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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 6/3/85 Number: 169168CA Due By:

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85-1998

Subject: Domestic Policy Council Meeting with the President -
Tuesday, June 4, 1985 - 2:00 P.M. - Cabinet Room

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFarlane	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Svahn	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Executive Secretary for:		
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCCT	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCHR	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA	<input type="checkbox"/>	<input type="checkbox"/>
			CCNRE	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

The President will chair a meeting of the Domestic Policy Council tomorrow at 2:00 P.M. in the Cabinet Room.

The agenda is Management Initiatives. Background information is attached.

RETURN TO:

Alfred H. Kingon
Cabinet Secretary
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(Ground Floor, West Wing)

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 Tom Gibson
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Declassified and Approved For Release 2012/08/27 : CIA-RDP90-00379R000100010013-0

"MAKING THE GOVERNMENT WORK BETTER" *

June 4, 1985

* President Reagan's Inaugural Address,
January 20, 1981

Declassified and Approved For Release 2012/08/27 : CIA-RDP90-00379R000100010013-0

I. PRESIDENT REAGAN STARTED THE MANAGEMENT IMPROVEMENT EFFORT IN EARLY 1981.

The President has placed a high priority on management improvement and reduction of waste, fraud and abuse in the Federal Government, both as a candidate and as this country's chief executive officer. He has reported this sense of priority many times since.

When this Administration came into office, our first priority was to correct those problems that required immediate attention — in essence: "to fix what was obviously broke and to do it fast." So, early in 1981, the President asked all agencies to reduce administrative costs and initiated the following additional early efforts intended to set the tone for management improvement and make it clear that this Administration meant business. They helped get the program off to a good start:

- o Waste, fraud and abuse - \$46 billion put to better use since 1981.
- o Paperwork - Private sector burden hours reduced by about 350 million.
- o Publications - Reduced by 25%; spending reduced by \$35 million/year.
- o Printing - 111 of 1,000 plants to be closed/consolidated.
- o Travel - \$521 million in airfare cost avoidances in 1984; cost avoidances up 29% in first quarter of FY 85; over 500 outside travel agent offices set up (55% of total government commercial air travel); employee credit card established.
- o Employment reduction - 78,000 FTE non-defense civilian worker reduction in first 3 years.

II. IN 1982, REFORM '88 WAS CONCEIVED, AND EFFORTS WERE BEGUN TO UPGRADE MANAGEMENT SYSTEMS.

Following the immediate cost reductions, we turned our efforts toward building effective administrative systems, permanently incorporating improvements into the structure of day-to-day Government operations:

- o Cash management
 - Almost in place -- installed Government-wide by Treasury; concentration banking system in place; electronic fund transfers in use; paper checks; lockbox systems; 99% of dollars now paid on time (not early or late).
- o Credit management
 - Substantial progress -- private sector credit screening and reporting; Justice following up on defaults; using private collection agencies; automating.
- o Financial/accounting
 - Started -- reducing 332 accounting systems to one per department; two generic systems being developed -- one domestic, one international.
- o Personnel/payroll
 - Good progress -- 150 systems being reduced to 82 systems by end of 1985, to 12 by 1988.
- o Procurement
 - Substantial progress -- agency-wide regulations reduced 50% (3,000 pages); private sector pre-screening; suspension and debarment on-line.

- o ADP management
 - Good progress -- 5 year plan for 20,000 computers completed; part of FY 86 management/budget process; systematic review process in place.
- o Cross-servicing
 - Substantial progress -- small agencies asked to close administrative shops (71% are doing so); large agencies with inefficient administrative systems urged to contract with other agencies.
 - Education has its administrative payments done by USDA's National Finance Center, and its payroll by Interior. The National Finance Center also is assuming responsibility for Commerce's personnel and payroll processing.
 - OPM and HUD are both seeking to find other systems they can use for personnel/payroll processing.
- o MIS
 - In place -- Government-wide system installed, October 1984.
- o Executive data link
 - In place -- installed in 1983, linking agency heads to White House.
- o Real property
 - Started -- generic system being developed.
- o Private sector contracting
 - Over 31,000 FTE positions to be studied in FY 1985.
- o Management/budget process
 - In place -- management reviews incorporated as part of FY 86 budget process for first time; management report sent to Congress.

These actions have resulted in a joint agency effort to conduct the largest management improvement program ever undertaken. These cost reductions and systems developments are ongoing. All agencies are participating; a tracking system is in place; and real savings, where appropriate, are being dropped to the bottom line (or zero savings are registered — no more "funny money" savings).

III. IN 1984, THE EFFORT WAS MOVED TOWARD IMPROVING DELIVERY OF SERVICES.

Progress made in the initial cost reductions and upgrading of management systems was faster and more successful than had been anticipated. The President had pushed the program, and several agencies had taken strong lead positions. So during the FY 86 budget process, the management program was extended into the area of improved service delivery, focusing on consolidating unnecessary offices and ensuring that payments by the Government are distributed to the appropriate individuals in a timely and efficient manner:

- o Modernizing field structure
 - Agencies no longer held to 10 regional office requirement; Congressional resistance encountered as expected.
 - Field office consolidations will be attempted, coupled with automation and other productivity enhancement measures.
 - Greatest effort: USDA planning substantial streamlining of current multi-office structure in Soil Conservation Service, Agricultural Stabilization and Conservation Service, and Farmers Home Administration.
 - Greatest effort: DOI and USDA planning to combine responsibility for managing BLM and Forest Service lands.

o Payment integrity

- Legislated targets for error rates in AFDC, Medicaid and Food Stamps have been reduced from 4% to 3%. Presently Medicaid is at 3% rate but Food Stamps (9%) and AFDC (7%) are far above the target. 1% point movement in both AFDC and Food Stamps could save \$230 million annually.
- Charge back penalties to states for excessive errors made in past 9 months for first time.
- Income and Eligibility Verification System being instituted; annual Federal program savings about \$200 million; State savings more than \$100 million annually.
- Legislative reforms in Medicare and Child Support Enforcement have enabled collection of third party payments for medical costs; further legislative reforms in Medicaid and VA health care have been proposed.
- Separate grants capped at FY 1985 funding level for combined share of administrative costs in AFDC, Medicaid and Food Stamp agencies proposed in FY 86 budget.

In summary, in the first four years we:

- o "Fixed what was broke" and achieved fast savings;
- o Began to build effective administrative systems; and
- o Began major improvements in the delivery of services.

These accomplishments and our plans for continued improvement in these areas were included as part of the FY 86 budget, integrating the management and budget functions and increasing agency accountability for management improvement.

IV. DESPITE THESE ACCOMPLISHMENTS, MUCH REMAINS TO BE DONE TO INSTITUTIONALIZE MANAGEMENT REFORM.

President Reagan's "Second American Revolution" should involve institutionalizing fundamental, structural changes in the way the Government operates. To do this, we must extend the management reform beyond its emphasis on simply implementing the initiatives already begun.

The next Reform '88 phase should focus on improved delivery of our programs, stressing quality, timeliness, and cost-effectiveness. This requires building a process that integrates a different way of thinking into the everyday life of the Federal Government — into both the Executive and Legislative branches.

We have a good chance to accomplish this, due to the President's interest, the progress made so far, and timing: management reform of this magnitude requires two full terms to have a lasting effect. We have the opportunity to make real changes and leave a legacy of good management — and we have already started successfully. But it must be institutionalized — or it won't last.

V. GOOD MANAGEMENT AND ACCOUNTABILITY MAKE UP THE ADMINISTRATION'S PRODUCTIVITY PROGRAM AND LEGISLATIVE INITIATIVES.

In order to institutionalize the management improvement process we are proposing to ask Congress to endorse a legislative package that supports the overall theme of management improvement. This package would include (1) a Joint Resolution to promote enhanced productivity among the Federal workforce, and (2) specific pieces of legislation designed to reduce fraud and waste, and improve Federal management.

A Productivity Initiative Is Needed In The Federal Government

A Government-wide productivity program is needed to (1) place Government performance and output on a par with the best companies of the private sector, while ensuring that managers are held accountable for performance, and (2) to institutionalize the management improvement program and integrate it with the budget process. This concept should be attractive to Federal employees and fits this country's current priorities: improved productivity to compete in a worldwide market. If the private sector can do it — why can't we?

What is Productivity?

- o President Reagan has quoted correspondent Lloyd Dobbins' simple definition: "Productivity is not some esoteric economic subject. It is how much we produce and how much it takes to produce it. The object is to make more for less; if you do, everyone benefits."
- o GAO describes it as "doing more with the same or fewer resources."
- o Productivity is a means of ensuring fairness to the taxpayer in the way tax dollars are managed and disbursed. Fairness must be evident and measured in three ways:
 - Is the service of acceptable quality?
 - Is it timely?
 - Is its cost as low as possible while maintaining the other two factors?
- o Productivity, then, is the efficiency with which resources are used, to produce a product or service at a given level of quality and timeliness,

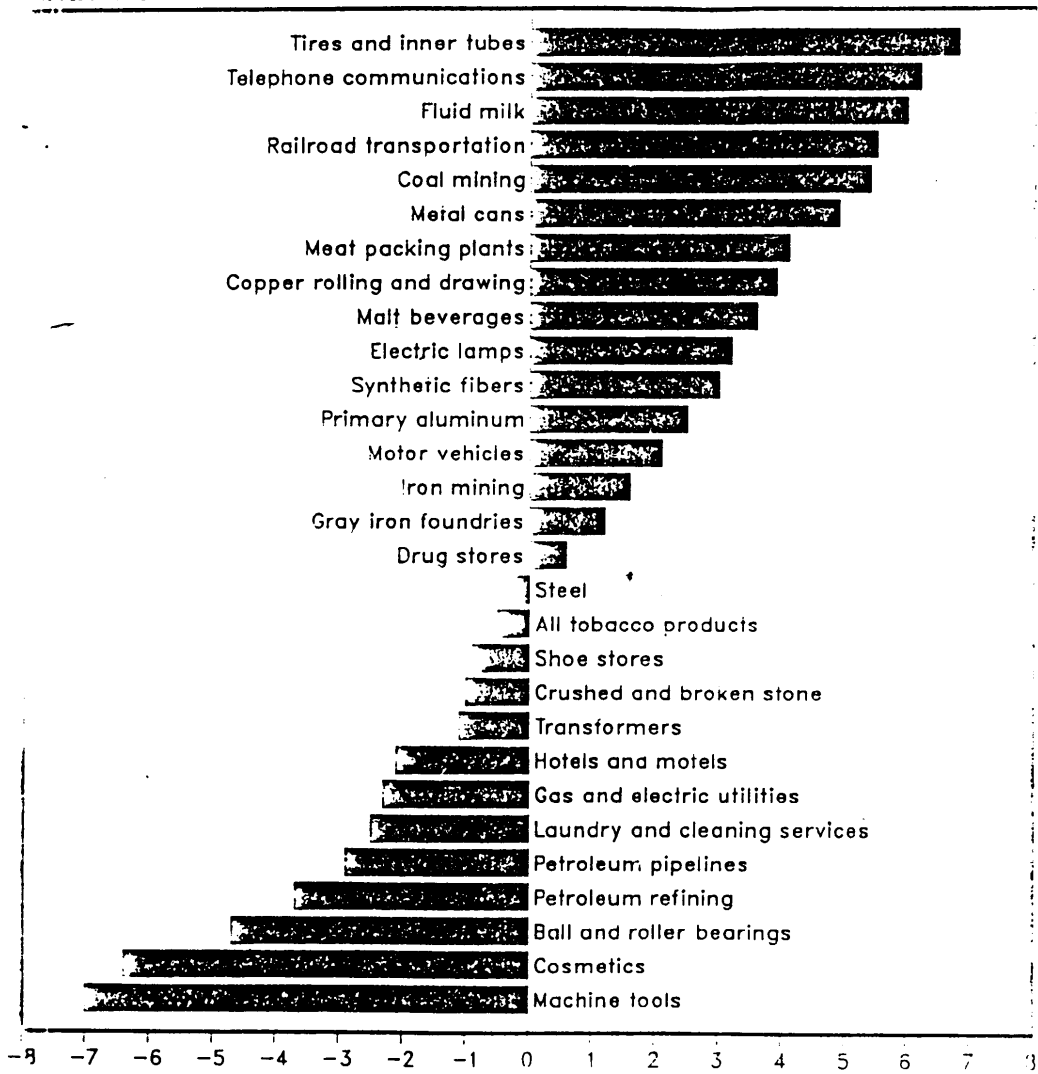
Why is it Important?

- o Approximately two-thirds of all Federal civilian employees (1.8 million) process paper, forms or information of some type, which are perfect types of activities for productivity improvement.
- o The Federal budget accounts for one-quarter of the GNP. Its priorities and performance often set the tone for the Nation's economy.
- o Productivity improvements represent a great unmined resource which cannot, in good conscience, be ignored. The current emphasis on austerity should be used to increase efforts to improve productivity.

The Checkered Past of Productivity

- o Many private sector firms in the U.S. ignored productivity for years (annual rates for selected private industries are shown in the following chart — 1978-1983) and relied instead on increasing prices and volume to meet profit objectives. Not true now. Many large firms that are somewhat similar to Federal agencies in complexity and service orientation, have highly effective productivity management programs, and improving productivity to meet competition has become a national priority in the business community:
 - For example, Anheuser-Busch now emphasizes measurement and accountability through more than 30 different productivity measures which are maintained weekly and reported monthly to top management.
 - Toyota has a \$1,718 cost advantage (after shipping) over General Motors in producing a small car. Some of this advantage is due to lower wages and fringe benefits (\$550) and some is due to superior technology (\$73). But about \$1,000 of the difference is attributable to skill in utilizing existing human resources.
 - Productivity is inextricably linked with quality. For example, a study found that 96% of Japan's autos leave the production line in fit shape for delivery, versus 75% of ours. American rent-a-car companies report that cars made in the U.S. require two to three times more servicing than comparable Japanese cars.

Chart Declassified and Approved For Release 2012/08/27 : CIA-RDP90-00379R000100010013-0
 Average annual percent change



- By using a simple productivity measure in constant dollars of value added at the organizational-unit level, Westinghouse Electric Corporation is measuring the productivity of both its blue and white collar workers. In its Public Systems Company, Westinghouse has achieved an increase of 7% during each of the past three years, and is now striving for a 10% increase each year.
 - Many companies have adopted a Scanlon Plan (named for the late official of the United States Steel Workers of America), which gives employees an incentive to improve production methods and suggest cost savings. The Dana Corporation uses the Scanlon Plan in about a third of its major facilities, and on average 75% of the suggestions submitted are accepted and carried out.
- o Since 1980, the average annual percent of change in productivity for the private sector is:

	<u>Business Economy</u>	<u>Nonfarm Business Economy</u>
1980	-0.5	-0.7
1981	+1.9	+1.5
1982	+0.2	+0.2
1983	+2.7	+3.5
1984	+3.2	+2.7
1985 (first quarter)	-3.5	-2.5

What appears to be happening in 1985 could have a negative impact on the 1980s trend. It's too early to tell. In the business economy since 1980, annual productivity improvement has been 1.5%, the same productivity growth as in the Federal sector.

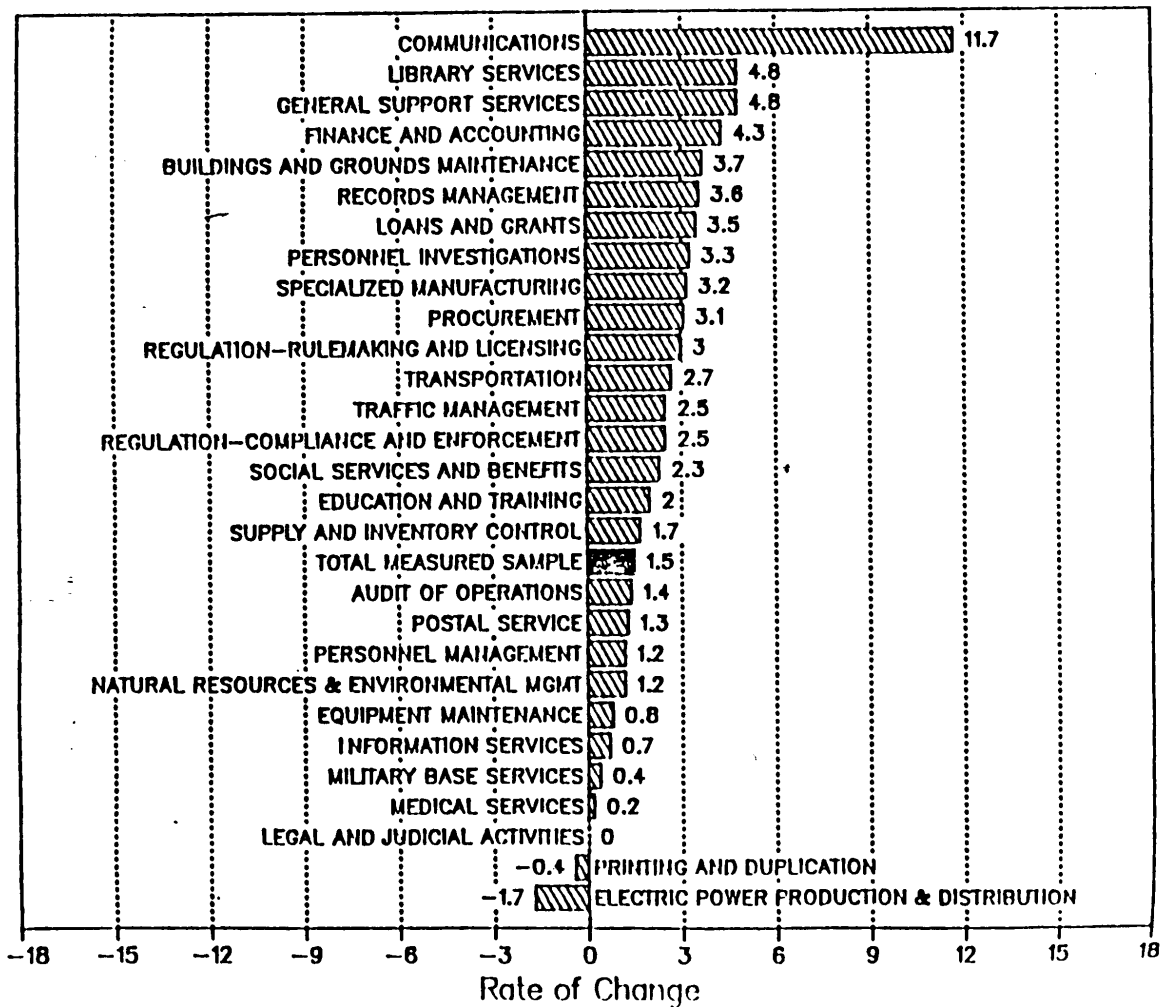
- o The average annual changes in certain industries do correspond to some Government functions, i.e. communications, but BLS does not have data for the banking or insurance industry (which would be most like functions in the Federal sector) that is not aggregated as a part of the business economy as a whole.
- o Since 1967, BLS has collected data on Federal productivity to compute an index of output per employee year. While collecting this data is a beginning and better than nothing, it does not measure quality or timeliness, and the numbers are too aggregated — they present data for each of 28 functions but not for specific agencies or activities.
- o Government's productivity improvement programs have historically been fragmented, focusing on specific projects rather than on institutionalizing productivity improvement.
- o A 1983 GAO report found that most top level agency managers give it lip-service but neither develop productivity efforts with specific goals nor hold employees accountable for productivity, despite identified opportunities. For example, a GAO report on Federal payment centers documented the potential for productivity improvement ranging up to 410% at the 22 locations examined.

- o From 1967 to 1983, Federal productivity increased at an average annual rate of 1.5%, with communications taking the lead at 11.7%, as shown in the following chart. Recently, productivity growth has picked up slightly to an average annual rate of 1.7%, as shown on the next chart (1967-1983). While this was higher than the private sector rate, it is much lower than the best private sector companies, i.e. those that pay close attention to excellence. It is also lower than the rate of Federal employee compensation growth. In other words, the cost of providing a given level of services has increased significantly.
- o This data covers about 66% of all Federal civilian employees, and these data are derived from more than 3,000 "output indicators" and grouped into functional categories representing similar activities across Government.
- o Reasons for productivity changes are categorized by three major factors: people, process and product. For instance, most agencies attributed increased productivity to process factors, resulting from the use of automated data processing. Most decreases were attributed to people factors, often related to both motivation and skills. However, substantial support was provided for training and rewards for individual performance.

The Realm of the Possible

- o GAO identified 7 elements of successful productivity management efforts in selected private firms which have realized boosts of 5% to 15% in one year. It believes similar benefits can be realized in the Federal sector.

Average Annual Rate of Change in Output Per Employee—Year by Functional Groups and Total Measured Sample, FY 1967–83



Legend
 [Hatched Box] FUNCTIONAL GROUP
 [Solid Box] TOTAL MEASURED SAMPLE

- o Further, GAO estimates that for every 1% increase in productivity, almost \$1 billion can be saved if it can be identified beforehand and included in the budget as a reduction that passes the Congress. This is consistent with a 1979 Joint Economic Committee Staff Study estimating that a 10% increase in productivity could reduce Federal costs by \$8 billion while maintaining the present level of services.
- o To illustrate the competitive edge greater productivity can impact for the Government, New York City has successfully initiated a productivity program in 1980 which has been institutionalized and is the centerpiece of the city's financial and management strategy. 34% of its spending reductions made to balance the budget in FY 1984 can be attributed to productivity improvement. The Federal Government forced New York to initiate this program — and if New York can do it, so can we.

Progress in the Last Four Years

- o Management improvements made in domestic agencies during four years of agency initiatives, budget reductions, through Reform '88 and from Grace Commission recommendations — have undoubtedly already enhanced productivity to some degree. These management improvements include the following:
 - State has made major gains in the handling of passports. In May 1984, passport applications had increased to three million, with a doubling in average processing time to four weeks. Overtime costs rose astronomically — criticism was intense. By May 1985, despite passport applications up another 20%, the goal of issuing passports within ten working days was being met. Backlogs had dropped dramatically, overtime costs were cut by 50%, and complaints reduced. Production goals were set, early warning indicators were established, and 60% of passport processing is automated.
 - Commerce consolidated its administrative staff, cutting costs by an estimated 25%. Forty-eight of the 67 small agencies are obtaining some type of administrative cross-servicing from another agency at lower cost.

- DOD sets aside about \$140 million annually for productivity enhancing capital investment projects costing \$100,000 or more. In the first four years, this program invested \$409 million on modern technologies and facilities. By 1990, these productivity investments are expected to save \$2.6 billion. The largest of these recent investments, \$67 million, went to seed money to apply machine-readable bar codes to supplies and equipment for various supply, maintenance and inventory control activities throughout DOD. This effort is expected to pay for itself in the first year it becomes fully operational.
- Increased emphasis on A-76 reviews will result in cost studies of activities involving 21,500 FTEs in 1985 in non-Defense agencies, compared with less than 2,000 in 1984, avoiding an average 25%-29% of cost per study — in future years, these avoidances should be actual savings as they are included in the budget (assuming it is passed by Congress).
- GSA manages about 85,000 vehicles in its motor pool program. While this number has remained constant over the past four years, GSA has reduced its support facilities by 4% from 95 motor pools to 55 fleet management centers. This has been achieved by increased reliance on automation, on commercial maintenance contractors, and on more streamlined billing procedures.
- "In-house" efficiency reviews, for functions that cannot be contracted out, have been conducted mainly by DOD, covering about 27,000 FTEs with average cost avoidances of almost 10% achieved through the third quarter of 1984. DOD will accelerate its program to review 181,000 FTEs in 1985.
- Commerce's Patent and Trademark Office is automating all professional and clerical functions to become a virtually paperless patent and trademark operation. This is remarkable, considering that it processes over 107,000 patent and 60,000 trademark applications each year, and has a manual filing system consisting of 27 million documents, increasing by over 600,000 documents per year. An all-electronic data base should eliminate file integrity problems, and automated searching aids should greatly improve the quality of examination services to the public.

- The Social Security Administration is midway through a phased 5-year ADP system modernization, begun simply to ensure the system's survival. By 1987 the system should have reached "state of the art." As a result of this modernization project, if the SSA stays on schedule, staffing needs are expected to decline by 17,000 FTE through 1990. Other benefits are improved responsiveness and service to the general public, and better quality and timeliness of data processing.
- HHS has reduced its personnel offices to 16 from well over 50 just a few years ago, and has reduced staffing by 21%, while maintaining service levels.

These specific examples are impressive — but they are isolated examples.

Again, the problems remain as GAO identified them: (1) measuring these enhancements in a systematic way and (2) reducing them to actual budgetary savings. To resolve these problems, productivity improvement must become an important part of the annual management/budget reviews.

Where We're Going and How: Our Productivity Program Proposal

The Administration's tax simplification proposal addresses the fairness of tax payments. There is another fairness, and that is the use of tax dollars, which involves making the most efficient use of taxpayer dollars — an essential goal in reducing the size of Government and returning it to its proper role.

Our long term goals are to:

- o Improve Federal productivity by 20% by 1992 (around 3% per year) in appropriate, selected Governmental functions, involving almost two-thirds of the non-military Federal workforce; and
- o Institutionalize a systematic productivity improvement program through the budget/management review process.

These goals can be accomplished through the development of a Presidential Productivity Program and a request for Congressional support of a Joint Resolution on productivity.

The President's Management Improvement Legislation Would Support The Productivity Initiative.

In the past four years, Congress has passed legislation that has been extremely useful in our drive to reduce waste and fraud and improve management, including the Debt Collection Act, the Prompt Payment Act, the Single Audit Act, the Deficit Reduction Act of 1984 and establishment of additional statutory Inspectors General.

This legislation has helped, but numerous additional legislative problems have been identified -- problems that should be rectified if we are to move the management program in the direction described earlier. We are making progress, but against a strong legislative current that protects the status quo. Congressional riders on appropriations bills are still being added to stifle improved management and cost reductions. Changes are needed.

As the President approved earlier this year, during the course of the 99th Congress the Administration intends to submit individual pieces of management legislation that can be grouped into five categories -- all supporting reduced waste and fraud, improved management and increased productivity.

1. Reorganization Authority

Every President since 1939 has had special authority to propose plans to the Congress to reorganize the Federal Government.

This Administration has had almost no use of such authority since the authorization that expired at the end of 1984 was limited in both scope and duration (two month life).

The Reorganization Act Amendments of 1985 would provide:

- o The President's authority to propose reorganization plans as Joint Resolutions.
- o Approval of a plan by a Joint Resolution of Congress within 90 days.
- o The plan cannot be amended by Congress.
- o No department or agency can be created or abolished.

As drafted, the bill submitted basically extends the 1984 Reorganization Act through 1988. However, its provisions are vital because:

- o It provides valuable structural flexibility for agency heads, and
- o It permits speedy resolution of management inefficiencies.

This legislation cannot be used for major reorganizations, but it can be used for smaller consolidations and organizational shifts to reduce costs, improve services — and improve productivity.

2. Waste/Fraud Prevention

The battle to reduce fraud, waste, and abuse has long been one of the Reagan Administration's hallmarks. To build upon the successes so far and continue the momentum, the Administration will be proposing two pieces of legislation to address systemic impediments to reducing fraud against the Government.

The first bill includes eight specific titles:

- o Title I - The Program Fraud Civil Penalties Act provides an administrative mechanism for prosecuting fraud cases and recovering monies paid out under fraudulent circumstances. Currently, the only remedy is through the expensive and time-consuming judicial process. This Act would:
 - Apply only to fraud cases involving less than \$100,000.
 - Provide an expeditious but fair means of proceeding against fraud in circumstances where civil litigation in the courts is not cost-effective.
 - Establish a penalty of \$5,000 plus an assessment of not more than twice the amount of dollars fraudulently requested, or the amount of the Government's damages.
 - Provide for Justice Department/agency coordination and establish a 6-year statute of limitations.
 - Allow any judgment to be offset against amounts owed the defendant by the Government, to include income tax refunds.

- o Title II - The False Claims Act Amendments clarify provisions in the previous False Claims Act which interfere with the Government's civil fraud enforcement efforts. The amendments would:
 - Raise the current \$2,000 fixed penalty — established during the Civil War — to a more reasonable \$5,000.
 - Permits the Government to recover any consequential damages it suffers from the submission of a false claim.
 - Clarifies that liability may be imposed against (1) contractors who should have known a claim was false and (2) individuals making a material misrepresentation to avoid paying money.
 - Permits Government to bar a defendant from transferring assets to hinder collection of judgments.
 - Modify the statute of limitations to 3 years after the violation was noticed, even if more than 6 years after the claim was submitted.
 - Authorize a procedure for Government attorneys to gain access to information relating to a False Claims Act investigation.

- o Title III - The Contract Disputes Act and Federal Courts Improvement Act Amendments would eliminate needless litigation and streamline the contract dispute claims process. The amendments would:
 - Require that claims must be submitted within 18 months to contracting officer, and appeals within 3 months, and clarify the appeal process and jurisdiction for hearing challenges by disappointed bidders.
 - Require payment within 90 days of funds due the Government and overturn a recent decision that calls for the Government to use Debt Collection Act procedures before using its right of offset to collect amounts due.
 - Clarifies court jurisdiction to hear certain contract cases; eliminates jurisdiction of district courts.
- o Title IV - The Bribes and Gratuities Act will strengthen the Government's remedies when a contract, grant, or other payment has been tainted by bribery. The Act would:
 - Allow the head of an agency or military department to rescind a contract tainted by bribery.
 - Allow agency heads either to terminate the contract and assess damages that are 3 to 10 times the amount of the bribe, to rescind the contract, or retain all benefits received and recover all money paid as part of the contract.

- o Title V - The Grand Jury Disclosure Amendment will allow the Justice Department to access grand jury materials in preparation of civil actions. This amendment:
 - Permits automatic disclosure of grand jury materials to Justice Department attorneys for civil purposes without a court order.
 - Expands types of proceedings for which other executive departments and agencies may gain court-authorized disclosure to include adjudicative and administrative proceedings.
- o Title VI - Criminal Enforcement Provisions will strengthen the Government's ability to detect fraud and abuse in Defense Department contracts. The provisions:
 - Extend the statute of limitations from five to eight years for offenses involving fraud.
 - Provide Federal contract auditors documentary subpoena power when contracts exceed \$250,000.
 - Allow the use of injunctions as an enforcement tool to deal with fraud in Government contracts.
 - Allow large Defense contractors, upon conviction, to be assessed the costs of investigation and prosecution as part of the sentence.
 - Clarifies contract auditors right of access to records on all defense contracts and subcontracts.

- o Title VII - The Federal Computer Systems Protection Act will broaden and strengthen criminal enforcement sanctions against individuals, making it a crime to fraudulently use a computer owned or operated by the Federal Government or certain financial institutions, or other computers where the offense involves interstate or foreign commerce.
- o Title VIII - The Debt Collection Act Amendment will authorize the Attorney General to enter into contracts to retain private counsel to furnish collection services in cases involving claims of indebtedness under \$20,000 owed to the United States. Under these amendments:
 - The Attorney General establishes terms and conditions, including fee calculation.
 - Agencies can pay for private counsel on a contingency fee basis.
 - All actions will fall within the Fair Debt Collection Practices Act provisions.

The second bill, the Inspector General Act Amendments, will standardize all IG authorities in offices of Inspectors General. The amendments:

- o Provide a uniform pay level for all statutory IGs.
- o Transfer authorizing authority of IGs at the Department of Energy and HHS, currently under separate authorizing legislation, to the IG Act of 1978.
- o Allow OIG personnel to administer oaths and affirmations necessary to perform their jobs.

3. Payment Integrity and Simplification

Essential cornerstones in attempts to improve the management of entitlement programs are payment integrity and simplification provisions. Major progress was made with the passage of DEFRA which included important payment integrity legislation authorizing the exchange of income and eligibility information for the following programs: Food Stamps, Unemployment Insurance, AFDC, and Medicaid, from the following sources: State UI Income, Social Security, IRS Investment Income and other State files.

- o. The following payment integrity amendments would accomplish two goals: expand existing income and eligibility verification provisions to additional entitlement programs and information sources; and establish health insurance verification procedures to allow the Government to collect health care and service costs from liable third parties.
 - Existing income and eligibility verification provisions will extend to four additional data sources: alien status, Civil Service wages and pensions, railroad retirement, and veterans pension and compensation.
 - Additional programs will be able to use the data to verify eligibility: Pell Grants; guaranteed student loans; VA pensions and compensation; HUD loans, grants, interest or rental assistance; school lunch programs; Federal Employees Compensation Act; railroad retirement; health education assistance; and nursing student loans.

- A new Health Insurance Verification System would be established to determine the liability of insurance companies, rather than Federally funded programs, to pay for health care.
 - . Information on individual names, social security numbers, the name of the insuring organization, and the type and extent of coverage will be sought from third parties.
 - . Information released from insuring organizations is safeguarded from unauthorized use, and beneficiaries will periodically receive notice of use of the data.
 - . The insuring organizations will include: private insurance companies, HMOs, self-insured employer-based plans, State and local employee health plans, Federal Employee Health Benefits, Black Lung, FECA, and State workers' compensation programs.
 - . Information on third party liability will be used by Medicaid, Medicare, CHAMPUS, VA, Indian Health Care, FECA, Black Lung, and Maternal and Child Health.
- o The Electronic Funds Transfer Federal Salary Act will require electronic funds transfer of most Federal employee salaries, eliminating costly paychecks, ensuring that Federal salaries and wages are paid on time, and improving operating efficiency.
- o The Treasury Check Limited Payability Act will establish an orderly system for payment of Treasury checks and for issuing replacement checks. The Act:
 - Establishes a 6-month period within which a Treasury check must be cashed.
 - Reduces the claim time from six years to one year for lost, stolen or forged Treasury checks.
 - Allows money owed the Government because of improperly negotiated checks to be more easily recovered.

4. Procurement Process Improvements

Procurement changes are necessary to control Federal spending for goods and services. Last year, nearly \$182 billion was spent on procurement, an expense expected to reach \$190 billion in FY 1985 — nearly one-quarter of the budget. Expenditures of this magnitude are vulnerable to abuse throughout the procurement cycle, and we are suggesting several legislative remedies to this problem.

- o The Civilian Agency Multi-year Contracting Act would give civilian agencies a tool already available to DOD. The proposal would:
 - Allow contracts of up to 5 years for acquisition of property and services.
 - Require appropriations to be available for the first year.
 - Require a cancellation ceiling in the contracts.
 - Require a demonstration of a continuing need for the item, as well as reasonably stable specifications, and require that the contract be in the Government's best interest, without inhibiting small business participation.
 - Reduce the paperwork burden for both the Government and contractors; use competition, economies of scale, improved contractor productivity and the contractor's ability to amortize non-recurring startup costs to significantly reduce Government procurement costs.

- o The Procurement Test Act would provide authority to waive statutes, without separate Congressional action, for programs to test innovative procurement methods. This Act would:
 - Test ways to simplify the procurement process, reduce lead times, and reduce paperwork.
 - Provide a three-year authority for the Office of Federal Procurement Policy to develop plans of limited size and duration and test them in selected agencies.
 - Require that efforts be published in the Federal Register and Congress be notified 60 days before the program takes effect.
- o The Small Purchases Reservation and Commerce Business Daily Procurement Notice Act will increase the threshold for publication of solicitations in CBD and raise the ceiling for reservation of small purchases for small business concerns.
 - The Act raises the threshold for both from \$10,000 to \$25,000.
 - The procurement process will be simplified for small businesses, reducing paperwork and preserving small business' role.

5. Reductions in Regulatory and Paperwork Burdens

Paperwork and regulatory reductions are two areas of continuing success as a result of joint efforts by Congress and the Administration.

Reductions of outdated or unnecessary reports have had a direct impact on productivity improvements in both the public and private sectors, but much more can be accomplished.

- o The Congressional Reports Elimination Act of 1985 would continue an effort which was previously supported by Congress with its 1980 and 1982 Reports Elimination acts.
 - The number of reports required by Congress would be reduced by 186, and an additional 50 reports would be modified.
 - Almost every agency is included, although the heaviest impact would be at DOD, EPA, Energy, HHS and Interior.

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- o The Paperwork and Regulatory Simplification Act of 1985 would eliminate or change statutory reporting requirements currently placed on the public which are creating paperwork burdens.
 - 37 unnecessary regulatory provisions and 23 unnecessary reporting requirements would be affected by the Act.
 - Examples include:
 - . Decennial census of drainage.
 - . Establishment of a standard-sized barrel for fruits, vegetables, and other dry commodities.
 - . Requirement that wholesale liquor dealers post a sign outside their premises.

V. PROPOSED ACTIONS

A new, Presidentially directed Government-wide productivity program supported by a management improvement legislative package should involve the following suggested steps:

- o A Presidential proposal asking Congress to pass a Joint Resolution to establish productivity improvement in the Federal Government as a priority, and to commit Congress to eliminate barriers to productivity improvement.
- o An Executive Order establishing a Government-wide productivity program.
- o Specific directives from each agency head which assign accountability to key officials.
- o Specific goals and measures of outcome to be reported to OMB each year as part of each agency's Management Improvement Plan. These plans should concentrate on four key areas:
 - Technology upgrading, particularly in such routine tasks as processing claims and cases.
 - Structural or organizational reform, such as consolidations and cross-servicing.
 - Methods improvement which results from the "most efficient organization" analysis.

- Managerial and employee behavior, such as soliciting employee suggestions, applying performance standards, and using financial and non-financial rewards. For example, performance work standards should be based on good measurement systems that determine the amount time an activity — particularly a routine one — should require. These work standards should apply to administrative payments, personnel, procurements, etc.
- o OPM should conduct a review of new employee incentive programs that can be tied to productivity improvement and should begin developing an active employee placement and training program to handle any staff changes that result from the program.
- o OMB should assume a leadership role to help agencies conceive and implement an effective productivity program. It has established a Productivity Clearinghouse to facilitate sharing of cost and performance information among agencies. Its inventory contains about 1,000 A-76 and efficiency review documents, has distributed over 2,500 documents so far in response to requests, and handles about 50 inquiries a day. A toll-free hotline has been operating for 5 months. The Clearinghouse is also sponsoring a series of Productivity Forums, covering both policy and applications, which have been attended by more than 400 agency personnel.
- o Objectives, plans, savings and results will have to be incorporated in the budget.
- o A comprehensive annual management report of these results should be provided by the President as part of the budget proposal to the Congress (the first such report was sent up this year).

Advantages

- o Productivity improvement has been a goal of U.S. business for the past few years to improve our country's competitive position. If we are going to run the Government like a business, we should adopt the same goal.
- o The President's personal involvement, and the subsequent legislative and media attention it will generate, will give these management initiatives the necessary critical mass to ensure serious Congressional consideration.
- o This will provide the Administration with an opportunity to present a program that has very little down side, and is clearly on the side of improving management, reducing waste and reducing the cost of Government.
- o Since Richard Wirthlin's polls show that one of the top public concerns continues to be the size of and the waste in the Federal Government, a re-emphasized attack in this area could help generate support for all initiatives.
- o The President has long been identified with the battle against waste and fraud, and with improved management. These initiatives will enable him to continue to play a visible role in this effort.

Risks

- o When the legislative program is introduced, one obvious question may be "exactly how much money will this save?" It would be extremely difficult — and dangerous — to try to estimate the exact savings that would be generated.
- o These legislative initiatives are by no means comprehensive — the Administration could be asked why it has not taken the lead in areas that are not covered.
- o All of the initiatives will probably not be passed, so the "trackers of legislative success" could later reflect on what was not passed.

In summary, we think this is an extremely positive initiative that the President should take the lead on, in order to leverage the successes of the past four years and establish a legacy of improved management in the Federal Government.

ATTACHMENT

ADDITIONAL LEGISLATIVE OPTIONS WERE CONSIDERED BUT NOT RECOMMENDED.

Numerous alternatives, options and additions were considered during the past nine months, but were not included because it was felt that the focus should be on: (1) a Presidential productivity program that would supplement current management improvement efforts, and appeal to the American citizen/taxpayer, and (2) a positive program that could pass the Congress with minimum resistance and would support our budget and tax proposals. Initiatives not included were:

Productivity Legislation

Rather than a Joint Resolution on Productivity, we could propose a specific productivity bill which would go a step farther and directly attack the obstacles that Congress places in the way of improved management. Such a bill would:

- o Allow cost efficiency studies.
- o Remove personnel floors.
- o Expand funding flexibility.
- o Identify a specific Government-wide productivity goal and put it in the budget as real savings.

Specific legislation is desired by some who feel that the endorsement and support of Congress is essential in making productivity in the Federal Government a major national priority. GAO has stated that major management changes in Government do not occur or do not last without supporting or enabling legislation.

Congress has consistently resisted agency efforts to make management improvements which are integral to productivity improvement. For instance:

- o HUD cannot reorganize its field activities without a Congressionally mandated cost-benefit analysis and a 90-day waiting period.
- o Treasury plans to consolidate some of its customer service field offices, beginning in 1987, for savings of \$80 million and 400 FTEs through 1990. However, Congress has previously blocked some field consolidations through prohibitions in continuing resolutions and appropriations bills.
- o VA is required by law to certify that it has maintained the employment level appropriated for its three major medical care programs. In effect, this prohibits FTE reductions or hiring freezes, and eliminates the incentive for management savings.
- o On 13 separate occasions Congress has prohibited or inhibited A-76 operations. For example, GSA cannot contract out for guards, elevator operators, custodians and messengers. Interior must seek Congressional review of any Fish and Wildlife and National Park Service activities scheduled for review. DOD is prohibited from contracting out firefighting and security activities.

- o Labor was just forced to back off much of its regional office consolidation.
- o The House has just added language to the USDA appropriations bill prohibiting even studying the consolidation or reduction of field offices.

The House budget reconciliation package contains a requirement that civilian employment be reduced by 36,000 FTEs, and DOD employment by 20,000; the Senate calls for an overall employment reduction of 44,000 FTEs. In order to achieve these reductions without seriously disrupting the delivery of services to the American public, specific Congressionally passed legislation for a productivity program could be very helpful.

The President should be freed from the constraints of Congressional micro-management of Executive Branch operations in order to permit a systematic, aggressive productivity improvement program to operate.

However, it was decided to recommend a Joint Resolution rather than specific legislation because it was felt that the former was more politically feasible.

Property Management

The Federal Government owns millions of acres of property requiring more effective, streamlined management, including purchasing and sales.

- o Amendments to the Federal Property and Administrative Services Act of 1949 would speed the acquisition and disposal of Federal property by raising the dollar threshold for advance reports to Congress on each property transaction.
 - The threshold for real property fair market value would be increased from \$1,000 to \$1 million.
 - From FY 1980 to FY 1984, GSA submitted 145 explanatory statements to Congress. Had the threshold figures been \$1 million during this time, only 42 explanatory statements would have been required, at an estimated savings in excess of \$82,000.
- o Amendments to the Public Building Act of 1959 would raise the dollar threshold for review by Congress of individual real property projects for construction, leasing, repair or alteration.
 - Currently, the respective Senate and House Committees of Public Works must approve by resolution any dollar amounts in excess of \$500,000.
 - The threshold would be raised to \$2 million and the Administrator of GSA would be required to submit an annual authorization request by October 15 — 11 1/2 months prior to the start of the fiscal year in which the work will begin.

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- o The National Forest System Lands Omnibus Act of 1985 would facilitate the Department of Agriculture's purchase, exchange, withdrawal and disposal of National Forest System lands. The Act would:
 - Allow USDA to convey by quitclaim deed lands erroneously acquired due to survey errors or mistakes, rather than through the current system requiring special legislation.
 - Permit States to exchange tracts of land with the Federal Government without passage of individual authorizing legislation.
 - Clarify the responsibilities of Interior and Agriculture in their administration of rights-of-ways on NFS lands.

Again, it was felt that these would not directly support improved productivity and would be controversial. It is recommended that they be sent up as "stand alone" bills.

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Administrative Payments to States

Part of the original package presented before the Cabinet Council included a change in the method of reimbursing States for administrative expenses for AFDC, Medicaid, and Food Stamps, with a cap on the dollar level for FY 86 equal to the FY 85 level.

This was not recommended for inclusion in this proposal because it is very controversial and is considered to be more of a budget proposal than a productivity or management issue.

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