS 5-1: Prepare a comprehensive special capital analysis within the Special Analyses section of the annual budget. The Task Force recommends that a comprehensive special capital analysis be developed and included in the Budget of the U.S. Government. In testimony, Choate describes the information a special analysis could provide: 11/

- an estimate of aggregate capital investments (construction and rehabilitation) required to provide specific levels of public works services over one, five and ten years;
- an estimate of aggregate operation and maintenance investment requirements;
- the identification of sources of funding;
- the identification of Federal public works investment priorities; and
- description of how the proposed annual capital expenditures combined in the proposed budget would relate to the nation's long-term needs and the Federal Government's long-term public works investment strategies.

In order to prepare the recommended special capital analysis, the departments and agencies should perform standard or consistent capital investment analysis, and develop aggregate capital investment data in a standard format to be used as input in the analysis. The Office of Federal Management (OFM) 12/ would be responsible for summarizing the agency data and preparing the capital analysis.

11/ Pat Choate, Testimony before Subcommittee on Economic Development of the Committee on Public Works and Transportation, (Washington, D.C.: September 14, 1982).

12/ Issue FMS-1 of this report recommends that a new Office of Federal Management (OFM) should assume direction of Federal management activities.

The Task Force recognizes the difficulty of directly comparing capital items of different programs or agencies (for example, an office building versus a dam). However, spending alternatives can be consistently arrayed as to purpose, benefits clearly described, and explicit choices identified.

The current portion of the budget analysis devoted to capital, Special Analysis D, should be reformatted to present improved information, thereby making it more useful. Improving Special Analysis D is the minimum that should be done to improve capital planning, although the Task Force considers it only a short-term solution.

FMS 5-2: Institute a Federal capital budgeting and planning process, separately constituted but integrated with overall resource planning and allocation systems. The Task Force recommends that OFM develop a capital budgeting process for implementation by Federal agencies on a Government-wide basis. The highest priority areas for improvement are:

- standard definitions;
- inventories of capital assets and procedures for maintaining the inventory;
- common agency analytical procedures;
- clear identification of capital expenditures in the annual unified budget;
- multiyear funding (see Section IV, Cost Control Opportunities for Further Study); and
- cross-agency expenditure analyses and budget presentations.

Many of these high priority areas are identified in H.R. 1244, Federal Capital Investment Budget Act of 1983. For example, the bill requires an inventory and assessment of public facilities and a clear identification of capital expenditures in the unified budget.

The Task Force recommends that estimated obligations, outlays, deficits/surpluses for operating and capital items continue to be included together as part of the unified budget. However, the Task Force further recommends that capital expenditures be displayed separately within the President's budget for each department/agency and summarized in a special analysis for the total Government.

Some interviewees suggested that separate operating and capital budgets could be used as a method of portraying a lower operating deficit. The Task Force does not recommend such an approach, which would be publicly viewed as budget manipulation.

The FY 1984 President's Budget discusses the applicability of capital budgeting and planning processes to a unified Federal budget and concludes that capital budgeting is inapplicable to the Federal Government and that capital planning is already an integral part of an agency's budget planning process. This conclusion is based on the assumption that the Government would wholly adopt a private sector or a state/local government model for capital budgeting. These models include separating the operating and capital budgets, and recording depreciation of capital items (business model), or amortizating bonds sold to fund capital items (state and local government model).

The Task Force recommends that the Federal Government implement only those elements of capital budgeting that would improve the management and use of capital assets. These elements are outlined above as the highest priority areas for improvement.

The Task Force recognizes that certain agencies have a well-established capital planning process as indicated in the FY 1984 President's Budget submission. However, these processes are not consistantly applied across all Federal agencies (see Findings section above). Instituting common analytical procedures would substantially improve capital planning in all agencies.

The steps recommended for OFM to develop the process are:

- o conduct a detailed examination of capital planning within Federal agencies;
- o examine the elements of private sector and state/local government capital budgeting practices to determine those elements that would be applicable to the Federal Government;
- o examine the impact of a capital budget process on congressional budget activities;

- review inventories of capital items currently maintained by agencies to assess their usefulness as planning tools;

- determine the relationships of a capital budgeting process to the overall annual budgeting process; and

- design the detailed procedures and implement them at the agency level and throughout Government.

Savings and Impact Analysis

The specific cost savings realized by improving capital planning cannot be determined since inventories and current cost data are not available. The benefits that would be derived from implementation of the recommendations presented, however, would include:

- improved management of Federal capital assets;

- improved utilization of capital funds;

- long-term improvements in the nation's physical infrastructure; and

- reduction of costs through implementation of a "regular" repair and preventive maintenance schedule.

Implementation costs of capital budgeting throughout the Executive Branch will be significant, although not subject to measurement prior to a more detailed design of the process. However, the Task Force concludes that, in the long run, the costs of not implementing the recommendations will far exceed these costs. This conclusion is based on our understanding of the impacts of past practices in which capital budgeting has not been systematized throughout the Federal Government.

Implementation

The actions required by the Executive Branch are:

- Executive Office of the President (EOP) -- OFM: prepare a Federal capital investment policy; develop a standard definition of capital investment; develop standard analytic techniques and service standards to be applied to capital investments; compile agency capital investment data; and develop a Federal capital budgeting process.

- Federal departments and agencies: identify and maintain capital assessment inventories; develop capital investment data; apply standard analytical techniques and capital investment analysis; and implement an agency capital budgeting process.

Exhibit II-4

ORGANIZATIONAL ELEMENTS THAT CONTRIBUTE TO SUCCESSFUL CAPITAL PLANNING PROCESSES

- Critical elements
  - links from capital planning to budgeting are extensive
  - concern about long term effects of planning/budgeting divisions
  - incorporates up-to-date information on physical capital into decision-making process
- Important elements
  - recognizes the effect of deferred maintenance and minimizes it to the extent practical
  - protects capital investment funds when making capital budgeting decisions
  - considers related operations and maintenance costs when making capital budgeting decisions
  - considers alternative methods of meeting the objectives of capital investment projects
  - monitors capital investments and the consideration of physical capital
  - does not have internal conflicts that disrupt capital budgeting activities
  - sees individual projects as modernization, revitalization, and investment
  - uses funding mechanisms to protect investments
  - uses incentives to meet work and financial targets
- Helpful
  - uses categories for decision-making that are important to the organization
  - assesses physical capital and adherence to a maintenance schedule routinely

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Source: Table 5 in Op. cit. PAD-81-19, February 26, 1981.

II. ISSUE AND RECOMMENDATION SUMMARIES (CONT'D)

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 6: PLANNING AND BUDGETING

Issue

How can long-term planning processes within the Executive Branch be improved?

The Task Force has concluded that the Executive Branch should implement a system to identify, monitor, and assess progress toward accomplishment of major Administration goals and activities. Such a process, which would emphasize significant objectives to be met over five-year periods, would be integrated with ongoing agency and central budget activities.

Background

The Task Force considered this issue in response to the following types of Executive Branch problems which have been cited over many years by the General Accounting Office (GAO), Congressional Budget Office (CBO), Executive Branch agencies, and private study groups:

- difficulties in continuously monitoring the degree of accomplishment of major Administration goals by senior officials;

- emphasis on a one-year budget process without an accompanying effective multiyear analysis of programs and resource levels by the various agencies and the Executive Office of the President (EOP);

- difficulties in communicating and implementing changes in policies and practices by new administrations; and

- difficulties in anticipating and communicating major governmental trends and needs, such as those related to handling the energy crises of the 1970s.

Agency Planning -- Attempts to improve the long-term planning process within Federal agencies date back to the 1920s when program budgeting was introduced into the Army Corps of Engineers (COE).

An expanded version of program planning was introduced in the Department of Defense (DOD) by Secretary McNamara in 1961 as the planning, programming, and budgeting (PPBS) process. This system tied together the definition and examination of alternative strategies for the next five years (planning), the requirements of needed support systems (programming), and control of program execution (budgeting). Four years later, President Johnson extended the use of McNamara's PPB process to the remaining Government agencies.

Most aspects of the formal PPBS process have been dropped by agencies and departments, except for DOD. The Secretary of Defense issues a memorandum to the Departments of the Army, Navy, and Air Force containing statements of general objectives and fiscal guidance. The Departments analyze their ability to meet this guidance and submit a report to the Secretary of Defense who reviews it and incorporates any changes in Department programs. The first year of this five-year plan is then translated into the next annual budget.

In the early 1970s another attempt, management-by-objectives (MBO), was introduced by the Nixon Administration. Each agency was asked to submit to the Office of Management and Budget (OMB) agency objectives, plans of action, and milestones to achieve the objectives. Separate planning groups (management associates) were established within each major OMB program. These groups worked with OMB budget examiners to analyze the agency plans and then integrate agency objectives into summary, governmentwide objectives. Monthly status meetings were held by the heads of the agency, the OMB Director, and the respective planning groups to discuss progress toward achieving these objectives. The MBO system is no longer operated by the Executive Branch.

A more recent attempt to increase long-term planning within the Federal Government was undertaken in 1974 through the Congressional Budget Control and Impoundment Act. This Act changed the fiscal year, established the current budget process, and required Federal agencies to submit a five-year plan to Congress. The five-year projection requirement of this law stimulated planning interest within OMB and agencies so that by 1979, OMB had revised its Circular A-11 to include detailed five-year projection guidance.

Executive Office Planning -- An Executive Office planning review takes place in OMB as part of the Spring Preview in March-April when OMB staff develop five-year projections of revenues and expenditures, for the remaining fiscal year, the forthcoming fiscal year, and the next three fiscal years.

Cabinet Councils, formed by the Administration of President Reagan, also conduct planning activities assessing program alternatives and presenting recommendations to the President on short and long-term issues. These Councils represent major government areas (i.e., economic affairs, human resources, natural resources and environment, legal policy, food and agriculture, commerce and trade, and management and administration), and assist in planning Administration programs and activities.

The Office of Policy Development (OPD) directs a mid-term planning exercise to assess progress made over the first two years of the Administration. OPD reviews objectives initially set by the President, assesses progress in achieving these objectives, and identifies new issues that have emerged over the previous two years. Based on this analysis, OPD recommends modifications of Presidential objectives to reflect progress and new ideas.

Private Industry Planning -- In the private sector, long-term planning processes vary by industry and company, although many companies use common elements. These elements are: communication of primary objectives from top management to other levels of management; identification of alternative means of accomplishing objectives; formation of detailed plans to implement the best alternative; and monitoring and feedback of progress.1/

Methodology

In conducting its analysis, the Task Force reviewed the following material and interviewed the following officials:

- Research material: Government manuals, recent GAO reports, relevant textbooks and articles. Key reports are footnoted in this issue.

1/ George A. Steiner, Top Management Planning, 1969.

- Government officials: more than 40 officials at the director level or above from the White House; OMB; Departments of Energy (DOE), Transportation (DOT), Labor (DOL), Housing and Urban Development (HUD), and Justice; and the Federal Energy Regulatory Commission. These officials are included in the list of interviewees in the Appendix.

- Private-Sector officials: officials from seven major industrial and service companies (Figgie International Inc.; General Electric Company; IBM Corporation; ITT Corporation; Nationwide Insurance Companies; Price Waterhouse; and R. J. Reynolds Industries, Inc.).

The Task Force used this material to develop a concept for an improved Federal planning process by:

- reviewing governmental activities;

- reviewing private sector practices;

- developing analogies between public and private sectors; and

- developing an approach for an improved Federal planning process.

Findings

The current emphasis of the Federal Government is on the short-term annual budgeting process, not long-term planning. Task Force investigations revealed heavy emphasis on the present one-year budget process with few effective methods for considering long-term objectives and options. Interviews with individuals in the White House, OMB, and the Federal agencies provided clear evidence that the Federal Government does not have adequate long-term planning processes.

Representative comments are as follows:

- Officials within OMB stated that annual agency submissions of five-year budget projections required by the Congressional Budget Control and Impoundment Act are reviewed, but only used to limited degrees to analyze alternative actions. They have not developed into the long-term planning tool originally envisioned.

- Officials within the White House Office of Policy Development stressed the difficulties of addressing longer-term and major Administration initiatives, given the overwhelming concentration on the annual budget process.

- The Special Assistant to the President and Director of the Office of Planning and Evaluation stated in a recent speech that administrations focus primarily on short-term problems, and thus drive the Federal bureaucracy toward short-term solutions.2/

- Congressman Norman Y. Mineta states "Budgeting has become a frenetic exercise with little, if any, time left in the annual process for comprehensive planning and oversight or for dealing with substantive non-budgeting issues."3/

Lack of long-term Government planning hinders effective allocation of resources. The former Comptroller General of the United States, Elmer B. Staats, has noted that, "Serious attention should be given to finding ways to reduce unnecessary workload so that better budget planning, policy analysis, monitoring and evaluation may take place -- and in a more coordinated and intensive way."4/

Richard Snelling, Governor of Vermont and former Chairman of the National Governors Association, expressed the thought that, "State and local officials have long advocated forward funding of state and local grants to facilitate planning and minimize waste at the state and local level."5/

2/ Dr. Richard S. Beal, Keynote Speech at Decision Support System -- 1982 Conference, San Francisco, CA, 1982.

3/ Norman Y. Mineta, "The Congressional Budget Act and Process: How Can They Be Improved?" The Budget Process Does Work, 1982.

4/ Elmer B. Staats, "The Congressional Act and Process: How Can They Be Improved?" Committee for a Responsible Federal Government, 1982.

5/ S. Melly, "The Congressional Budget Act and Process: How Can They be Improved?" 1982.

In addition, several PPSS Task Forces provided examples of improvements in planning processes that would result in significant savings. The Procurement/Contracts/Inventory Management Task Force, for example, identified improvements in the current weapon systems acquisition planning processes. These improvements would focus on more timely and comprehensive program management plans. The Task Force estimates that $6.7 billion could be saved annually through the adoption of these recommendations.

Past attempts to introduce long-term Executive Branch planning systems have generally been unsuccessful. Although DOD still uses elements of PPBS, most other agencies dropped or never implemented the process. Interviews indicate that agencies failed to adopt PPBS because the plan demanded excessively detailed program budgeting that was not appropriate for all agencies, and the attempt to implement PPB simultaneously Government-wide was too ambitious.

MBO was not continued for different reasons. According to interviews, the MBO process did not tie closely to the ongoing annual budget review; it therefore became isolated from ongoing processes and eventually was considered irrelevant to budget decisions. Research in many agencies indicates that a lack of understanding of the value of MBO and the attempt to implement MBO simultaneously in all agencies also hindered success.

The Task Force identified selected agencies, other than DOD, that are using variations of planning systems. Two examples are DOT and DOE. DOT managers identify major issues that must be addressed. Action plans are developed and individuals assigned to each issue. Department management reviews progress on achieving the objectives stated in the issue.

DOE uses a process similar to that of DOD. Each program office submits five-year resource plans based on fiscal guidance from the DOE Office of Planning and Analysis. After review by the DOE Office of Planning and Analysis, the Secretary decides on specific issues. This review results in budget levels by program.

Conclusions

Implementation of an Executive Branch planning system would increase the Administration's ability to accomplish its major objectives and allocate overall resources effectively. Executive Branch planning has been attempted in the past to assist Federal officials in looking beyond the annual budget process. The Task Force has concluded that the failure of these previous efforts was caused by flawed designs and implementation approaches, and not by a conclusion that long-term planning for the Federal Government was inappropriate or impractical.

Recommendations

FMS 6-1: Implement a process within the Executive Branch that links long-term Presidential objectives, budgeting, and agency plans to improve resource allocation. This recommendation attempts to build on the best aspects of the MBO and PPBS processes and avoid their flaws. Unlike MBO, the Task Force recommends a clear, continual linkage to Office of Federal Management (OFM)6/ budget activities and the budget examiners. Unlike PPBS, we recommend developing plans only for major issues -- not for all Executive Branch activities and programs. The planning process recommended is similar to a MBO system as practiced in both the private and public sectors. However, it is tailored to meet the specific needs of the Executive Branch.

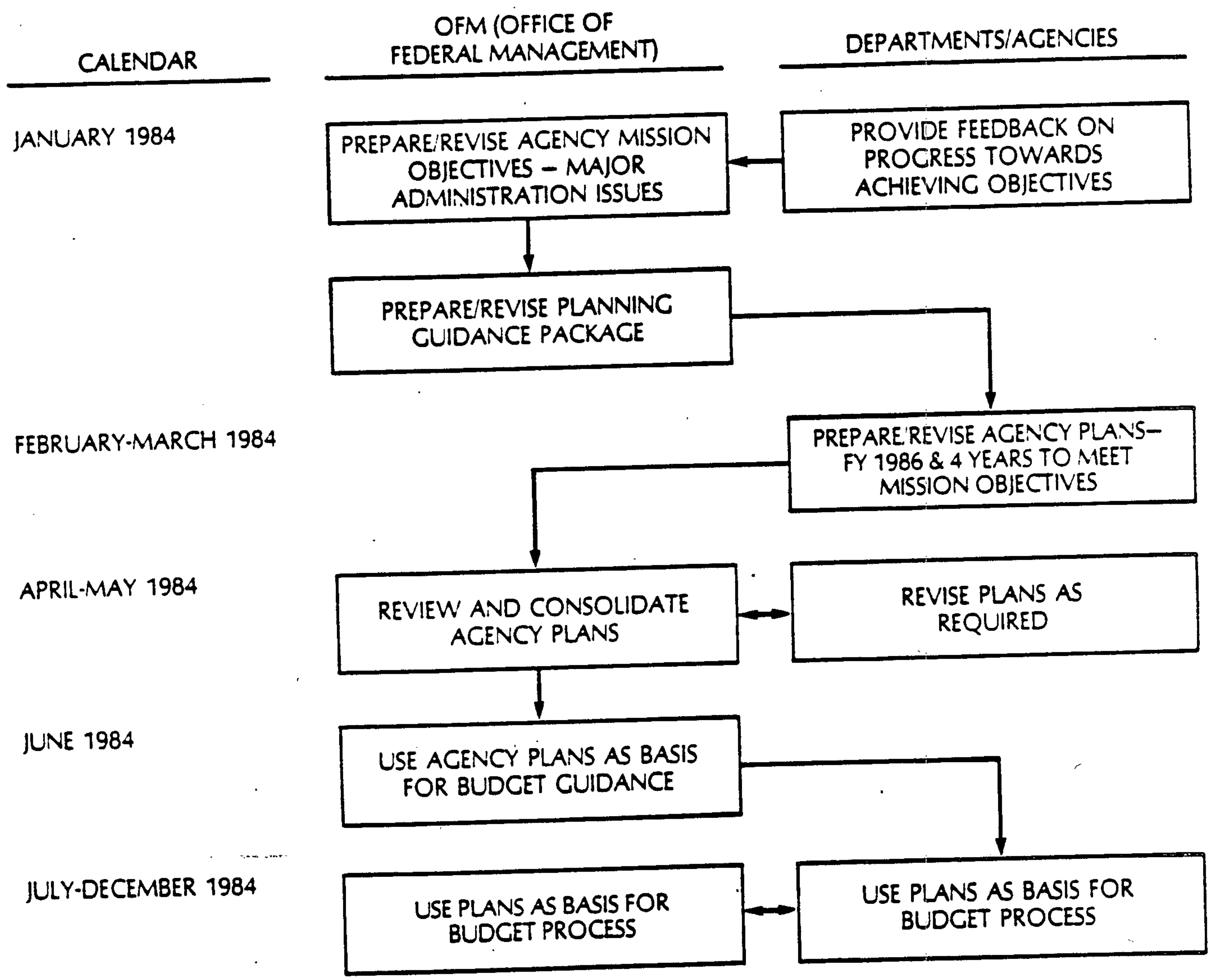
The key steps in the Task Force recommendation are depicted in Figure II-3. As this figure shows, the Task Force recommends that the new planning process be in place by January 1984, in time for the FY 1986 planning cycle when the Executive Branch completes the FY 1985 Presidential budget submission in late December of 1983 or early January 1984, and is now ready for the new planning process.

[Figure II-3 on following page]

6/ Under the recommendations of Issue FMS-1, Federal management responsibilities will be assumed by a new Office of Federal Management (OFM).

Figure II-3

LONG-TERM PLANNING PROCESS
EXAMPLE FOR PREPARATION OF FY 1986 PLANS



The planning steps are:

- o Provide feedback on progress toward achieving objectives (agencies): after the planning process is in effect, the agencies would submit reports in early January to OFM that discuss progress toward meeting the mission objectives established in the previous planning cycle (this step would not exist until January 1985).

- o Prepare/revise agency mission objectives (OFM): OFM should review the budget just submitted and identify Executive Branch mission objectives by agency. These objectives should be developed jointly by a new OFM planning staff and the budget examiners. Mission objectives should include major Administration programs and activities to serve as the basis for the forthcoming planning and budgeting processes at the agencies.

- o Prepare/revise planning guidance package (OFM): OFM planning staff would identify the issues to be addressed; instruct agencies on how to prepare plans; and provide submission schedules for the plan.

- o Prepare/revise agency plans (agency): agencies, using OFM instructions, would develop a plan (including alternatives) in line with OFM-approved budget levels. The plan must, at a minimum, address the mission objectives, but could include a set of issues that were only of interest to the agencies. We envision each Plan to be a short document (no more than five pages) with alternatives considered to meet the objective, major tasks to be carried out, schedules, and costs.

- o Review and consolidate agency plans (OFM): the planning staff and OFM budget examiner would review the plans. The planning staff should focus on the agencies' approaches toward achieving mission objectives and the budget examiner would review the budget impact of achieving these objectives.

- o Revise plans as required (agency): as the plans are being reviewed by OFM, agency planning and budget staff would work with their OFM counterparts to explain and defend the plans.

- Use agency plans as a basis for budget guidance (OFM): the OFM budget examiner would use the final plans to support the distribution of fiscal targets to agencies.

- Use plans as a basis for budget process (OFM and agencies): OFM and the agencies would use the plans as an integral part of the budget process. Agency budget staffs would direct component organizations to develop budgets that would include resources to support approved management objectives; and identify how budgeted resources would help achieve those objectives. OFM budget examiners would review the plans as part of the fall budget review cycle. The OFM planning staff would ensure that budget guidelines addressed major Administration issues.

FMS 6-2: Focus the responsibility for overseeing the planning process within OFM. The Task Force recommends that a small group be established within OFM to:

- serve as a strong focal point for performance and assessment of long-term impact analyses for the Executive Office;

- assist agencies in implementing plans; and

- oversee the development, revision, and monitoring of a long-term planning system within the agencies.

The key to successful implementation of this planning system is its use by agency officials and the OFM budget staff. The plans must serve as significant input to the ongoing budget process of the Executive Branch. The Task Force recommends that budget examiners be responsible for reviewing and monitoring the substance of agency plans.

Savings and Impact Analysis

An Executive Branch planning system would assist agencies and OFM in ensuring that long-term issues are considered, major Administration initatives highlighted, resources are allocated properly to meet key programs, and progress assessed toward accomplishing Presidential goals. For example:

- plans would communicate objectives, strategies, and detailed plans to Federal managers; and

- measurement of progress toward achieving objectives would be an integral part of keeping management aware of linkages between long-term and current budgets.

Implementation

The recommendations can be implemented by Presidential authority. The Task Force recommends that the planning process be implemented in two or three agencies. After testing the planning process within those agencies, revisions could be made. The revised process would then be implemented in other agencies.

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 7: INTERNAL COMMUNICATIONS SYSTEM

Issue

Can an integrated internal communications system that would contribute to employee understanding of Administration goals and their implementation be established within the Executive Branch?

Potential benefits of such a system include:

- improving the Administration's ability to measure progress toward the accomplishment of goals and objectives;
- improving productivity by communicating Administration priorities in a timely manner; and
- creating incentives for better job performance through top level recognition of the contributions and achievements of Federal employees.

Background

Communications within the Executive Branch can be characterized as follows:

- heavy emphasis on formal bulletins, regulations, and manuals as the means of transmitting direction to individual employees;
- minimal direct communication between senior Executive Office or agency leadership and individual employees;
- little use of modern technology (videotapes, teleconferences, etc.) for communication with employees;

- major gaps in communication between the political appointees and career civil servants;

- heavy emphasis on informal "networks" of long-term career civil servants;

- virtually no methods of feedback from agency employees to senior management; and

- communication problems exacerbated by frequent turnover at senior levels and lack of adequate orientation for appointed officials.

Current emphasis is placed on relaying information downward to agencies with less concern for feedback or upward communications. There are few if any provisions for upward communication by individual employees. Formal, downward communications from central agencies include:

- General Services Administration (GSA) issues: Federal Procurement regulations (over 1,000 pages) and Federal property management Regulations (over 2,000 pages);

- Office of Personnel Management (OPM) issues: Federal Personnel Manual (FPM) (5,200 pages), FPM Supplements (3,000 pages), Qualification Standards (2,000 pages), Job Classifications (4,600 pages), and Uniform Guidelines on Employee Selection (20 pages);

- Office of Management and Budget (OMB) issues: Circulars, bulletins and memoranda. Currently 50 circulars are in use varying from one page to 100 pages.

In contrast to the Federal Government, the internal communication function in private organizations has steadily gained significance for top management. Effectively planned and managed employee communications are considered important means of promoting the firm's mission and identity, and for increasing productivity, enhancing ability to accomplish business objectives, and improving morale.

Methodology

Communication practices of the private sector were identified and compared to those of the Executive Branch.

The Task Force reviewed policy and procedures manuals and interviewed officials of private sector organizations including Kaiser Aluminum, Hewlett-Packard, General Electric Company, Nationwide Insurance, Honeywell, IBM Corporation, and American Telephone & Telegraph. Interviewees are listed in the Appendix.

Public sector interviews were conducted in the Departments of Agriculture (USDA), Labor, Treasury and Commerce; the GSA and OPM; and in the Executive Office of the President (EOP), including OMB.

The Task Force also reviewed earlier studies of the Federal Government, literature on the topic of corporate communications (with particular contributions from the International Association of Business Communicators and the Public Relations Society of America), the findings of other PPSS Task Forces and information from the National Academy of Public Administration (NAPA).

Findings

The Executive Branch does not currently have systems or procedures to exchange management information in an efficient manner. As documented in this Report's discussion of Federal management and administration (see Issue FMS-1), management information systems (see Issue FMS-2), financial management and audit (see Issue FMS-3 and FMS-4), and program evaluation (see Issue FMS-10), current systems do not ensure that information will be provided to those who need, or could use, that information to improve Federal management.

The PPSS Department of Transportation Task Force discovered, for example, that the Urban Mass Transportation Administration's (UMTA) Management Information System (MIS) is "extremely limited and unreliable." For example, when UMTA tried to use MIS to compile a quarterly report for the final quarter of 1979, half a billion dollars in obligations were ommitted. Because of inadequate financial information systems, "UMTA has not been able to close its books for FY 1979, 1980, and 1981, nor will it be able to close for 1982."

The Executive Branch has not established and promoted, at the central management level, a policy and system for internal communication. The Executive Branch has issued no formal statement of internal communications policy and objectives at the central management level. No individual is responsible for the internal communications function. While the Press Secretary, Chief Speech Writer, and other top-level staff counsel the President and execute planned external communications, the Task Force has been unable to locate similar individuals at the White House level with responsibility for internal communications.

A planned strategy for internal communications originating from top mangement is common in private sector organizations, as is the support for, and highly visible involvement of, the Chief Executive Officer (CEO) and other members of top management. Over the past 20 years, the internal communications function in private corporations has steadily gained greater significance in the eyes of top management. As organizations have grown rapidly in size and complexity from one or two-city locations to multinational operations, planned communications with the work force have become essential management tools. With employees distributed throughout the United States and abroad, the understanding of common mission, pride in a unique corporate identity, and productivity can be enhanced through a communications network. Therefore, many successful large corporations have established internal communications systems.

The communication programs studied by Task Force members all include:

- a statement of top management's communications objectives in support of overall corporate objectives;
- a comprehensive plan to meet those objectives;
- identification of appropriate communication vehicles for program implementation; and a mechanism to gather feedback and measure program effectiveness.

Agencies need and desire greater levels of planned internal communications. Almost without exception, agency managers interviewed expressed a desire for improvement in the communication of an Administration's goals and objectives, particularly when a new Administration wants to make major changes in programs and philosophy.

Common concerns identified by interviewed managers were that:

- political appointees do not clearly articulate what changes they want to achieve;
- middle and senior-level career managers want to help top management achieve its goals, but those managers believe that the Administration's appointees need to increase efforts to seek their help, communicate objectives, and build an atmosphere of mutual trust; and
- Administrations do not adequately emphasize the positive contributions of many Federal workers. At times they seem to focus on the supposed poor performance of civil servants, which some managers feel is a common public perception.

Private sector organizational communications systems emphasize building effective networks:

- the systems stress dialogue among groups within an organization to bridge differences across functions, skills, and ranks, and thereby to move together toward achieving mutual goals;
- central management establishes strong links with communicators located in geographically and organizationally dispersed operating units;
- the importance of each employee as a member of the team is communicated in many different ways;
- through internal communications, top management emphasizes to its employees the common history, culture, philosophy, mission, standards, and objectives that all share;
- high priority is placed on face-to-face formal and informal communications; and
- emphasis is placed on training company communicators to improve their skills and professional competence.

The Executive Branch has access to communication specialists, as well as to a variety of forums and groups that could be tapped in a communication network. Within individual agencies, internal communications are implemented in a variety of ways. For example, Labor, as with many agencies, maintains regular communications with its ten regional offices through face-to-face meetings, teleconferencing, field visits and individual phone contact.

However, location of the internal communications function varies from agency to agency, from the Offices of the Assistant Secretaries for Administration to those of Governmental and Public Affairs and of Personnel.

An internal communications network has neither been developed fully nor implemented, largely because attention has not been given by top executives to an internal communications plan. The efforts of individual agencies and departments that have integrated internal communications could be more effective with support from EOP.

Interviewees in EOP suggested that an internal Executive Branch communications director could serve as a staff secretary to the President, in a role paralleling that of the Press Secretary, with responsiblity for internal rather than external communications.

Conclusions

Communication systems throughout the Executive Branch need to be improved so that managers and executives have access to information for more informed decisions. The Federal Government employs many technically experienced managers. Often Presidential appointees have extensive experience directing major corporations. No matter how qualified, however, no manager or executive can be truly effective without accurate, timely and complete information on which to base decisions. The Executive Branch, through current systems and procedures, does not provide administrators with the quality of information necessary for effective management in the areas of finance, operations or program performance.

Furthermore, insufficiency of communications between the Executive Office and agency and department heads can lead to appointees lacking the clear knowledge of Administration goals. This situation can lead to agencies drifting in different directions as they seek to satisfy congressional oversight and budget committees, and makes it difficult for the President to implement policy objectives.

Strong leadership from the White House, administered through a communications program which focuses on first-line appointees, could help the President build a stronger administration team. Department and agency heads would more clearly focus their efforts on the President's program.

An internal communication system in the Executive Branch would be an effective tool for improving productivity and accomplishing Administration objectives. One characteristic of corporations that are more successful at accomplishing their missions, relaying goals and objectives, maintaining management continuity, achieving the dedication of employees and building productivity is a planned program for internal communications. Opportunities provided by these programs have not been exploited by the Executive Branch.

Recommendations

FMS 7-1: Design and implement an internal communications program for the Executive Branch, coordinated through EOP. The purpose of the communications program would be to:

- relay the Administration's mission, goals, and objectives;
- identify and measure progress toward those goals and objectives;
- create incentives for improved job performance by formally and publicly recognizing the worth, competence, and contributions of Federal employees; and
- inform the work force in a timely manner of issues affecting it.

FMS 7-2: The system should give prominence to the President and other top officials and should include:

- a periodic (at least annual) Presidential address to Federal employees, which could be presented over closed circuit television and videotaped for regional offices;

- personal visits at least annually by the President or senior-level staff to selected agencies to address management groups (appointees and career) regarding the agencies' progress toward Administration goals;

- a timely, one-page bulletin from the White House distributed regularly to agencies for internal dissemination highlighting actions that will affect the agencies' work forces;

- identification of resources within the Executive Branch that can be used more effectively as vehicles to relay and build understanding of Administration goals;

- greater top-level attention to the field and regional representatives of Government. A selected group of regional managers should meet on a more regular basis with senior Executive Office officials and agency heads. The agenda would include the opportunity for this group to discuss reactions to programs and problems or concerns at the grass roots level. It would allow the Administration to commend regional efforts, restate goals and priorities and alert participants to anticipated program modifications. The existing Federal Regional Councils and Federal Executive Boards are potentially useful communication vehicles;

- within an agency, an internal communications director in conjunction with the appropriate division chiefs should select a cross-section of agency employees to meet periodically with the Secretary or Director for roundtable discussions; and

- solicitation of employee questions by agencies, including those at regional and overseas posts, to be directed to the Administration. Senior Administration officials should respond to a sample of specific questions, and the responses should be videotaped and distributed for viewing by all Federal employees.

<u>FMS 7-3: Emphasize the development and implementation of information systems and channels which will provide managers with information in an accurate and timely manner.</u>

Recommendations regarding the improvement of information flow in specific areas are presented in other Issues within this Report. In addition to improvements in these areas, however, the Executive Branch should adopt, as a general principle, the improvement of internal communications. Within the private sector, the ability to rapidly relay accurate management information is a prerequisite for organizationally complex and geographically-dispersed operations similar to those of the Federal Government.

FMS 7-4: Institute an orientation program for senior level appointees and a survey/feedback method to monitor work force developments. These two specialized types of internal communication systems offer unique opportunities for the Executive Branch. The reasons for their use and their Federal applications are discussed in the following two issues, FMS 8 and FMS 9.

FMS 7-5: Designate a single individual, as a Presidential appointee, to be responsible for control of the planning, implementation, and evaluation of internal communications. Job responsibilities would include developing an appropriate plan of action, counseling top officials on the potential internal impact of messages proposed for dissemination to the work force, and overseeing the orientation and survey/feedback programs. The Task Force recommends locating the function in EOP because:

- such a placement gives the function increased importance and credibility among the work force and corresponds to the private sector's placement of a Vice President for Corporate Communications as a top level counselor to the corporation's President;

- communications to members of the work force should receive the same priority attention as external communications, which are handled in the Offices of the Assistant to the President for Communications, the Press Secretary, Media Relations and Planning, and Public Affairs. All are located in EOP; and

- location of the function at the White House level will facilitate the daily exchange that is necessary between internal and external communications, which include the staff offices listed above, as well as the Office of Cabinet Affairs.

Savings and Impact Analysis

Savings cannot be accurately estimated. As a mangement tool, the internal communications function would produce the following benefits:

- o increasing the Administration's ability to articulate, communicate and achieve its goals and objectives;
- o providing a mechanism to gather feedback and identify potential problem areas before they become severe and threaten program success; and
- o improving work climate with increases in productivity.

Implementation

Identify an individual at the White House level who will have formal responsibility for internal communications (for example, Staff Secretary for Internal Communications).

Prepare a formal statement of the appointee's title, function, top-level placement and responsibilities for internal and external dissemination.

The director of internal communications should prepare an annual communications plan detailing how the Administration will achieve the goals preiously identified. The plan should include:

- o statement of goals and objectives,
- o plan for implementation,
- o communication vehicles to be utilized,
- o scheduling necessary for involvement of the President and other top level officials,
- o points of contact in agencies,
- o budget,
- o milestones, and
- o methods to measure success of the program.

Implement the system on a pilot basis with two or three agencies. Other agencies can serve as a comparison group against which changes and reactions to implementation of the program in the selected agencies can be measured. The Departments of Agriculture and Commerce, or the Internal Revenue Service might serve as useful test sites since they are generally considered to have management and communications strengths.

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 8: COMMUNICATION WITHIN THE EXECUTIVE BRANCH ORIENTATION OF APPOINTEES

Issue

Can the effectiveness of Executive Branch agencies and departments be increased by a more comprehensive orientation program for executive level appointees?

Executive level appointees are the non-career executives appointed by the President to direct the operations of departments, agencies and their major subunits. Orientation programs could be expected to generate major long-term cost savings through increased productivity and efficiency of administrative activities and program operations.

Background

Traditionally, the top executives of the Executive Branch are replaced after each change of Administration. The average tenure of appointees is 18 to 24 months, resulting in two or three cycles of appointees in each Presidential term. The majority of these appointees are recruited from outside Government. The chart on the following page is based upon information provided to the Task Force by the departments and displays the average length of service in months of department secretaries for the period January 1969, through the present. (Current office holders are excluded from the averages since they have not yet completed service.)

[Table II-4 is on the following page]

Table II-4

DEPARTMENT SECRETARY LENGTH OF SERVICE

January 1, 1969 to present
(in months)

Department	Length of Service
Agriculture	45.4
Commerce	18.5
Defense	28.4
Education (since 1979)	13.0
Energy (since 1977)	21.0
Health and Human Services (prior to 1979 was Health, Education and Welfare)	25.0
Interior	20.6
Justice	18.0
Labor	23.8
State	29.8
Transportation	25.4
Treasury	24.2
Overall	24.4

Exhibit II-5, located at the end of this issue, gives an overall view of the number of executive level appointees by department and agency.

In contrast to Federal practice, companies in the private sector provide greater management succession from within. Although mergers and acquisitions can produce a one-time replacement of top management, they usually are not followed by the continuing high turnover experienced by Government. Orientation programs for executives who are brought into companies from outside are usually specifically tailored for those individuals.

Some public sector organizations that experience high turnover have instituted orientation programs. The Department of the Army, for example, provides orientation services through a transition model which provides guidelines to deal with changes in command. Its training and orientation procedures can serve as useful models for Executive Branch civilian transition.

Another example of an orientation program that deals with consistent turnover is that of the U.S. House of Representatives. Harvard University faculty members conduct seminars 14 hours a day for six days to prepare new members for their responsibilities. Follow-up sessions throughout the term are provided by political parties for their members.

Methodology

The Task Force interviewed 30 career and appointed managers in the Departments of Commerce, Labor, Treasury, Agriculture, and Housing and Urban Development; the Office of Management and Budget (OMB); the Office of Personnel Management(OPM); and the General Services Administration (GSA). It also interviewed representatives of the White House Staff and the National Academy of Public Administration (NAPA). Interviewees are listed in the Appendix.

Findings

The Federal Government experiences rapid turnover in key management positions. There are currently almost 500 executive level appointments among 77 agencies and departments. Average tenure is between 18 and 24 months. In a four-year term the President, therefore, appoints over 1,000 individuals to these positions.

The failure of career and appointed executives to work well together from an early date can result in indecision, poor decisions, poor morale and delays in implementing the Administration's policies. Under the Civil Service Reform Act, a career member of the Senior Executive Service (SES) may not be involuntarily reassigned within 120 days after the appointment of a new agency head or appointed supervisor. As a result, career and appointed employees must work together or risk losing four months productivity.

Civil Service impediments to replacing career employees provide additional incentives for appointees and career executives to establish good working relationships.

No organized and sustained program exists to prepare appointees for the complexities facing them in their jobs. Newly appointed executives are faced with a number of problems:

- a move to a metropolitan area (typically Washington) with high cost of living factors, particularly housing;

- conflict of interest determinations and disclosure statements that can cause financial and career setbacks and may expose an appointee to public criticism;

- complex work environments with the additional pressures of media exposure, congressional inquiry, special interest groups and political dynamics;

- dependency on career personnel to accomplish program goals; and

- a complex organizational structure of a size with which the appointee may not be familiar.

The appointee is often unfamiliar with the legislative and regulatory contraints that affect an agency. Limited agency-specific knowledge and managerial experience of the appointee may interfere with efficient administrative action:

- new appointees sometimes fail to solicit help from career managers;

- new appointees often do not have extensive management experience and may be unable to use, or be unaware of, available resources; and

- career managers familiar with current operations may resist changes in policy direction.

There are some orientation and training programs currently being conducted by the White House for appointed officials. These activities include a White House orientation and an introduction to policy issues presented by the faculty of Harvard University.

Conclusions

Conflict of interest requirements, media pressure, frustration with the bureaucracy and lack of financial incentives make it difficult to acquire and retain qualified appointees.

In the absence of Administration action, the tenure of non-career appointed executives will probably continue to average 18 to 24 months.

Transition and continued turnover adversely affect management performance and require attention.

The group of 500 appointees is large enough to be significant yet small enough to be of manageable size if the Executive Branch were to institute an organized orientation program.

Current Administration orientation activities represent a foundation upon which a comprehensive orientation program could be established.

Recommendations

FMS 8-1: Establish a comprehensive orientation program for executive level appointees. Major elements of the program should be:

- an orientation coordinator should be designated in the Executive Office of the President (EOP); this person would be responsible for establishing and maintaining an Executive Branch orientation program;
- the Office of Federal Management (OFM)1/ should be responsible for developing the program; and
- each agency should designate a liaison function in the Assistant Secretary for Management's office to coordinate agency activities with the EOP orientation coordinator.

The program should provide logistical services and guidance including:

- assistance in relocation effort;

1/ Under the recommendations of Issue FMS-1, a new Office of Federal Management (OFM) would assume many Federal management responsibilities.

- instruction regarding media relations, Congressional hearings and committee structure, nature of Government, legislation, regulations, and Administration policy; and

- guidance on establishing a working partnership with career employees and managers.

The orientation program should have follow-up sessions for mid-term appointees.

Savings and Impact Analysis

Savings cannot be accurately estimated. However, management benefits expected to result in cost savings include:

- the accelerated implementation of Administration policies and programs;

- more effective use of existing management resources;

- decreased likelihood and duration of confusion, error, inertia, and delay that can accompany changes in top management; and

- better relationships between the Administration and the media, Congress, the public, and Federal employees.

Implementation

Assign a representative in the EOP to coordinate orientation programs. Assign the duties of a coordinator of orientation in an Assistant Secretary's office in each department and agency. Assign OFM the function of assisting in program development.

Exhibit II-5

NUMBER OF EXECUTIVE LEVEL APPOINTEES* BY DEPARTMENT AND AGENCY

	Level I	Level II	Level III	Level IV	Level V	Total
Departments						
Agriculture	1	1	1	7	3	13
Commerce	1	1	2	23	4	31
Defense	1	4	2	21	2	30
Education	1	0	1	8	7	17
Energy	1	1	3	19	1	25
Health and Human Services	1	0	1	10	2	14
Housing and Urban Development	1	1	0	12	0	14
Interior	1	0	1	7	7	16
Justice	1	1	4	17	4	27
Labor	1	0	1	7	3	12
State	1	1	4	16	0	22
Transportation	1	3	3	7	0	14
Treasury	1	1	4	8	1	15
Agencies						
ACTION	0	0	2	2	3	7
Administrative Conference of the United States	0	1	0	0	0	1
Advisory Commission on Federal Pay	0	0	0	3	0	3
Alaska Natural Gas Transportation System	0	0	1	0	0	1
Appalachian Regional Commission	0	0	1	0	1	2
Arms Control and Disarmament Agency, U.S.	0	1	0	1	4	6
Civil Aeronautics Board	0	0	1	4	0	5
Commission on Civil Rights	0	0	0	0	1	1
Commodity Futures Trading Commission	0	0	1	4	1	6
Community Services Administration	0	1	1	5	1	8
Consumer Product Safety Commission	0	0	1	4	0	5

*As defined by Title 5 USC #5312-5316. Level I's are Department Secretary's; Level II's are Assistant Secretary's; Level III's are Undersecretary's and agency Assistant Directors; Levels IV and V's are Department Staff Assistants and Regional heads.

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Exhibit II-5 (Cont'd)

NUMBER OF EXECUTIVE LEVEL APPOINTEES* BY DEPARTMENT AND AGENCY

Agency	Level I	Level II	Level III	Level IV	Level V	Total
Environmental Protection Agency	0	1	1	6	1	9
Equal Employment Opportunity Commission	0	0	1	4	1	6
Export-Import Bank of the U.S.	0	0	1	4	0	5
Federal Communications Commission	0	0	1	6	0	7
Federal Deposit Insurance Corporation	0	0	1	1	0	2
Federal Election Commission	0	0	0	7	1	8
Federal Emergency Management Agency	0	1	0	4	1	6
Federal Home Loan Bank Board	0	0	1	2	0	3
Federal Labor Relations Authority	0	0	0	1	3	4
Federal Maritime Commission	0	0	1	4	0	5
Federal Mediation and Conciliation Service	0	0	1	0	0	1
Federal Mine Safety and Health Review Commission	0	0	1	4	0	5
Federal Trade Commission	0	0	1	4	0	5
Foreign Claims Settlement Commission of the United States	0	0	0	0	3	3
General Services Administration	0	0	1	1	0	2
Inter-American Foundation	0	0	0	1	0	1
International Communications Agency	0	1	1	4	0	6
International Development Cooperation Agency, U.S.	0	1	3	12	3	19
International Trade Commission, U.S.	0	0	1	5	0	6
Interstate Commerce Commission	0	0	1	10	0	11
Merit Systems Protection Board	0	0	1	3	0	4
Metric Board, U.S.	0	0	1	0	0	1
National Aeronautics and Space Administration	0	1	1	0	1	3
National Alcohol Fuels Commission	0	1	0	0	0	1
National Credit Union Administration	0	0	1	2	0	3
National Foundation on the Arts and the Humanities	0	0	2	0	0	2
National Labor Relations Board	0	0	1	5	0	6
National Mediation Board	0	0	1	2	0	3
National Science Foundation	0	1	1	0	4	6

Exhibit II-5 (Cont'd)

NUMBER OF EXECUTIVE LEVEL APPOINTEES* BY DEPARTMENT AND AGENCY

Agency	Level I	Level II	Level III	Level IV	Level V	Total
National Transportation Safety Board	0	0	1	4	0	5
Nuclear Regulatory Commission, U.S.	0	1	4	0	0	5
Occupational Safety and Health Review Commission	0	0	1	2	0	3
Office of Personnel Management	0	1	1	0	1	3
Panama Canal Commission	0	0	0	0	1	1
Pension Benefit Guaranty Corporation	0	0	0	0	1	1
Postal Rate Commission	0	0	1	4	0	5
Railroad Retirement Board, U.S.	0	0	1	2	0	3
Securities and Exchange Commission	0	0	1	4	0	5
Selective Service System	0	0	0	1	0	1
Small Business Administration	0	0	1	1	1	3
Smithsonian Institution	0	0	0	2	2	4
Tennesee Valley Authority	0	0	1	2	0	3
Veteran's Administration	0	1	1	1	0	3
TOTALS	13	27	78	301	70	489

II. ISSUE AND RECOMMENDATION SUMMARIES (CONT'D)

FEDERAL MANAGEMENT SYSTEMS (CONT'D)

FMS 9: COMMUNICATIONS WITHIN THE EXECUTIVE BRANCH -- SURVEY FEEDBACK SYSTEMS

Issue

Can a system be implemented in the Executive Branch to elicit employee opinions and provide feedback data to senior agency managment?

A feedback system would provide management benefits that would be reflected in long-term cost savings. These benefits include:

- providing early warning signals of potential personnel and other employee-related problems;
- developing a more stable and productive work force;
- providing a measure of the effectiveness of management programs; and
- gaining the input of experienced career employees to major agency decisions.

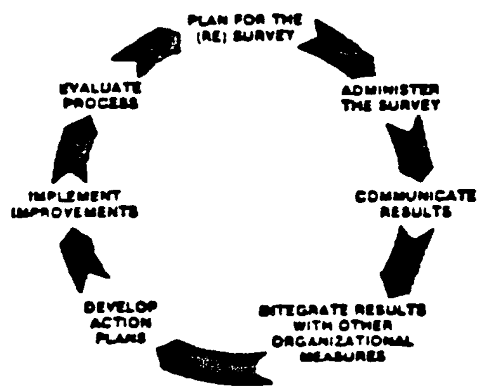
Background

Historically, organizations in the private sector have developed information systems that report units produced, labor costs, average salaries, benefit costs, turnover, absenteeism, and other important data to management. More recently, many organizations have added information systems that regularly report perceptions of the work force, including information about job satisfaction, underemployment, personnel actions and organizational dynamics.

Systems such as these are useful in helping private sector firms identify and avert potential problems at an early point, identify work force needs and priorities useful in motivating behavior, and identify skills and resouces for task accomplishment. Although different organizations call their systems by different names, the generic term for this management tool is survey/feedback system.

A survey/feedback system is a formal process for gathering information on employee opinions through questionnaires or other techniques. The results are summarized in reports appropriate for each level of management. The data are also reported back to employees by line managers. Employee work groups are then systematically involved in achieving improvements in their areas of responsibility.

The system is a closed communication system as shown in the following model, adapted from the General Motors Corporation's Quality of Work Life Program.



Employee survey/feedback systems are regularly used as management tools by many of the nation's largest corporations. Among them are: General Motors Corporation; General Electric Company; IBM Corporation; American Telephone & Telegraph; Sears Roebuck & Co.; J.C. Penney Co., Inc.; Citibank; Chase Manhattan Bank, N.A.; the Prudential Insurance Company of America; Metropolitan Life Insurance Company; Standard Oil (Indiana); and E.I. duPont deNemours.

Methodology

The Task Force gathered information from interviews with both career and appointed managers from the Office of Personnel Management (OPM), Office of Management and Budget (OMB), General Services Administration (GSA), and the Departments of Labor and Agriculture. Interviews were also held with White House staff and representatives of the National Academy of Public Administration (NAPA). Interviewees are listed in the Appendix.

Relevant published literature was researched. Information on the use of survey systems in the private sector is based on interviews with representative large corporations, The Institute for Social Research (University of Michigan) and The Conference Board.

Findings

No system has been established within the Federal Government to regularly provide top agency and Executive Branch management with information on operations and perceptions of the work force. The communications that are received by managers and employees are predominantly top down, formal directives. There is little information that flows in an upward direction.

The Task Force found only two efforts to gather information Executive Branch-wide on employee opinions and perceptions of their work environment.

- in May 1979, OPM conducted an opinion survey of 14,000 employees at all pay grades across 20 agencies,1/ and
- in November 1980, a follow-up survey was conducted of 13,000 senior-level employees (grade 13 and up).2/

The primary purpose of these two surveys was to evaluate the effects of the 1978 Civil Service Reform Act -- not to establish an ongoing survey/feedback system for management of human resources.

Top level managers have no reliable way to know what rank and file employees are thinking and feeling about their jobs.

1/ U.S. Office of Personnel Management. Federal Employee Attitudes Phase 1: Baseline Survey 1979 Governmentwide Report, 1979.

2/ U.S. Office of Personnel Management. Federal Employee Attitudes Phase 2: Follow-Up Survey 1980 Preliminary Report, 1980.

No two-way communication systems currently exist between top management and employees, and amoung levels of managers and subordinates. There is no mechanism to assure employee involvement in diagnosing and solving work-related problems. Current systems focus more on the one-to-one relationship between manager and subordinate and ignore work groups as effective problem-solving units.

In its 1979 survey, OPM focused on dimensions of individual performance (for example, mutual goal-setting, performance appraisals, feedback on performance, and consequences of good/poor performance). According to the survey results, a majority of employees feel they do not have a say in decisions concerning their jobs. They further believe that their supervisors do not encourage employee participation in decisionmaking.

Current Executive Branch techniques to motivate employees to better performance revolve almost exclusively around financial and promotion incentives. These incentives rely on individual performance appraisals as the basis for merit pay increases. The potential for motivation from effective team work and personnel involvement in decision-making and improving the work environment is currently untapped.

The concepts of team work and work group involvement are taught in management training programs conducted by OPM. Whether or not the concepts are applied in the workplace is at the individual discretion of the manager, with little direction from top agency executives as to their application.

Large organizations in the private sector regularly use survey/feedback systems to provide top management with information on the work force, and to encourage employee participation and action to improve organization and effectiveness. While systems vary, some common characteristics are that:

- the systems are implemented and operate with the full support and involvement of top management;
- system objectives are designed to improve the work climate, job satisfaction, productivity and trust within the organization;
- action plans are generated and implemented in response to information collected; and

- systems are continuing and cyclical, with regular updates of information, feedback and employee involvement.

Common organizational benefits of established survey/ feedback systems are:

- Top management has better information on which to base decisions affecting the work force. Management assumptions about the strengths and weaknesses of the organization's human resources can be tested periodically against data.

- Analyses of the data according to demographics within the work force aid in supporting the corporation's equal employment opportunity (EEO) programs. The data are useful for implementing corrective actions where needed, and for documenting successful EEO efforts.

- Labor-management relationships are improved. Those companies which keep the union informed report that the union supports the system and that the working relationship with the union is enhanced.

- The organization's productive capacity is increased with more open communications between supervisors and subordinates, development of team work, and increased motivation, creativity, and commitment to organization goals.

Examples of survey forms used by private sector organizations are included in the Appendix.

Conclusions

Executive Branch management needs a regular source of data on the work force's perceptions and job satisfaction. Day-to-day informal channels are insufficient, fragmented and too subjective to provide appropriate information for effectively managing the Government's human resources.

Feedback systems can increase productivity and job satisfaction and decrease personnel-related costs by helping Federal employees resolve work-related problems. Employees have information on what problems exist in the workplace and how those problems can be solved. An effective communication system uses this valuable source of information.

Survey/feedback systems, employee motivational programs and work group involvement can enhance problem-solving efforts.

Survey/feedback techniques have a proven track record in the private sector. They:

- regularly provide top management with data on the physical and psychological aspects of the work force;

- provide an official channel for upward communications from employees to top management and for responses from management back to employees; and

- facilitate employee participation in management and problem solving.

Recommendations

FMS 9-1: Establish survey/feedback mechanisms in Executive Branch departments and agencies. Such systems would regularly provide information to top agency management about employee opinions and perceptions of the work environment. Management response to this information should include a process of involving managers and their subordinates in developing and implementing action plans to resolve problems in the workplace.

The system should report on such areas as how employees feel about their work, quality of supervision, communications, peer relations and team work, intergroup relations, personnel policies and systems, compensation and benefits, opportunity, training and development, trust and confidence in the organization, and physical facilities.

The system should provide for an administrative process of feeding back survey information to the work force through:

- general communications from top management; and

- specific information through each manager with his or her subordinate work group.

System responsibility should be distributed as follows:

- Administration, system design and implementation: The overall responsibility for administration, system design and implementation should be placed in the Executive Office of the President (EOP) as part of a total internal communication system.3/ A counterpart responsibility should be designated in each agency.

- Analysis and training: The responsibility for providing the technical services for developing questionnaires, processing data, analyzing results, reporting to agency management, and providing related management training should be placed in OPM.

The system should be implemented on an experimental basis in two agencies. Extension of the system should be done agency-by-agency.

Savings and Impact Analysis

It is not possible to accurately estimate savings. However, management benefits will result that should generate savings. Among the anticipated benefits are:

- early warnings of developing problems within the work force. Active response by management to such warnings can avert costly work disruption or stoppage, grievance processing or litigation;
- a more stable work force with savings in turnover costs (recruiting, hiring, training, absenteeism) and non-work pay, sick benefits, and loss of production; and
- measurement of the effectiveness of administrative and human resource programs and policies.

Implementation

Establish an internal communications capability within EOP as recommended in Issue FMS 7.

3/ See the discussion in Issue FMS 7 for a more complete discussion of this responsibility.

Establish a function within OPM to provide design and technical assistance to agency management for installing and utilizing the system.

Establish a pilot experiment in two agencies where the full support and cooperation of the top mangaement can be best assured. Monitor and evaluate the experimental implementation. Modify the plan as necessary and extend the use of the system agency-by-agency.

FEDERAL MANAGEMENT SYSTES (CONT'D)

FMS 10: IMPROVEMENT OF FEDERAL EVALUATION

Issue

Can the activities, results and utilization of Federal program evaluations be improved?

Program evaluation is the systematic collection of information about program requirements, activities, outputs and outcomes for the purposes of management and service delivery improvement. By tying the evaluation results to budgeting and planning, executives and managers are able to identify opportunities for program improvements and to establish priorities for resource allocation.

The Government will realize savings from more cost-effective use of resources (funds and staff) expended for program evaluation activities, and through the ability to make better informed program decisions. Coordination of evaluation with the budget process will give the Administration greater control over program operations.

Background

In the Federal Government, the term "program" refers to an organized set of activities designed to accomplish some aspect of an agency mission. As such, a program is analogous to private sector activities such as manufacturing, marketing, finance, or purchasing. Table II-5 on the following page displays the proposed FY 1984 budgets for selected Federal programs. It is unlikely that private sector organizations would commit these substantial sums without asking basic questions:

- o Are the services needed (any longer)?
- o Are the services being delivered as intended?
- o Could the services be delivered more efficiently and cost effectively?

[Table II-5 on following page]

- Are there appropriate controls in service delivery to prevent fraud, waste and abuse?
- Do the benefits resulting from the program justify its costs?
- Are there alternative programs to which some or all of the program resources should be diverted?
- Have program operations indicated a need for, and appropriateness of, program expansion or contraction?
- What will the likely demand for services and resources be one year hence? Five years hence?

Table II-5

FY 84 PRESIDENT'S PROPOSED BUDGET AUTHORITY (FOR SELECTED PROGRAMS)

	Budget Amount
Department of Defense Research and Development Programs	
o Army	$ 4,000 million
o Navy	6,000 million
o Air Force	11,000 million
o Defense Agencies	2,000 million
Department of Education Block Grant Program	451 million
FHA Loan Programs	2,200 million
National Park System	600 million
Social Security Assistance Payments Program	1,700 million

Public sector program evaluations are designed to answer questions such as these. Regarding the first question, for example, the PPSS Financial Asset Management Task Force found that appropriate use of sunset legislation for direct lending programs no longer needed could result in considerable benefits.

A major purpose of program evaluation is to provide managers with objective information on the processes, performance, costs, and effects of programs to facilitate effective management and proper allocation of limited resources. Seen from this perspective, program evaluation is in theory beneficial, but it can in some circumstances be prone to abuse and mismanagement.

Federal evaluation activities have increased dramatically in recent years. Responses to a General Accounting Office (GAO) survey indicated that in FY 1980, 2,362 evaluations were conducted by Federal agencies. Agencies reported spending approximately $177 million on evaluations that year. 1/ This figure underestimates the full cost of Federal evaluation since it includes only those activities reported by the agencies and does not include, for example, evaluations conducted by GAO and other studies which the agencies may not have identified as evaluations or which the agencies chose not to report. Evaluation professionals have estimated that when these other studies are taken into account, "... the United States government alone spends more than a half-billion dollars for evaluation." 2/

Thirteen percent of the GAO survey respondents indicated that they received funds which were set aside by legislation for evaluation activities. These funds represent almost 27 percent of total FY 1980 resources expended by these agencies for evaluation. More than half of this money was spent to contract with profit-making firms, universities and nonprofit organizations to assist in the performance of evaluations.

Methodology

Although often described in different language, private sector evaluations are conducted on a regular basis and offer a valuable standard with which to compare the current status of Federal program evaluation.

1/ Institute for Program Evaluation. A Profile of Federal Program Evaluation Activities, Washington, D.C.: U.S. General Accounting Office, 1982.

2/ Rossi, Peter H., Freeman, Howard E., and Wright, S.R. Evaluation: A Systematic Approach. Beverly Hills, CA: Sage Press, 1979, page 2.

Private sector evaluations take both long- and short-range perspectives, and facilitate both strategic planning and instantaneous responses to current variations in the marketplace. Most significant, however, a business conducts only those evaluations that are necessary and of predetermined probable value, and conducts them with knowledge of the resources required and the probable uses to which results will be put. In its work, the Task Force used the glossary presented in Exhibit II-6 at the end of this issue.

The Task Force reviewed several dozen professional articles and books in the evaluation field, and interviewed university, government and private sector evaluation specialists. A bibliography and list of experts are included in the Appendix. Data collection interviews were conducted with one or more of the evaluation, program, procurement and Inspector General (IG) staffs in all cabinet departments (except Department of Justice); ACTION; the Environmental Protection Agency (EPA); the Farm Credit Administration (FCA); the National Endowment for the Humanities (NEH); and the Small Business Administration (SBA). Additional interviews were completed with the Council of Economic Advisors, GAO, and the Office of Management and Budget (OMB). All interviewees are listed in the Appendix.

Findings

Federal agency programs are evaluated by agency evaluation staffs as well as by the offices responsible for administering the programs. Of 18 agencies reviewed by the Task Force:

- nine have independent evaluation offices;
- nine use program office staffs to conduct evaluations; and
- seven use both program office and independent evaluation office staffs.

The evaluations conducted by program offices are sometimes criticized as lacking objectivity because they are conducted by the same staffs responsible for program operation. Michael Wargo contends in his 1981 study of Federal evaluation policy that program office staffs "often have difficulty maintaining independence from the programs they evaluate." 3/ He also criticizes, however, the evaluations performed by agency evaluation offices for being "designed and conducted without sufficient input from the important stockholders in the evaluations" (for example, program office staffs).

The PPSS Health and Human Services Management Task Force reported that in HHS there is yet a third locus of evaluation activities at the department (supra-agency) level. The Task Force reported that the inappropriate placement of evaluation activities at this level wastes almost $13 million per year.

Less than half of the agencies reviewed by the Task Force have developed a formal ongoing approach to collecting data on program operations. The Task Force found that most agencies rely on one-time large-scale evaluations of program results and impacts. Several agencies have, however, implemented data collection (monitoring) systems. The management accountability system administered by EPA, for example, monitors administrative and management practices and problems. Monitoring systems fall within an evaluation class known as "process evaluations."

Agencies vary widely in their methods of defining, conducting and contracting for evaluations. This lack of uniformity is illustrated, for example, by the following:

- there are no standard Government-wide definitions of "program" and "evaluation," and

- the Directory of Federal Evaluations published by the Office of the Comptroller General includes studies with diverse topics and varying degrees of rigor, size, scope, and utilization.

Lack of Government-wide definitions and standards is especially significant since, according to a recent GAO report, 4/ in FY 1980, approximately 60 percent of Federal evaluation expenses were incurred through nonagency activities. These evaluation activities were performed under contracts, grants and Federal agency cooperative agreements.

3/ Wargo, Michael J. "Evaluation in the Nutrition Program." Evaluation in Change -- Meeting New Government Needs. pp. 121-148. Beverly Hills, CA: Sage Publications, 1981.

4/ Op. Cit., Institute for Program Evaluation.

The total cost of these services to the agencies was $101.7 million. Over 80 percent of this money was spent through contracts.

Requests for Proposals (RFPs) and resulting contracts for work with outside evaluators often do not state requirements clearly. In some cases, trained evaluation personnel are not significantly involved in the development of evaluation RFPs, the rating of evaluation proposals, or the monitoring of evaluation contracts.

The Task Force's research indicates that contracted evaluators often do not know the uses for which their work is intended. In many cases, in fact, the uses of the evaluations may not be known to anyone. This problem many be particularly acute in those cases where agencies are conducting evaluations solely in response to legislated mandates for evaluations ("set-asides").

There is currently no central guidance on the conduct of Federal evaluations. Elmer Staats, former Comptroller General of the United States, recommended in testimony before Congress that from 1 to 5 percent of appropriations be set aside for evaluation activities. While many Federal programs currently have evaluation funds legislatively set aside, many do not. Whether or not funds should be legislatively set aside has been debated for some time by legislators, administrators and evaluators.

The preponderance of evaluation professionals with whom we spoke felt that legislative mandate of a percentage of program funds for evaluation carried a risk of "make-work" evaluations, in which perfunctory evaluation activities are carried out with no plan for, or intention of, using the evaluation results.

In a similar vein, the PPSS Health and Human Services (HHS) Management Task Force concluded that "the availability of 1 percent of certain HHS program budgets to evaluate HHS programs is quite excessive for today's high level of program expenditures and preponderance of relatively mature programs."

GAO, although a part of the Legislative Branch, by its actions sets standards for the direction of program evaluation activities throughout the Government. Of the 700 reports GAO develops each year, almost one-third are evaluations of Executive Branch programs. In FY 1982, the GAO

Institute of Program Evaluation (IPE) conducted approximately 15 evaluations of Federal programs, and about 85 percent of their recommendations were to Executive Branch agencies.

OMB is also involved in the evaluation process. OMB Circular No. A-40, for example, requires OMB approval for most Federally funded data collection efforts (for example, evaluation surveys). Under the provisions of the Paperwork Reduction Act (P.L. 96-511), OMB has the authority to review both data collection forms and plans for data collection.

OMB indicates that the review process currently averages 34 days and that the duration of the review is limited by statute. Although the Task Force discovered that some agencies could receive OMB approval within a week or two, in some cases the approval process had taken up to 18 months.

In 1979, OMB published Circular No. A-117 addressing "Management Improvement and the Use of Evaluation in the Executive Branch." The Circular established the principle that "the heads of all executive departments and agencies are responsible for developing and pursuing comprehensive management improvement efforts." The Circular identified program evaluation as an important tool in such improvement and specified characteristics of agency evaluation systems. The Task Force's interviews with OMB indicate that the provisions of the circulars are not currently enforced.

No uniform procedure exists for developing plans for evaluation activities. While many agencies prepare fully developed evaluation plans (e.g., the Food and Nutrition Service), others (e.g., the Department of Labor) do not. Some plans are short-range (e.g., one year), others are long-range (e.g., three years). Although some agencies, such as the Department of Defense, develop or revise their plans frequently, most agencies do not revise their plans more often than annually.

The Task Force, in a survey of 15 agencies, concluded that ten units had plans in place; two units intended to develop plans; and three units had neither plans nor intentions of developing them.

The results of many program evaluations are not fully used by Federal agency staffs or by Congress. Of the 2,360 evaluations reported in the GAO survey 5/, the largest number of requests for evaluations (twice as many as from any other source) came from "top agency officials." The

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5/ Ibid.

same study indicates that fewer than half of the evaluators surveyed consistently involve the users (including these top agency officials) in planning the evaluation. The Task Force's interviews further revealed that many studies have been conducted which were not fully utilized by agency personnel.

Moreover, as Daniel Koretz of the Congressional Budget Office (CBO) has recently pointed out, Federal programs have "resilience" which often interferes with the application of evaluation results, explains why only some types of results and recommendations are considered, and explains why even very negative evaluation results may not have the impact in the public sector that they would in the private:

> "Once a program is established, a constituency quickly develops around it. This constituency comprises a wide range of groups who benefit in different ways from the continued existence of the program. These groups include the direct beneficiaries of the program, the organizations or professions that are paid to run it, the executive agency that administers it, Senators and Congressmen whose districts benefit more than most from the program, the congressional committees that authorize it (and whose power therefore depends in part on it), and the social scientists whose work derives from it. Once the iron triangle of congressional committees, executive agencies and program beneficiaries has become established, it is difficult to eliminate a program or even to scale it back.
>
> "Because of this inherent resilience of Federal programs, congressional committees are often interested in deciding not whether to abandon a program but how best to change it. In addition to changing the program's level of funding and scope of operations, a committee may be interested in making changes in the program's operation, either to improve its overall performance or to meet other political needs.
>
> "The information provided by a summative evaluation is often not particularly useful to a committee that is considering marginal changes in a program. A generally positive summative evaluation can contribute to a decision to expand the

program, and a negative evaluation can contribute to a decision to slow its growth or to cut it back. Beyond that, however, summative evaluations often provide little relevant information." 6/

Many agencies are establishing resource and time limits for conducting evaluations. Agencies often restrict the methodology of evaluations by establishing predetermined resource and time limits for the projects. HHS, for example, has encouraged only those evaluations that can be completed in six to eight months for a cost under $125,000. These types of restrictions are appropriate for many evaluations; however, in the case of large complex programs, they can limit the effectiveness of the evaluation.

Evaluation designs and completed evaluation reports are seldom reviewed by independent bodies. Evaluation designs are sometimes reviewed by OMB as a part of the A-40 review process for data collection efforts. Little consistency characterizes the thoroughness of this review, and not all designs are reviewed. Evaluation reports are occasionally reviewed by a panel of external experts or as part of subsequent evaluation efforts, but generally they are not. A recent review attributed the "apparent low quality of evaluations [of Federal programs]" to a failure to evaluate the evaluations both during and after their completion. 7/

Few programs have predefined or specified measures of success. Evaluators interviewed by the Task Force and a growing body of literature indicate that objective measures of success must be defined early in the evaluation process, with program personnel involvement. However, a GAO study on proposed Senate Resolution 307 (to require such measures), as well as interviews with evaluation professionals, revealed that qualified evaluators can develop such measures at the time of the design of the evaluation and that the measures need not be established in program legislation.

6/ Koretz, Daniel. Developing Useful Evaluations: A Case History and Some Practical Guidelines. In L. Saxe and D. Koretz (Eds) Making Evaluation Research Useful to Congress. San Francisco: Jossey-Bass, 1982.

7/ Cook, Thomas D. and Gruder, Charles L. "Metaevaluation Research." Evaluation Quarterly, 2:5-52, 1978.

Conclusions

Program evaluation, properly planned, conducted and utilized, represents a tool which can be used to improve program management and provide the Administration with information to choose among alternative program paths. The principles and techniques of Federal program evaluation are analogous to standard private sector approaches to the collection and analysis of market and organizational dynamics information. The application of these principles and techniques allow public and private sector managers and executives access to information which is useful in decision-making. While no decision is likely to be, or should be, based solely on the results of private sector market surveys or the results of program evaluations, they represent valuable decision-making resources to their respective sectors.

Unlike private sector processes, however, public sector evaluations often take place in the context of inadequate planning and budgeting. Sometimes this results from an obligation to expend funds that have been legislatively "set aside" for evaluation purposes. At other times, administrative policies may establish unreasonable budgets. For example, the PPSS HHS Management Task Force reported that in 1982 the office of the HHS Assistant Secretary for Program Evaluation (ASPE) neither required nor used its total allocation of evaluation funds which internal directives authorized. Those authorized levels were set in 1969. While the HHS Management Task Force commends ASPE for its restraint, the establishment of unreasonable budget levels creates a potential for management abuse which should be addressed.

Program evaluations represent information. Evaluation information in both the public and private sectors is generally only obtained at a cost. The problem facing managers, executives and, to some extent, legislators is to balance costs against the value of the information. Seen from this perspective, each evaluation activity must be considered on its own merits and cannot be separated from its plans, procedures, intended uses, contributions to overall program and Adminstration activities, and policies and costs.

More comprehensive and integrated planning procedures are needed. The implementation of such procedures would result in:

- o conducting only those studies that are relevant and useful to program managers and administrators;

- fewer resources misused on duplicate and unnecessary studies; and

- the opportunity for the Administration to exert greater influence in setting evaluation priorities and to obtain information regarding specific programs and issues of interest.

Program operations would be improved by the availability of more accurate, timely and objective information. The availability of more reliable and valid data would make many current evaluation studies unnecessary and improve the quality of required efforts.

More consistent utilization of evaluation findings would result in resource savings by:

- improving program operations;

- providing information about service levels and projected demands for services and resources to facilitate planning; and

- identifying weak and strong programs so that scarce resources can be invested in the most worthwhile programs.

Recommendations

FMS 10-1: Require agencies to develop annual plans for evaluation activities. Each agency should develop a plan that articulates a strategy for the evaluation of designated programs and for the contribution these evaluations can make to agency and program planning. The plans should include resource requirements and indicate steps to be taken to ensure utilization of results. Emphasis should be placed on the development of a data base for management decisions. Emphasis should not be placed on spending pre-specified budget amounts (whether legislatively or administratively established), which may not reflect program, agency or Administrative management information requirements.

All evaluation plans and agendas should be submitted to the Office of Federal Management (OFM) 8/ for review of conformity with Administration priorities. This would ensure the appropriate dissemination and utilization of evaluation findings.

FMS 10-2: Improve the quantity and quality of data available to program managers and decision-makers on a routine ongoing basis.

- Agencies should implement structured data collection systems for conducting ongoing evaluations. A data collection (monitoring) system should be established and maintained at the program office level and reviewed regularly by the agency evaluation office (or comparable evaluation unit). The system should, at least, collect information on levels of service delivered and resources consumed. The program office should review the output of the system regularly and establish a mechanism for routinely disseminating the results of this review to program and project managers and the agency evaluation office.

- Resource and time limits set by agencies should be viewed as guidelines rather than regulations. These guidelines should emphasize conducting those evaluations that can be completed rapidly, but should not eliminate from consideration longer, more costly, and more rigorous studies that are often possible and desirable. Evaluation topics and methods should be selected to fulfill management requirements for information.

- All study designs and evaluation progress should be reviewed by an appropriately qualified unit outside the unit conducting the evaluation. This review might be completed internally, by a superordinate organization or by OFM, depending on the size of the agency and staff qualifications. An outside reviewer helps to maintain quality control, ensure dissemination of findings, facilitate utilization, and satisfy critics who might assert that the evaluation has been partisan.

8/ Under the recommendations presented in Issue FMS-1, OMB's current responsibilities would be assumed by the new Office of Federal Management (OFM).

FMS 10-3: Utilize evaluation results more consistently.

- The Task Force recommends the following steps to promote evaluation utilization:

  - Potential users of the evaluation results should be identified at the start of the study and, with their participation, their information needs and expectations should be clearly defined.

  - Agency evaluation units (under the guidance of OFM) should be required to include proposed procedures for utilization of findings in their evaluation plans.

  - Agency executives and managers should emphasize the importance of the use of evaluation findings in the development of specific policies or programs.

  - Evaluation reports should be written in a manner that will be useful to decision-makers. Useful approaches are brevity, conclusions at the start of the report, bridges from the study to policy issues and exclusion of jargon.

- Both greater coordination and clearer division of responsibilities should exist between program offices and agency evaluation offices.

  - The responsibilities for conducting evaluations should be divided between program office responsibility (the monitoring of program performance and the evaluation of management practices and performances of individual projects within programs) and evaluation office responsibility (evaluation of entire programs or multiple programs within an agency).

  - Agency evaluation offices should actively involve program office staffs in the conduct of evaluations; review and offer technical assistance on all studies conducted by the program office; and publicize the evaluation and results within the agency to encourage utilization of evaluation findings.

- Program office staffs should keep the evaluation office staff informed about the progress of studies undertaken, including changes in scope, budget and schedule.

o <u>Agency program evaluations should be guided by uniform policies</u>. A uniform policy of program evaluation standards should be established by the Administration to (a) define "program," "evaluation," and other relevant terms; (b) identify key quality control tasks; (c) specify research methods; (d) address validity and reliability of data; (e) specify documentation procedures; and (f) recommend implementation strategies. The recently proposed draft standards of the Evaluation Research Society 9/ provide a useful beginning for the development of such standards. These standards are reproduced in the Appendix. OMB Circulars Nos. A-40 and A-117 should be enforced, emphasizing the Administration's conviction that program evaluation activities play an important part in effective program management. Links between the program budgets and evaluations of the programs should be reinforced.

o <u>Better standards should be employed in contracting procedures for program evaluation projects</u>:

- trained evaluation personnel should assume significant roles in awarding and monitoring evaluation contracts and grants;

- contracting for evaluation work should be spread throughout the fiscal year and not be overrepresented at the end of the year; and

- evaluators should be required to meet with potential users of evaluation results including program staff, agency administrators, OFM, congressional staff, program beneficiaries, and others. These meetings must occur at all stages of the evaluation from conceptualization and planning through implementation, analysis and reporting.

9/ Rossi, Peter H., ed. "Standards for Evaluation Practice." <u>New Directions for Program Evaluation</u>, vol. 15. San Francisco, CA: Jossey-Bass Inc., 1982.

Savings and Impact Analysis

Savings cannot be accurately estimated. Each recommendation, however, is likely to have benefits which will result in savings and improved program operations:

FMS 10-1: Require agencies to develop annual plans for evaluation activities. By coordinating all program evaluation activities in one integrated plan, agencies can optimize resource utilization by:

- o avoiding duplication of effort and redundant and irrelevant evaluations;
- o assuring allocation of appropriate staff and funds to each proposed study;
- o certifying the methodological and conceptual soundness of studies before committing resources to them.

FMS 10-2: Improve the quantity and quality of data available to program managers and decision-makers. The availability of more accurate, timely and objective information will eliminate some evaluations and improve the quality of those remaining. The result will be more efficient utilization of resources and improved program management. Similar information requirements were identified in the Task Force's discussions of Issues FMS 1, FMS 2, FMS 3, FMS 7 and FMS 8.

FMS 10-3: Utilize evaluation results more consistently. The consistent use of evaluation findings results in resource savings by:

- o improving program operations;
- o providing information about service levels and future needs to facilitate long-range planning; and
- o identifying weak and strong programs so that scarce resources can be invested properly.

Implementation

The Task Force recommendations for the improvement of Federal evaluation practices can all be implemented by existing agency authority or by the President (specifically, OMB).10/

- Agency authority. Agency heads should implement the following recommendations as soon as possible:
  - institute procedures to increase utilization of evaluation projects (such procedures are detailed in the Appendix);
  - emphasize that the resource/time frame limitations set by agencies should be viewed as guidelines, rather than as regulations;
  - increase coordination and delineate responsibilities between program offices and agency evaluation offices; and
  - ensure the participation of evaluation specialists in contracting procedures for program evaluation projects.
- Presidential authority. OFM can effect a number of significant improvements in Federal program evaluation practice:
  - agencies should be required to implement structured data collection systems;
  - agencies should be required to develop comprehensive, systematic and integrated evaluation plans;
  - OFM should establish uniform policies, standards and definitions for Federal program evaluation;
  - OFM should implement procedures to ensure outside review of evaluation activities;

10/ Under the recommendation for FMS 1, OMB's authority in this regard will be assumed by OFM.

- OFM should enforce Circular No. A-117, and evaluation activities and results should be considered as part of the budget examination process; and

- OFM should institute procedures to ensure that the Circular No. A-40 review process is swift and thorough in order to upgrade both evaluation planning and the quality of results and recommendations.

Exhibit II-6

GLOSSARY OF KEY TERMS

Agency -- Any cabinet-level department (e.g., Department of Health and Human Services - HHS); constituent agency (e.g., Social Security Administration); or independent agency (e.g., Environmental Protection Agency).

Program -- Organizational unit of an agency responsible for control of Federal funds and administrative direction to accomplish a prescribed set of objectives through the conduct of specified activities. 1/

Project -- The implementation level of a program where resources are used to produce an end product (deliver a service) that directly contributes to the objectives of the program. 2/

Program Evaluation -- Structured assessment of a program's performance (processes), costs and effects.

Process Evaluation -- Testing or appraising the processes of an ongoing program in order to suggest modification or improvements. Provides feedback to the evaluator or program manager over the course of a program.

Impact Evaluation -- Assessment of a program's effectiveness in meeting its goals (causing change) in a target population.

Utilization -- Application of evaluation results. Consists of communicating evaluation results to decision makers and program managers who revise program funding, direction or operations in accord with evaluation findings.

Evaluation Plan (Agenda) -- A systematic plan for activities addressing such factors as choice of programs to be evaluated during the period covered by the plan, the purposes for which they will be evaluated, the resources required, and the measures to be taken to assure utilization of results.

1/ Wholey, Joseph; Scanlon, John; Duffy, Hugh; Fukumoto, James; and Vogt, Leona. Federal Evaluation Policy: Analyzing the Effects of Public Programs. Washington, D.C.: The Urban Institute, 1976.

2/ Ibid.

III. SUMMARY LIST OF RECOMMENDATIONS AND SAVINGS

III. SUMMARY LIST OF RECOMMENDATIONS AND SAVINGS

This section summarizes the annual and cumulative savings for each issue in the report.

The authority required to implement the individual recommendations is also shown according to the following legend:

P -- recommendations can be implemented under the existing authority of the President.

C -- recommendations can be implemented by action of the Congress.

Table III-1

SUMMARY LIST OF RECOMMENDATIONS AND SAVINGS

($ Millions)

Issue No.	Recommendation No.	Issue	Year 1	Year 2	Year 3	Total Three Year Savings	Savings(S) Revenue (R)	Implementing Authority
1		Executive Branch Management and Administration	*	*	*	*	S	
	1-1	Establish Office of Federal Management (OFM) within Executive Office of the President						P,C
	1-2	Establish high priority to improve management practices						P
	1-3	Select OFM officials based on strong management backgrounds						P,C
	1-4	Establish clear working relationships among OFM, GSA and OPM						P
	1-5	Develop effective MIS to support central leadership						P
	1-6	Continue to delegate responsibilities to agencies						P
2		Governmentwide Management Information Systems	(3.3)**	(3.6)**	(4.1)**	(11.0)**	S	
	2-1	Convert agency-unique ADP systems to common systems	*	*	*	*		P
	2-2	Provide overall guidance on systems commonality project						P,C
	2-3	Identify management information needed by agency heads, OMB, OPM, GSA and Treasury						P
	2-4	Target payroll as first common system for development						P
3		Government-wide Financial Management Activities	*	*	*	*	S	
	3-1	Establish Office of Financial Management within OFM						P,C
	3-2	Install comptrollership functions in all departments and agencies						P
	3-3	Develop appropriate form of annual external financial reporting						P
	3-4	Modify present budgetary classifications						P
	3-5	Redefine financial management objectives and MIS requirements						P,C
	3-6	Mandate compliance wtih updated GAO accounting standards (Title 2)						P
	3-7	Develop and implement program of financial management						P

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Table III-1 (Cont'd)

Issue No.	Recommendation No.	Issue	Year 1	Year 2	Year 3	Total Three Year Savings	Savings(S) Revenue (R)	Implementing Authority
4		Internal Audit Functions and Applied Resources	*	*	*	*	S	
	4-1	Replace part-time PCIE staff with audit support division						P
	4-2	Establish balance between grant and other audit functions						P
	4-3	Increase attention to internal control evaluations						P
	4-4	Upgrade personnel capabilities including ADP audit						P
5		Planning and Budgeting for Capital Expenditures and Assets	*	*	*	*	S	
	5-1	Add special capital analysis to annual budget						P
	5-2	Institute Federal capital budgeting and planning process						P
6		Long-Term Planning Processes Within Executive Branch	*	*	*	*	S	
	6-1	Link long-term Presidential objectives, budgeting and agency plans						P
	6-2	Focus planning process within OFM						P
7		Internal Communications System Within Executive Branch	*	*	*	*	S	
	7-1 to 7-5	Design and implement Executive branch internal communications program						P
8		Orientation of Executive-Level Appointees	*	*	*	*	S	
	8-1	Establish orientation program for Executive-level appointees						P
9		Employee Survey/Feedback Systems	*	*	*	*	S	
	9-1	Establish survey/feedback in branch departments and agencies						P

Table III-1 (Cont'd)

Issue No.	Recommendation No.	Issue	Year 1	Year 2	Year 3	Total Three Year Savings	Savings(S) Revenue (R)	Implementing Authority
10		Improvement of Federal Evaluation	*	*	*	*	S	
	10-1	Require agencies to develop annual plans for evaluation activities						P
	10-2	Improve quantity/quality of data available to program managers						P
	10-3	Utilize evaluation results more consistently						P
		Total Savings	(3.3)	(3.6)	(4.1)	(11.0)		
		Grand Total	(3.3)	(3.6)	(4.1)	(11.0)		

* Savings are not quantifiable.

** Costs for the acquisition and testing of a common payroll system are estimated to be $11 million over Years 1-3. Cumulative net savings over Years 1-13 (Years 1-3 of acquisition and testing; and Years 4-13 of installing at the various agencies) will total $734.9 million.

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IV. COST CONTROL OPPORTUNITIES FOR FURTHER STUDY

IV. COST CONTROL OPPORTUNITIES FOR FURTHER STUDY

1. BIENNIAL BUDGETING

Issue

Can Federal budgeting be improved through use of a biennial or multiyear process?

The Task Force has concluded that significant benefits will result from shifting the Federal budget process from its current one-year focus to a biennial focus with greater use of advance funding for specific activities. These benefits include increased attention to long-term planning and reductions in operating costs associated with the budget process. In view of the complexity and scope of this issue, it is recommended as a subject for further study.

Background

Historically, the activities of the Federal budget process are focused on the development of an annual Government-wide unified budget submitted to Congress in January. Congress reviews the budget and passes appropriate legislation in time for the start of the fiscal year on October 1. Because of legislative delays, required legislation may not be in place by October 1 and, therefore, Congress frequently enacts continuing resolutions which permit agencies to continue obligating funds at the same rate as in the previous fiscal year, subject to changes that may be enacted.

The legislation required to fund a program consists of two elements: authorizations and appropriations. Authorizations permit or authorize an agency to carry out a particular program. This legislation may authorize a program for a specific period (one, two or more years) or indefinitely. Additionally, authorizations may contain limits on the amount of funds that can be appropriated for that program.

The permission to expend funds (i.e., obligate Federal dollars) is derived from budget authority enacted in appropriation statutes. Each appropriation states the terms of the authority to spend (i.e., budget authority) and generally the amount of the appropriations. For example, the Environmental Protection Agency (EPA) FY 1984 proposed appropriations for Research and Development (R&D) states: "For research and development activities $111,669,000, to remain available until September 30, 1984." In this example, the purpose (R&D), amount ($111,669,000), and terms (through September 30, 1985) are clearly cited. The term of the appropriation may be for more than one year, or until the funds appropriated are expended. Additionally, because of funding requirements, the appropriation may be for the subsequent fiscal year (e.g., FY 1985 appropriations passed as part of the FY 1984 budget). For example, the FY 1984 budget submission contains appropriations for FY 1985 for the Corporation for Public Broadcasting.

Authorization and appropriation statutes enacted by former Congresses automatically provide spending authority to the Federal Government for 50 percent of the FY 1984 budget request. These include open-ended programs such as Social Security ($187.7 billion), Federal employee retirement and insurance ($50.5 billion), unemployment assistance ($28.8 billion), medical care ($87.6 billion), and others.

In addition to the annual budget request, the President submits projections to Congress for four years beyond the budget year. The FY 1984 submission to Congress on January 31, 1983 contains tables displaying outlay and budget authority estimates for FY 1983 through FY 1988. These tables are arrayed by function and by agency.

Methodology

The methodology employed by the Task Force in conducting this study consisted of interviews and research as follows:

- <u>interviews with over 40 senior management level persons</u> -- Council of Economic Advisors, Office of Management and Budget (OMB), General Accounting Office (GAO), Congressional Budget Office (CBO), Federal agencies, private consultants, public interest groups, and private-sector personnel knowledgeable in budgeting and planning; and

- <u>review of literature</u> -- published studies relating to the Federal budget process; recent and pending legislation; published articles; textbooks; speeches; and Congressional testimony including statements of Charles A. Bowsher, Comptroller

General of the United States, before the Committee on Governmental Affairs, U.S. Senate, August 19, 1982; and Alice M. Rivlin, Director, CBO, before the Committee on the Budget, U.S. Senate, September 21, 1982.

Findings

Funding uncertainties inherent in the current process place a burden on recipients. Vermont Governor Richard Snelling, former Chairman of the National Governors Association, described the problem facing states as follows: "...the trend toward biennial budgeting is being undermined more by Federal uncertainty than anything else."

While Federal agencies begin planning and budgeting for programs over 18 months before the start of the fiscal year, Congress does not necessarily act on the budget by the end of the fiscal year. Since 1972, 34 stop-gap funding provisions have been necessary for continuation of government operations.1/

Twenty-one states currently use a biennial budget cycle. Additionally, state governments depend on Federal funds for one-quarter or more of their budgets and local governments receive both Federal and state funds. Making budget decisions months in advance without having information on Federal funding forces states to plan and budget based on uncertain information.2/

For businesses involved in financial transactions with the Federal Government, funding uncertainties present questions about payments and scheduling of government contracts. These uncertainties frequently result in cash flow problems for the provider and increased contracting costs for the Government.3/

1/ Dan Quayle, "The Federal Budget Cycle Should Be Replaced By a Two-Year Budget Process," Annual Exec. Comptroller, Summer 1982.

2/ The Congressional Budget Act and Process: How Can They Be Improved? 1/1982.

3/ Ibid.

The current cycle requires over a year and a half to produce a one-year budget and diverts the time and attention of Executive Branch officials from other management activities. Preparation of the Government budget currently requires at least 18 months, involving both the Executive and Legislative Branches of Government. In addition, in the past several years there has been no budget in place on October 1 and continuing resolutions have been required.

This preparation process consumes the management resources of each department and agency. From approximately April until the budget is submitted to the Congress in January, agencies devote their management talent to developing the budget, preparing budget schedules, responding to OMB changes, and preparing the final budget documentation and testimony for Congress. After the President's budget is submitted to Congress in January, agency officials spend large amounts of their time testifying before congressional committees and negotiating budget details. These activities, while coordinated by an agency's budget office, are based on information submitted by other offices within the agency and require the time of virtually all senior officials.

While the overall costs associated with the current budget process are not available, the levels of effort by OMB and agency staffs provide an indication of the costs. The entire OMB budget examiner staff and agency budget staffs routinely work full-time, with overtime, from August-September through the end of December. This effort is augmented by significant time spent by senior agency and OMB officials.

Within agencies, planning is hindered by the one-year budget focus. While pockets of multiyear planning exist within the agencies, Task Force interviews and those of other PPSS Task Forces emphasized the disincentives to multiyear planning inherent in the current annual budget process.

- Congressional budget and appropriations activities have a one-year focus, therefore multiyear planning is difficult to carry out; and
- current-year budgeting, not multiyear planning, is the current management priority.

The Task Force found that certain programs such as R&D could be budgeted for the life of the program, or at least for a significant phase of the program. This approach would increase the program's stability and decrease the costs of annual budgeting. Should changes to the budget be required in the interim, budget amendments could be enacted. For example, the National Institutes of Health (NIH) conduct long-term programs for health research that require long-term funding stability to achieve results. Currently, these programs are subject to the same annual budget review process as that of salaries and expenses for all operating agencies.

Each agency, large and small, follows a similar budget process. The numerous small Federal organizations, such as National Battlefield Monuments and National Labor Relations Board that employ small staffs, follow similar budget processes as the Department of Commerce or Department of Defense.

By dominating congressional activities, the current budget cycle does not provide adequate opportunity for comprehensive multiyear planning, program review or analysis. In public statements, members of Congress4/ have expressed concern that within a single year, Congress cannot effectively set fiscal policy, determine appropriate spending levels for existing Federal programs, consider the thousands of new legislative proposals, and review the operation of previous policies and programs.

An opportunity currently exists to implement new procedures in the Federal budget process. A recent CBO study,5/ identified factors that would support changes in the budget process. These factors are:

- budget reforms that have gained momentum during periods of consistent deficits and sharp expenditure increases; and
- the fact that the public is unhappy with the Federal Government's record of management of the economy.

4/ e.g., Rep. Norman Y. Mineta.

5/ Balancing the Federal Budget and Limiting Federal Spending: Constitutional and Statutory Approaches, CBO, 1982.

Conclusions

Modifying the current Federal budget process from a single to a biennial focus would increase the Federal Government's budgeting effectiveness. Changes to current budgeting processes would involve the Executive and Legislative Branches of the Federal Government and affect state and local governments and the private sector. Nonetheless, the Task Force is convinced of the need for an increased multiyear focus.

Recommendations

IV 1-1: The Task Force recommends that the Federal Government move to a biennial budget development process and more advance funding for Federal programs. This will reduce the current budget-related workload on the Government, provide more opportunity for in-depth analyses of Federal programs and increase longer-term program planning.

In analyzing this issue, the Task Force identified a number of concepts aimed at reducing the workload and uncertainty surrounding the current budgeting process. Among the approaches considered were increasing the use of multiyear appropriations, adopting a rotating agenda for detailed program and budget analysis, and adopting a biennial budgeting process. The Task Force concluded that these concepts were related and could be included in a single recommendation to move toward biennial budgeting.

The Task Force recognizes that the implementation of this recommendation will fundamentally alter the current Federal budget process. Budget procedures that have been developed over the past 40 years will change at all organizational levels. The potential impact of this recommendation on the day-to-day operations of the Federal Government likely means that the change will need to be carefully phased in over several years.

The Task Force recommendation is aimed at solving several critical problems affecting the current budget process. The effort required to build an annual budget limits the Government's ability to examine Federal programs in an in-depth manner. In addition, the uncertainty surrounding the level of annual appropriations needed to support on-going, long-term programs is often counterproductive to the efficiency and effectiveness of those programs. These are two examples of critical problems.

The Task Force recommends that Federal agencies be required to develop justification for their programs every other year. This would replace the current process of annually developing budgets and should significantly reduce the mechanical workload required to develop estimates, develop budget justification documentation and revise Federal laws.

In the off year, the Executive and Legislative Branches could focus on reviewing selected programs or agencies. The Office of Federal Management (OFM)6/ would identify those agencies or programs for detailed review and the President would submit the list with the biennial budget submissions to Congress. Congress could modify the list. OFM would then establish review schedules for those programs or agencies to be analyzed.

Although OFM would submit the budget biennially to Congress, it would review the economic assumptions underlying the budget annually. OFM would estimate revenues and outlays each fall based on inflation, unemployment, interest and other major economic indices. Where the assumptions significantly altered outlay or revenue estimates, OPM could submit revised estimates for affected programs to Congress.

A significant argument against biennial budgeting is that each Administration should review budgets annually in order to maintain control over departments and programs and should maintain an up-to-date budget as a tool for economic policy. The Task Force recommendation supports the objectives of providing control and supporting economic policy while avoiding the laborious paperwork associated with current annual budget preparation processes. Each Administration, during the off year, would review estimates in the budget for the upcoming year, fine tune economic assumptions, and submit budget supplementals or revisions to reflect changes in policy. But, the Administration would not need to develop detailed estimates for over 1,500 line items.

As a parallel effort, the Administration should pursue multiyear appropriations to support on-going, long-term programs or activities. While each program will differ in

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6/ Issue FMS 1 of this report recommends that a new Office of Federal Management (OFM) should assume direction of Federal management activities.

its need for a multiyear appropriation, the Task Force recommends that as a general policy OFM should use multiyear appropriations to the maximum extent possible.

The Task Force identified three general criteria that could be used to identify other candidates for multiyear appropriations. First, small program activities that have constant resource requirements would be candidates, e.g., the National Cemetery, U.S. Tax Court, and the Bureau of the Mint. Second, programs that are linked to state and local government funding, such as Federal grants, would be candidates. Third, programs that are complex and require a predictable and constant flow of funds to ensure efficiency and effectiveness, such as large construction projects, would be candidates.

Other PPSS Task Forces identified candidate programs for multiyear budgeting that fit these three criteria:

- Department of Energy (DOE) Nuclear Regulatory Commission Task Force recommends that legislation be introduced for budgeting DOE R&D for national laboratories on a rolling three-year term. The Task Force estimates that this approach would save $125 million annually.

- Department of State/AID/USIA Task Force recommends that AID move to a two-year budget submission cycle. The Task Force found that all programs are subject to annual budget review, even though most projects receive multiyear appropriations. The State/AID/USIA Task Force estimates that $1.8 million annually could be saved.

Savings and Impact Analysis

Quantitative cost savings realized by changes in the annual budget cycle cannot be determined at this time. However, the Task Force concluded that qualitative benefits would be derived from implementation of the alternatives presented.

Specifically, the benefits to be derived from an alternative budget process include:

- agency management improvements realized through the opportunity for additional attention to long-term issues and multiyear budgeting;

- o financial stability for recipients of Federal funds; and
- o possible reduction of the agency and congressional work force involved with the budget process.

Implementation

A group should be formed within OFM to develop the details required to shift the Federal Government budget to a biennial focus. The major steps are:

- o formation of the OFM-directed team,
- o development of overall policy recommendations, and
- o preparation and submission of legislation.

V. TASK FORCE MEMBERSHIP

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V. FEDERAL MANAGEMENT PROCESS TASK FORCE MEMBERSHIP

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