

**TO ESTABLISH AN OFFICE OF MANAGEMENT
IN THE EXECUTIVE OFFICE OF THE PRESIDENT**

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY

OF THE

**COMMITTEE ON
GOVERNMENT REFORM**

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

—————
FEBRUARY 4, 1999
—————

Serial No. 106-70

Printed for the use of the Committee on Government Reform



Available via the World Wide Web: <http://www.gpo.gov/congress/house>
<http://www.house.gov/reform>

—————
U.S. GOVERNMENT PRINTING OFFICE

61-821 CC

WASHINGTON : 2000

COMMITTEE ON GOVERNMENT REFORM

DAN BURTON, Indiana, *Chairman*

BENJAMIN A. GILMAN, New York	HENRY A. WAXMAN, California
CONSTANCE A. MORELLA, Maryland	TOM LANTOS, California
CHRISTOPHER SHAYS, Connecticut	ROBERT E. WISE, JR., West Virginia
ILEANA ROS-LEHTINEN, Florida	MAJOR R. OWENS, New York
JOHN M. McHUGH, New York	EDOLPHUS TOWNS, New York
STEPHEN HORN, California	PAUL E. KANJORSKI, Pennsylvania
JOHN L. MICA, Florida	GARY A. CONDIT, California
THOMAS M. DAVIS, Virginia	PATSY T. MINK, Hawaii
DAVID M. McINTOSH, Indiana	CAROLYN B. MALONEY, New York
MARK E. SOUDER, Indiana	ELEANOR HOLMES NORTON, Washington, DC
JOE SCARBOROUGH, Florida	CHAKA FATTAH, Pennsylvania
STEVEN C. LATOURETTE, Ohio	ELIJAH E. CUMMINGS, Maryland
MARSHALL "MARK" SANFORD, South Carolina	DENNIS J. KUCINICH, Ohio
BOB BARR, Georgia	ROD R. BLAGOJEVICH, Illinois
DAN MILLER, Florida	DANNY K. DAVIS, Illinois
ASA HUTCHINSON, Arkansas	JOHN F. TIERNEY, Massachusetts
LEE TERRY, Nebraska	JIM TURNER, Texas
JUDY BIGGERT, Illinois	THOMAS H. ALLEN, Maine
GREG WALDEN, Oregon	HAROLD E. FORD, JR., Tennessee
DOUG OSE, California	
PAUL RYAN, Wisconsin	BERNARD SANDERS, Vermont (Independent)
JOHN T. DOOLITTLE, California	
HELEN CHENOWETH, Idaho	

KEVIN BINGER, *Staff Director*

DANIEL R. MOLL, *Deputy Staff Director*

DAVID A. KASS, *Deputy Counsel and Parliamentarian*

CARLA J. MARTIN, *Chief Clerk*

PHIL SCHILIRO, *Minority Staff Director*

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

STEPHEN HORN, California, *Chairman*

JUDY BIGGERT, Illinois	JIM TURNER, Texas
THOMAS M. DAVIS, Virginia	PAUL E. KANJORSKI, Pennsylvania
GREG WALDEN, Oregon	MAJOR R. OWENS, New York
DOUG OSE, California	PATSY T. MINK, Hawaii
PAUL RYAN, Wisconsin	CAROLYN B. MALONEY, New York

EX OFFICIO

DAN BURTON, Indiana

HENRY A. WAXMAN, California

J. RUSSELL GEORGE, *Staff Director and Chief Counsel*

HARRISON FOX, *Professional Staff Member*

MASON ALINGER, *Clerk*

FAITH WEISS, *Minority Professional Staff Member*

CONTENTS

	Page
Hearing held on February 4, 1999	1
Statement of:	
DeSeve, G. Edward, Deputy Director for Management, Office of Management and Budget; Dwight A. Ink, president emeritus, Institute of Public Administration, former Assistant Director for Executive Management, Office of Management and Budget; Harold Seidman, senior fellow, Center for the Study of American Government, Johns Hopkins University, former Assistant Director for Management and Organization, Bureau of the Budget; and Herbert N. Jasper, fellow, National Academy of Public Administration, former professional management staff member, Bureau of Budget	6
McMurtry, Virginia, Specialist, American National Government, Congressional Research Service; J. Christopher Mihm, Associate Director, Federal Management and Workforce Issues, U.S. General Accounting Office; Paul Posner, Director, Budget Issues, Accounting and Information Management, U.S. General Accounting Office; and Ronald C. Moe, Specialist, Government Organization and Management, Congressional Research Service	71
Letters, statements, et cetera, submitted for the record by:	
DeSeve, G. Edward, Deputy Director for Management, Office of Management and Budget, prepared statement of	10
Horn, Hon. Stephen, a Representative in Congress from the State of California, prepared statement of	4
Ink, Dwight A., president emeritus, Institute of Public Administration, former Assistant Director for Executive Management, Office of Management and Budget, prepared statement of	28
Jasper, Herbert N., fellow, National Academy of Public Administration, former professional management staff member, Bureau of Budget, prepared statement of	38
McMurtry, Virginia, Specialist, American National Government, Congressional Research Service, prepared statement of	73
Mihm, J. Christopher, Associate Director, Federal Management and Workforce Issues, U.S. General Accounting Office, prepared statement of	97
Moe, Ronald C., Specialist, Government Organization and Management, Congressional Research Service, prepared statement of	79
Seidman, Harold, senior fellow, Center for the Study of American Government, Johns Hopkins University, former Assistant Director for Management and Organization, Bureau of the Budget, prepared statement of	21
Turner, Hon. Jim, a Representative in Congress from the State of Texas, prepared statement of	51

TO ESTABLISH AN OFFICE OF MANAGEMENT IN THE EXECUTIVE OFFICE OF THE PRESI- DENT

THURSDAY, FEBRUARY 4, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

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

Present: Representatives Horn, Biggert, Ose, and Turner.

Staff present: J. Russell George, staff director and chief counsel; Bonnie Heald, director of information and professional staff member; Harrison Fox, professional staff member; Mason Alinger, staff assistant; Paul Wicker and Kacey Baker, interns; Faith Weiss, minority professional staff member; and Earley Green, minority staff assistant.

Mr. HORN. A quorum being present, the hearing of the Subcommittee on Government Management, Information, and Technology will come to order.

Our Federal Government is one of the largest, most complex organizations on the planet. The President's budget, released this week, records a government with over 1,300 budget accounts, 20,000 programs and activities, and 4.2 million employees, both civilian and military. Through the years, there have been countless attempts to improve its management structure. Nearly all have failed to control the government's unwieldy and often overlapping functions.

Today, enlightened Federal management in the United States lags far behind other, more progressive countries. In New Zealand, for instance, improved management practices have reduced government spending from 58 percent of gross domestic product in 1990 to a projected 47 percent in 1999. This improved management has decreased New Zealand's taxes by nearly 20 percent, and has dramatically improved government performance. I guess we could ask the question: Why can't our Federal Government do the same?

In the last 60 years, three Presidential commissions—the Brownlow Committee in 1937, the first Hoover Commission report in 1949, and finally, the Ash Council report in 1970—each recommended strengthening management within the executive branch. If that is to happen, the President needs a core group

whose professional staff members can advise him and his Cabinet officers at his wishes on key management questions.

In 1998 hearings before the House Subcommittee on Government Management, Information, and Technology, several witnesses concluded that on a regular basis, OMB's management leadership has been subordinated to budget concerns and timeframes.

As many of you know, I was a very strong advocate of adding the "M" to the Bureau of the Budget and making it the Office of Management and Budget. I thought for once we could get the budget its clout to have some focus on the management questions that often are just thrown under the rug regardless of administration. This has nothing to do with Republicans and Democrats. This has nothing to do with liberals or conservatives. Behavior has been the same. As my friends in the senior civil service have been telling me for the last 10 to 15 years, it isn't working. So we are here today to discuss what makes it work and what kind of task group can we have that will really get management done.

Government management problems are regularly ignored because short-term policy and spending issues drive out valuable, long-term management stewardship.

Nearly everyone agrees that the executive branch of the Federal Government needs better management.

We can either try—once again—to focus general management responsibilities in the Office of Management and Budget where they currently reside, or we can move management responsibilities to a newly created Office of Management in the Executive Office of the President.

The first choice has been tried and retried with little success. The second would give the President two teams of advisers: one for budgetary issues and another for management.

Resistance to the second alternative has been resolute because many believe that the clout of the budget can force management reform. And as I said earlier, empirical evidence, fortified with experience, proves just the opposite. Long term-employees in the Executive Office, three of whom are here today to testify, confirm that within the Federal Government, the budget often drives out good management.

In Theodore Roosevelt's speech on "New Nationalism," he provides a road map for effective government management. The former President stated: "No matter how honest and decent we are in our private lives, if we do not have the right kind of law and the right kind of administration of the law, we cannot go forward as a Nation."

An Office of Management is a key step to a more efficient, effective, and responsive administration of government. My friends in the Office of Management and Budget, both current and past senior officers, surely understand that their dedication, good intentions, and hard work are not being criticized. The intent in creating the Office of Management is to make it easier for dedicated public servants to succeed and, therefore, to improve management throughout the executive branch.

We now turn to a discussion on the best way to accomplish that goal.

I think one of our sort of reference points here is the various studies that the Government Accounting Office [GAO], has done. And this year, as usual, they have done an excellent study and this is "Major Management Challenges and Program Risks, Government-Wide Perspective," and just to take up one of many, major management challenges and program risks, DOD.

A lot of these matters should have been dealt with many, many years ago. The one that comes to mind more recently is the year 2000 problem. That should have happened way back in 1989 when the Social Security Administration was the first agency on its own initiative to face up to what was coming at the end of the century.

And the example I have used so often of the Federal Highway Administration where it had been brought to their attention by one of their excellent employees and they didn't pay attention to it. There was no system for management. This was 1989. This has nothing to do with the current administration, but this is the type of thing that happens where they don't face up to these issues either at the Department level, the Cabinet level or the executive branch level. I believe the trouble that we are in and the procrastination that occurred over a decade is a good example of when the Director of the Office of Management should have been knocking on the door of the President and saying, "Look, we have a problem, we need your help and let's discuss it."

[The prepared statement of Hon. Stephen Horn follows:]

TAN BURTON, INDIANA
CLERK

ONE HUNDRED SIXTH CONGRESS

TERRY A. WAHMAN, CALIFORNIA
FINANCING CHIEF

Congress of the United States
House of Representatives

COMMITTEE ON GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6143

“Creating the Office of Management”

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)

Chairman, Subcommittee on Government Management,
Information, and Technology
February 4, 1999

A quorum being present, the hearing of the Subcommittee on Government Management, Information, and Technology will come to order.

Our Federal Government is one of the largest, most complex organizations on the planet. The President's budget, released this week, records a government with over 1,300 budget accounts, 20,000 programs and activities, and 4.2 million employees. Through the years, there have been countless attempts to improve its management structure. Nearly all have failed to control the government's unwieldy and often overlapping functions.

Today, enlightened Federal management in the United States lags far behind other, more progressive countries. In New Zealand, for instance, improved management practices have reduced government spending from 58 percent of Gross Domestic Product in 1990 to a projected 47 percent in 1999. This improved management has decreased New Zealand's taxes by nearly 20 percent, and has dramatically improved government performance. Why can't our Federal Government do the same?

In the last 60 years, three presidential commissions – the Brownlow Committee in 1937, the first Hoover Commission report in 1949, and finally, the Ash Council report in 1970 – each recommended strengthening management within the Executive Branch. If that is to happen, the President needs a core group whose professional staff members can advise him and his Cabinet officers on key management questions.

In 1998 hearings before the House Subcommittee on Government Management, Information and Technology, several witnesses concluded that on a regular basis, OMB's management leadership has been subordinated to budget concerns and time frames.

Government management problems are regularly ignored because short-term policy and spending issues drive out valuable, long-term management stewardship.

Nearly everyone agrees that the Executive Branch of the Federal Government needs better management.

We can either try – once again – to focus general management responsibilities in the Office of Management and Budget where they currently reside. Or we can move management responsibilities to a newly created Office of Management in the Executive Office of the President.

The first choice has been tried and retried with little success. The second would give the president two teams of advisors: one for budgetary issues and another for management.

Resistance to the second alternative has been resolute because many believe that the clout of

the budget can force management reform. Yet empirical evidence, fortified with experience, proves just the opposite. Long-term employees in the Executive Office, three of whom are here today to testify, confirm that within the Federal Government, the budget often drives out good management.

In Theodore Roosevelt's speech on "New Nationalism" he provides a road map for effective government management. The former President stated: "No matter how honest and decent we are in our private lives, if we do not have the right kind of law and the right kind of administration of the law, we cannot go forward as a nation."

An Office of Management is a key step to a more efficient, effective, and responsive administration of government. My friends in the Office of Management and Budget, both current and past senior officers, surely understand that their dedication, good intentions, and hard work are not being criticized. The intent in creating the Office of Management is to make it easier for dedicated public servants to succeed and, therefore, to improve management throughout the Executive Branch.

We now turn to a discussion on the best way to accomplish that goal.

Mr. HORN. We have two panels with us today.

On panel one, we welcome the Honorable Edward DeSeve, the Acting Deputy Director for Management, Office of Management and Budget; Mr. Dwight Ink, president emeritus, Institute of Public Administration, former Assistant Director for Executive Management, Office of Management and Budget; Mr. Harold Seidman, senior fellow, Center for the Study of American Government at John Hopkins University, former Assistant Director for Management and Organization, Bureau of the Budget; Mr. Herb Jasper, fellow, National Academy of Public Administration, former professional management staff member of the Bureau of the Budget.

And we will wait to introduce panel two. Could we have the ones that I have named, Mr. DeSeve, Mr. Ink, Mr. Seidman and Mr. Jasper come forward and take the oath.

[Witnesses sworn.]

Mr. HORN. Before I start the first panel, I do want to introduce the members who are here and ask if they have any opening statement. We would be glad to have it at this point.

The vice chairman, Mrs. Biggert, do you have any comments?

Mrs. BIGGERT. No, I don't have any comments. I would like to hear the testimony.

Mr. HORN. The gentleman from California?

Mr. OSE. No.

Mr. HORN. The ranking member, if he has a statement, it will be put in the record following my own opening remarks.

Now, let us start with Mr. DeSeve. It is always good to see you here, and we would welcome your comments.

STATEMENTS OF G. EDWARD DeSEVE, DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; DWIGHT A. INK, PRESIDENT EMERITUS, INSTITUTE OF PUBLIC ADMINISTRATION, FORMER ASSISTANT DIRECTOR FOR EXECUTIVE MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; HAROLD SEIDMAN, SENIOR FELLOW, CENTER FOR THE STUDY OF AMERICAN GOVERNMENT, JOHNS HOPKINS UNIVERSITY, FORMER ASSISTANT DIRECTOR FOR MANAGEMENT AND ORGANIZATION, BUREAU OF THE BUDGET; AND HERBERT N. JASPER, FELLOW, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION, FORMER PROFESSIONAL MANAGEMENT STAFF MEMBER, BUREAU OF BUDGET

Mr. DESEVE. Mr. Chairman, I would like to submit my testimony for the record, and then I have three points that I would like to make. And we are going to use some charts over here, if you would tell us what the best position for these charts is so that the committee can best see them.

Mr. HORN. We need to move it forward.

Mr. DESEVE. Let's do that.

Mr. HORN. Do you have color charts to pass out to us?

Mr. DESEVE. I am afraid that our budget doesn't take us that far. I also want to apologize for my own speaking voice which is not normally this timbre.

What I want to do is make three points today in regard to the linkage of management and budget and the imperative that I believe will continue the need to link them in the future.

First, we will be preparing, and I am happy to submit an early draft to the committee—this has just been bound today and I have extra copies—of the Government-Wide Performance Plan. That plan is required by the Government Performance and Results Act and it is three sections of the President's budget as it was last year, section 3, section 4 and section 6. I am going to talk about two of the sections today and use those two, section 3 and section 4, to show you what I believe is the inextricable linkage between management and budget if you are to use budget to lever management.

You and I disagree on that, and I appreciate your oversight because it does keep us on our toes and keep us thinking about how to best articulate the relevance of these issues.

The first chart on the left is one that Director Lew has used and Deputy Director Mathews has used recently to demonstrate to the general public both the peril that the Nation faced during the years, Republican or Democrat, prior to this administration and the way in which surplus was reached.

If the United States had been a European country under the Maastricht agreement, it would not have been admitted to the European Monetary Union because its deficit as a percent of GDP exceeded 3 percent annually during the period.

As you can see, the receipts averaged 18½ percent during that period and the outlays averaged 21.9 percent. So we would have failed the Maastricht test of less than 3 percent of GDP. Everyone says it is the wonderful economy that brought us to this point.

This chart demonstrates that it is the decrease in outlays as a percentage of GDP as well as the increase in revenues. And much of that decrease in outlays can be laid to the oversight of this committee and other committees of Congress as they took very seriously their responsibilities under the Budget Reconciliation Act of the past as well as under the Balanced Budget Act. It was carefully crafted to put caps on domestic discretionary spending. What that forced agencies to do was to manage to those caps so that budget led the need for management, and it was almost in lockstep.

What we see in the center chart is the decline in FTE, full-time employment. That is the full time equivalent employment during that same period. And the driver here again was the notion of scarcity. If we are to constrain our budget, we need to continue to constrain and streamline the way government works. That budget constraint helped to drive management constraint. Management without budget in that case would perhaps have led to a line that was more gradual, but this Congress committed that there would be more police on the streets. It was a substantive decision, and funding those police came in large measure from 365,000 fewer FTE, about a 16-percent decrease during the period 1993 through 1998 actually.

Now it will go up slightly this year. Why? Because we are hiring a lot of census workers, about 64,000 census workers. But the permanent work force will continue its decline while the temporary census increase moves it up. So there are 365,000 fewer FTE on the payroll during the period ended September 30th compared to 1993.

Again we had to manage to that. Each department had to manage that budgetary constraint because of the desire to bring those two lines together.

When we go to the far right, we see how the Office of Management and Budget has reorganized itself to deal with those challenges. The Office of the Director, and this is not a chart that I created, I turned to the Budget Resources Division and I said, "Give me the latest chart." It is a chart that we use all of the time.

It shows the OMB Director, Deputy Director, and Deputy Director for Management are the Office of the Director. On the right side are the three statutory offices which by statute report to the Deputy Director for Management.

On the left side are the very important support functions of OMB that in a new Department of Management would have to be re-created. We would have to have an administrative division. We would not have to have a budget review. We would have to have some kind of a communications office. We would have to have some kind of nexus with the economy, maybe not an Economic Policy Office. We would have to have a Legislative Affairs Office, and the use of our legislative reference division, which sounds innocuous, but that is the clearance process that is part of the guts of how OMB operates.

All of those entities on the left-hand side are continuously available for management purposes. I really use those folks. Section 3 of the budget talks about economic performance, and it is part of the Government Performance Plan. I worked very closely with those economists in preparing that section and highlighting the performance targets we have for the economy and for the deficit.

On the right-hand side, I supervise those offices. But as we try to carry out the responsibilities of OMB—and if I move over to the chart, will that be a problem for the stenographer?

Mr. HORN. There is microphone over there at the end.

Mr. DESEVE. The reason that I want to do that, these are priority management objectives. This is the second year in the budget that we have had these. We talked about them to you in December when we began the process of creating them. There are four different types. The first set are the governmentwide priority management objectives.

The first is Y2K. A year ago at the urging of many—certainly you and Congresswoman Morella were in the forefront—the President agreed that it was appropriate to create the Office of the President for Y2K conversion. John Koskinen is dual hatted, as you probably know. He has a hat at OMB and a hat in the White House. The way John and I work is we use each of the Program Associate Directors here as the filters for all of the budget information and the program information for Y2K. They are the gatherers and the filterers of everything that the Department does.

Similarly when I move down to section 3, these are the audited financial statements of the government. We have a target to have a clean opinion of the governmentwide financial statement in a year. I expect to be before you again sometime in early April talking about the progress that has been made with GAO. Are we finished? No. Has progress been made? Yes, and we will testify to that.

The way that we get that done is we use the resource management offices, the RMOs, as our levers. First of all they supply the dollars to the IGs for the audits and they nudge the departments as they go forward to do better and ask them why they are not doing better.

But the other important factor, as we go through other PMOs, priority management objectives, many of them are budget driven. Why do we want to improve contract management in DOE? To save money.

Why do we want to strengthen HCFA's management capacity? Because we took savings in the budget this year that now we have to follow through with management reform.

Why do we want to implement IRS reform? Because this Congress and OMB felt very strongly that the IRS reform is needed. We supported legislation. We passed legislation with sweeping management changes in salary structures, accountability and reporting, putting a citizens' advocate in the IRS. How do we do these things? We do them as a result of the RMOs, the budget people bringing proposals forward that can either save money or improve operations. My job is the part of a coordinator.

When John Koskinen testified that there are 518 people in OMB who work on management, he was simply expressing the notion that this entire organization is available to him. To bifurcate it, take this group out and perhaps some of these folks out and to move them away would be to significantly weaken that linkage and make more difficult our ability to carry out these, to keep the pressure on to keep this going in this direction, and ultimately to achieve the performance that we all care about which is the nature of the surplus.

That is my testimony today. I would be happy to take questions at this point.

[The prepared statement and charts of Mr. DeSeve follow:]

G. EDWARD DESEVE
DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
MANAGEMENT, INFORMATION AND TECHNOLOGY SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

February 4, 1999

Chairman Horn and Members of the Subcommittee: I appreciate the invitation to appear today before the House Management, Information and Technology Subcommittee to discuss the creation of a separate Office of Federal Management (OFM).

The prospects for improving government management have been strengthened substantially by three initiatives. First, balancing the budget has forced us to look at how, and how well, programs are operating. As the President has explained:

"We made a decision that was profoundly important, that the way Government works matters, that we could not maintain the confidence of the American people and we could not have ideas that delivered unless the Government was functioning in a sensible, modern, and prudent way."

To enable programs to continue to operate at current levels and to have a surplus that is available to fix Social Security, it is necessary to exert tight fiscal discipline which requires even better management. It is interesting to note that the focus on improved management in the private sector has been spurred, to a large extent, by similar external pressures - in that case, competition both domestic and foreign.

Second, the implementation of the Government Performance and Results Act (GPRA) has given us a process for introducing and expanding the use of performance information into the decision-making process, particularly the resource allocation process in the preparation and execution of the Budget. One of my highest priorities as Deputy Director for Management is to make the resource allocation process more performance and less input driven. The GPRA, an initiative of this Committee, has given us the tools for connecting resources to results in resource allocation and management. At OMB Director's Review this year, each presentation incorporated key measures from agency plans and analysts used these measures in describing the effect of a proposed budget level.

Finally, the reorganization we call OMB2000, instituted in 1993 to integrate OMB's budget analysis, management review and policy development roles, gave us an organizational

framework for making real management change happen. One example of this is the preparation by the President's Management Council's Electronic Processes Initiative's Committee of the *"Electronic Commerce for Buyers and Sellers: A Strategic Plan for Electronic Federal Purchasing and Payment."* In trying to advance this plan for electronic commerce, the Office of Federal Financial Management (OFFM) and the Office of Federal Procurement Policy (OFPP) enlisted a virtual staff from all of the Resource Management Offices (RMOs). Additionally, for some functions, like human resources, the lead for a government-wide policy area is now vested in an RMO. As a result our capacity in these areas has been enhanced as well.

In short, I simply cannot imagine a bifurcated Office of Management and Budget trying to deal with agency streamlining, improving customer service or implementing the GPRA. Let me explain why, in a bit more detail.

Resource allocation and management are fundamentally interdependent.

Management cannot somehow be divorced from budget issues. In the real world, resource allocation and management are synonymous. Given the complex systems that are necessary to address public problems, we must operate with considerations of management and budget together, not apart. This reflects the realization that these two sets of concerns are in fact intertwined in actual operation. And as we continue to operate in a balanced budget environment where fiscal discipline is linked to programmatic performance, the twin concerns of "management" and "budget" will become even more intertwined.

Lessons from OECD Countries

Lessons from the 29 largest democratic, market economies which comprise the Organization for Economic Cooperation and Development (OECD) confirm this approach. Their experience suggests that improved integration of budget and management decision making is the most productive and effective approach to realizing a better understanding of the relationship between investments and outcomes.

At a March 1996 Ministerial symposium, OECD Ministers responsible for public management met to identify common features of successful governance. What became apparent was that efforts to improve public management are likely to fail if management considerations are seen as distinct from (or worse, in opposition to) fiscal and budgetary policies. Successful countries have built alliances between these efforts and see them as inherently budgetary in nature. These include:

- controlling the costs of direct government operations,
- providing financial flexibility to permit resources to be used more effectively,
- financing essential training,
- reallocating tasks to the private or public sectors, and
- assessing performance.

Rather than being an end in and of itself, improved public management is seen as fundamental to pursuing a government strategy that is designed to:

- support sound fiscal policy,
- improve service to the public,
- rationalize the distribution of tasks between the private and public sectors, and
- lower the cost of government.

As you can see, the scope of public sector reform goes well beyond the traditional concern over organization and management. Countries that have had success in carrying out reforms have lodged responsibility in two central locations: "centers of government" offices such as the Prime Ministry (or in the case of the U.S., the Executive Office of the President or the White House), and "central management" bodies such as Finance Ministries.

Thus, elsewhere in the OECD countries, there is a strong sense that they need an integrated, rather than fragmented, approach to central budgeting and management.

All of OMB's resources are available to the DDM

OMB 2000 expanded the focus of the "budget side" to more formally and aggressively recognize "management issues." The Deputy Director for Management's role is to act as a coordinator of all such management activity within OMB and to assure the active participation of all parts of OMB in dealing with management problems. Consistent with the principles underlying the Results act, we feel "management" is about enabling and ensuring program results. It cannot succeed if seen as being conducted for its own sake.

A good example of this involvement has been the development of the Administration's list of Priority Management Objectives which was published for the first time in the President's Fiscal Year 1999 Budget and which has been updated in the FY 2000 Budget. This list contains both crosscutting goals (e.g., manage implementation of the Year 2000 Conversion) and agency-specific goals. Each of these goals reflects the desire of the Administration to seek accomplishment of specific results during the remaining two years of this Administration. The goals were developed by the RMOs and Statutory offices in concert. The process for developing them, reviewing them and monitoring them is coordinated by the DDM with assistance from the Budget Review Division. The National Partnership for Reinventing Government has been a third part of this team and its High Impact Agency commitments for improved results that Americans' care about were coordinated in each agency by the RMOs and in general by the DDM.

As Deputy Director for Management, I have at my disposal the capacity of all of OMB, rather than being the head of the management-side alone. For example, rapid internal and external review and clearance of work products by the Budget Review Division and the Legislative Review Division is tremendous resource for the DDM staff. Further Economic Policy provides institutional knowledge for many initiatives particularly in the financial

management area. Communication with Congress is coordinated by Legislative Affairs. In sum, the entire organization works to support the DDM. This support is crucial to the effective execution of the DDM's responsibilities and the Administration's priorities.

Another view

Two General Accounting Office (GAO) reports support this view. In May 1998, GAO concluded a comprehensive "general management review" of OMB's functions and operations. Significantly, the report, "Managing the Government," did not recommend separating the "M" and "B" or creating a new office of federal management. Quite the contrary, GAO urged OMB to take steps to further integrate its functions. That is, of course, what occurred in the OMB2000 reorganization. In a follow up report, "Changes Resulting From the OMB2000 Reorganization" (December 29, 1995), GAO described changes that occurred as a result:

"there was greater attention to agency management issues in the fiscal year 1996 budget process (after OMB 2000 was implemented) than in the fiscal year 1995 process. A greater variety of management issues were presented in more depth in the fiscal year 1996 documents than in previous years' documents. These results reflected the clear commitment of OMB's top officials to ensure the treatment of management issues in the budget cycle."

OMB's system-wide perspective

Major policy issues with which a modern president must deal seldom fit into the confines of a single department. Revitalizing the economy, controlling drugs, protecting the environment, reforming education, restructuring welfare, or creating jobs: each of these issue-areas and dozens of others require coordinated analysis and action across many executive branch agencies.

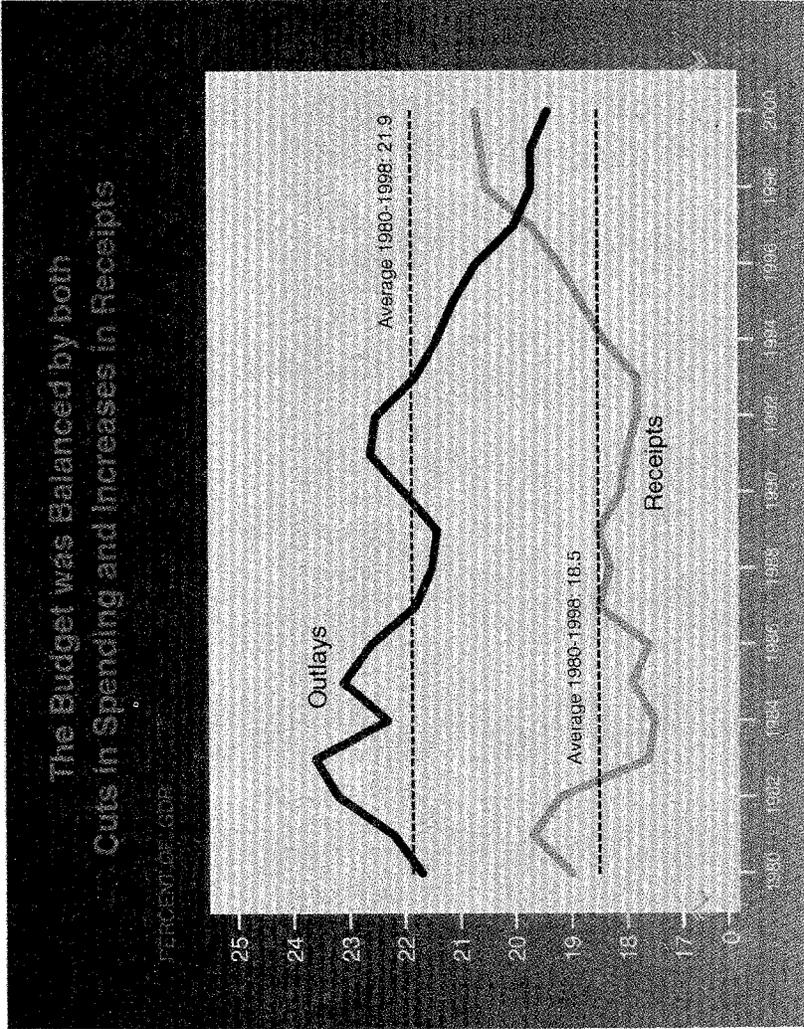
OMB's strength is its unique system-wide perspective: its staff draws on experience in many areas of government to challenge the thinking of other agencies, which often cannot see beyond their own programs.

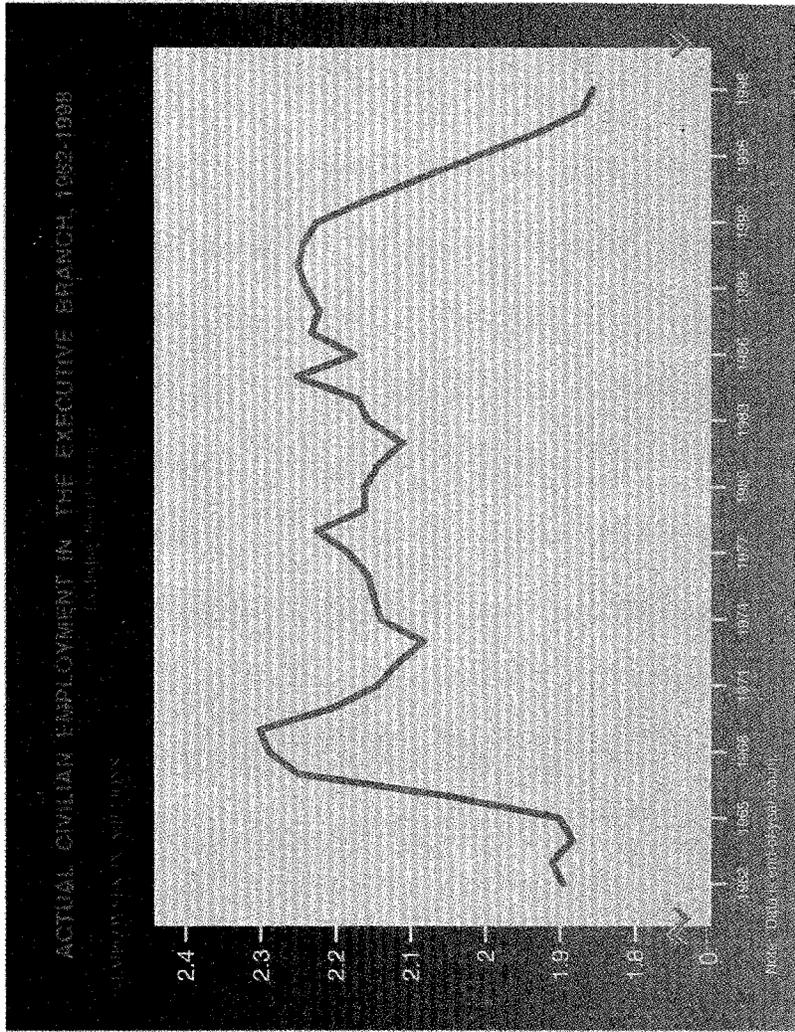
OMB's activities are part of a comprehensive whole -- from policy development through program implementation and evaluation. These important responsibilities should be carried out in an integrated a manner, not through fragmented organizations. Management reform is not an end in itself, but rather one aspect of government strategy that is designed to support sound fiscal policy, improve service to the public, rationalize the distribution of tasks between the private and public sectors, and lower the cost of government.

Conclusion

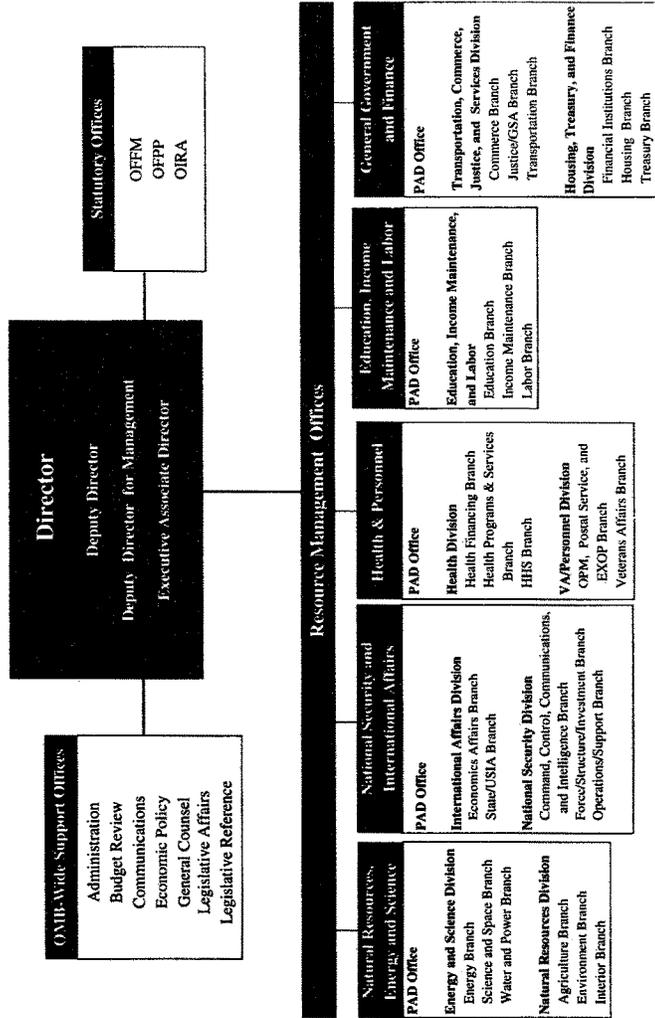
Only through an integrated approach can we best serve the President and assist Federal agencies in grappling with the complex issues raised by an era of fiscal discipline, downsizing, restructuring and other management challenges as they attempt to produce a government that “works better and costs less.”

I would be pleased to answer any questions that you have.





Office of Management & Budget



Priority Management Objectives

Strengthening Government Wide Management

1. Manage the year 2000 (Y2K) computer problem
2. Use results to improve program management
3. Improve financial management information
4. Protect critical information infrastructure
5. Strengthen statistical programs
6. Implement acquisition reforms
7. Implement electronic Government initiatives

Improving Stewardship Of Assets

8. Better manage financial portfolios
9. Better manage real property

Improving Program Operations And Integrity

10. Verify that the right person is getting the right benefit
11. Use competition to improve operations

Improving Program Management

12. Modernize student aid delivery
13. Improve DOE contract management
14. Strengthen the HCFA's management capacity
15. Implement HUD reform
16. Resolve disputes over Indian trust funds
17. Implement FAA management reform
18. Implement IRS reforms
19. Streamline SSA's disability claims system
20. Revolutionize DOD business affairs
21. Improve management of the decennial census
22. Manage risks in building the International Space Station
23. Improve security at diplomatic facilities around the world
24. Reengineer the naturalization process and reduce the citizenship application backlog

Mr. HORN. Well, I am going to not only have Members ask you some questions, but since we have a distinguished panel of your ex-colleagues who have broad experience in five or six or seven different administrations, have a dialog here, not just a Q and A. When John answered that question that way, I thought he said there were 540, so maybe you have dropped a few.

Mr. DESEVE. It is 518.

Mr. HORN. My answer was when you have that many people involved, it means that you have nothing involved because you just can't get the focus on that, and you don't have 500 people. Roosevelt and Truman and Eisenhower had probably 20 or so that knew what they were doing in this area, which didn't mean that they didn't call on their colleagues throughout the Bureau of the Budget at that time, or call on the Cabinet departments or call on outside people, whoever it is.

But they focused and they knew, they drafted the Marshall Plan. They drafted Government Corporation Designs which was a new delivery of service, and all of that, and nothing stops the two offices from cooperating. They are both part of the Executive Office of the President that came out of the Brownlow Committee, and it doesn't mean that they are duplicating resources. You don't. You work with the budget people. But the fact is the "M" bit since Nixon has not worked. And if it was working, we wouldn't be here today and GAO wouldn't be writing reports on management things that haven't been dealt with.

There is a wonderful, nice group of people there. I am not criticizing them. The five resource offices have been around since at least the sixties, and they have a lot of skilled persons, but their major concern is the budget and not management, and that is where we need to have people that know something about management and structure and can work on that and can give the President that insight.

The fact is that President Reagan, President Bush, and President Clinton did not really get good management advice out of that system in the year 2000 situation. Until our hearing in April 1996, not much was happening, only Social Security. When I surveyed the Cabinet, several of them said, I have never heard of the problem—Mrs. O'Leary and Mr. Pena to be exact. They had no goals. They had no person in charge or their own agencies, and it just went right down the line as a major management failure under three administrations.

Here is Social Security. They are smart. They have always been considered the best run Federal administration in the city. They were when I was on the Hill in the sixties, and they are still today. So they saw it, and that idea should have gone throughout the administration and not had to wait until February 1998 to appoint someone in charge. If the President had been briefed in 1988–1989, that person would have been back there working throughout that decade. Now we have a time crunch and we have had much procrastination, but we can't do anything about it. The clock moves on, and so now we have to solve the problem, maybe in a rush, maybe in a panic. Maybe it is costing more money than if we had systematically done it, and those things concern me.

Would any member of the panel like to get into this dialog? Mr. DeSeve has to leave in a little while and this will be our only chance to have this dialog.

Mr. INK. In my testimony I have a number of points.

Mr. HORN. Move the microphone right up to you because these hearing rooms were not designed with any great management thought.

Mr. DeSeve is not going to be able to stay with us. I am interested in what your perspective is and what questions you would raise, because he isn't convinced that the separate management office will help much.

What can you tell us in a nutshell as to what under Roosevelt and Truman and Eisenhower worked, and then it sort of slowly went down and there was political intrusion by both parties and all of that?

Mr. SEIDMAN. I think Ed DeSeve's testimony proved the point. The two functions are not integrally related to each other. What I don't find in his testimony is how you are dealing with the basic cross-cutting issues. Their approach is focused around agency and agency budgets.

The function of the management office when I was there was primarily providing staff advice to the President and the Congress in dealing with these across-the-board issues. Some of the things that I was dealing with, for example, included such questions as how do you govern the territories and possessions of the United States? How do you bring new States into the union? Pay comparability. How do you remove the obstacles that States and local governments faced in dealing with the Federal Government? Working cooperatively with the Governors' Conference, with the mayors, these were the kind of things that we did. We developed an organizational philosophy and criteria.

The two different functions are not integrally related. In fact it was a handicap for us. We did not need budgetary clout. I found clout to be a handicap. One of the things on the management side we had to do was establish our independence of the budget before we talked. As I pointed out in my testimony, you don't get into really a rational debate with someone with a club behind their back. I found it was a strength not to have clout because it put the burden of proof on us to persuade people of what we were proposing.

[The prepared statement of Mr. Seidman follows:]

STATEMENT OF
HAROLD SEIDMAN
SENIOR FELLOW
JOHN HOPKINS UNIVERSITY

BEFORE THE

THE GOVERNMENT MANAGEMENT INFORMATION
AND TECHNOLOGY SUB. COMMITTEE OF THE HOUSE
COMMITTEE ON GOVERNMENT

REFORM AND OVERSIGHT ON H.R. _____

TO ESTABLISH

AN OFFICE OF MANAGEMENT IN THE EXECUTIVE OFFICE
OF THE PRESIDENT

FEBRUARY 4, 1999

Mr. chairman and members of the Committee:

I am pleased to testify in support of H.R. _____ to establish an office of management in the Executive office of the President

My name is Harold Seidman, I am a senior fellow of both the National Academy of Public Administration and the Johns Hopkins University Center for the study of American Government. From 1943 to 1968 I served in the Division of Administrative Management in the Bureau of the Budget and it's successor the office of Management and Organization as management analyst, Chief of the Government Organization branch, and Assistant Director for Management and Organization under Presidents Kennedy and Johnson.

The time has come to grant the "M" a divorce from the "B" in the Office of Management and Budget on the grounds of neglect and proven incompatibility. Attempts to establish an equal partnership by including management in the agency's title and in 1990 creating a Deputy Director for Management have failed. Under Presidents Reagan and Bush, all that was left of the "M" in OMB, like the Cheshire cat in Alice in Wonderland, was the smile. Under President Clinton the smile is gone. As a result of the OMB 2000 review, management functions were integrated with and wholly subordinated to the budget functions. Most of the deputy Director for Management's staff were transferred to 5 resource management offices. Integration did not work when it was tried in 1952 and given OMB's necessary preoccupation with budget issues, it is even less likely to work today.

What has been ignored are the fundamental differences in the culture and sense of role and mission of management analysts and budget examiners. Budget examiner have a short term perspective dictated by the budget cycle, focus exclusively on agencies, measure success by the

bottom line, and emphasize control. On the other hand, management analysts must focus on issues cutting across agency lines, recognize that the results require a sustained effort over a long term, and measure results by more than strictly financial criteria.

In my experience the relationship between the "M" and the "B", with a few notable exceptions, reflected mutual misunderstanding and mistrust. It was assumed that the Budget Bureau's function was to produce the budget and that anyone who engaged in unrelated activities existed outside the mainstream. Examiners often tended to be protectors of their agency's turf and opposed raising management issues which might impair their relationship with their agency and make it more difficult to bargain about more important budget issues. Advocating legislation, testifying before Congress, and working closely with congressional staff, common practice for management staff, were things just not done by budget examiners.

I found the budget process as it then operated to be a disincentive for management reform. Agencies were not permitted to retain savings for higher priority programs and ran the risk of having their budgets reduced the next year by the amount saved. Our relationships within the Bureau of the Budget were mainly with the Office of Legislative Reference, not the budget divisions. When I was Assistant Director for management and organization, I attempted to establish cooperative relationships with the budget divisions. I invited them to participate actively in management projects, but none agreed to do so. Some supported our efforts and their advice was constructive and invaluable, but this was the exception. When it came to the bureau there was an identifiable budget season and examiners spent considerable time in the field with their agencies. This is no longer true. Examiners do not have the time to devote to management projects, even if they should desire to do so.

We were most effective and had the greatest influence when we were able to work closely with White House staff, congressional committees, and outside groups such as the Hoover commission, and the President's advisory committee on government organization.

The argument for an essential link between the management and budget functions is based on a narrow and outdated concept of management's mission. Management's role is not limited to assisting budget examiners in finding ways and means to reduce agency budgets. The Office of Management's prime mission should be as adviser to the President and the congress on organizational policy and strategy, program design, and management reform. It should have the capacity to focus on long term issues and to analyze the implications of such Developments as technological revolution, results based administration, reliance on third parties to administer government programs, and proliferation of government sponsored enterprises for government organization and management. This function cannot be performed satisfactorily by an ad hoc group such as the National Partnership for Reinventing Government which does not have an institutional or statutory base.

The Office's primary role with respect to agencies should be to provide assistance, advice and sustained support in helping them to improve management and solve their own problems. It should not become another organ of control.

Conventional wisdom has it that the management function cannot be effective without support from budgetary clout. I know of no instance where budgetary clout enabled us to achieve management reform. On the contrary, we often had to establish that we were independent of the budget before agencies would work with us. I believe that absence of clout was a strength rather than a weakness because it compelled us to rely on persuasion. People are not likely to enter into

a rational debate with someone who has a club behind their back.

A report of the National Academy of Public Administration and its standing panel on executive organization and management have recommended a separate office of management. I urge enactment of H.R. _____.

Biography

Dr. Harold Seidman is a Senior Fellow of the Johns Hopkins University Center for the study of American Government and the National Academy of Public Administration.

He has been Director of Coordination and Research, New York City Department of Investigation, Management Analyst, Chief of the Government Organization branch, and Assistant Director for Management Organization, U.S. Bureau of the Budget, Professor of Politics, Leeds University (England), and Professor of Political Science, University of Connecticut. Guest scholar London School of Economics, and Brookings Institution.

Consultant to Senate Committee on Government Operations, United Nations, and many foreign governments.

Author of Politics, Position and Power, The Dynamics of Federal Organization (5th edition) Oxford University Press, 1998.

Mr. INK. I found the same to be true. I found the more we could distance ourselves from being identified with the budget process, the greater our strength with the Cabinet members, the greater our credibility with the Congress, the greater our ability to help the President in advancing initiatives, the greater our ability to develop legislative executive initiatives and reforms on a bipartisan basis.

One of the problems is that: Mr. DeSeve is an extremely able person, as was John Koskinen, and Jonathan Breal for whom I have the greatest respect.

What we are really saying is that we would like to liberate them from the handicaps and limitations of working within the budget which is basically a long program, individual program alliance. The tremendous pressure associated with the policy disputes involved in these budget issues is very time-consuming. It is very difficult for the very best people to break away long enough to address these fundamental management issues, particularly those that have a long-term impact that don't fit into a 12-month annual budget cycle, which is the focus of the budget.

I think we get a little confused because there are useful things going on. There are good initiatives that are being undertaken. What we fail to recognize is that the potential is much greater than what is going on. The need, in my view, for fundamental change is much greater than we recognize today.

My view of what ought to be done and many people think is too radical, and it is if you don't have good management underpinning those changes. It has always been my view that you can be more creative, more innovative, take more radical steps if you follow basic principles of management.

We need to be training people as we downsize to get them better equipped for new roles. The smaller the work force, the more important it is that the work force we retain are highly qualified and well trained.

For example, we talk about outsourcing. This chart doesn't show the number of people that the taxpayers are now supporting through contracts. What it doesn't show either, and neither does the GAO report, is the fact that in a number of these agencies as we rely more and more upon private companies and third-party arrangements to carry out governmental missions, we are failing badly in a number of these agencies to retrain people and develop people for entirely new roles, that of administering third-party government.

[The prepared statement of Mr. Ink follows:]

28

Testimony of

DWIGHT INK

President Emeritus, Institute of Public Administration

Before the

**SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY**

Hearing on an Office of Management

February 4, 1999

Testimony of Dwight Ink on
A Bill to Create an Office of Management

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to testify on the proposed legislation which would establish an Office of Management in the Executive Office of the President. Over the years I have led management reforms for several presidents and have been involved in others. However, in my judgment, none of those governmental changes have contributed as much to the effective operation of the national government we need for the future as could the Office you have proposed.

These comments represent my personal views and are based in part on my experience in heading several bureaus and agencies, in part on chairing several presidential task forces striving to bring about reforms, and in part on heading the Office of Executive Management (EOM) in the Bureau of the Budget (BOB), as well as serving as the first assistant director for management in the Office of Management and Budget (OMB). I support the proposed Office of Management with enthusiasm.

First, why do we need such an office?

Over the past several decades, we have heard many concerns about agency failings and deterioration of the general capacity of the federal government to manage effectively. During this same period we have also heard much about initiatives of both the executive and legislative branches to modernize government, some of them quite promising. In my view, however, the net result falls considerably short of where the public has a right to expect us to be today.

Under President Nixon, for example, we experienced a massive attack on red tape in the federal grant system that had hobbled efforts to relieve deep social ills in communities around the nation. Yet today we hear numerous new complaints about the proliferation and overlap of categorical

grant programs burdened with costly new versions of red tape. We also have lost much of our earlier carefully developed skills in decentralizing functions in ways that preserve accountability. Under President Carter, we had the Civil Service Reform, by far the most ambitious overhaul of much of our personnel systems since the Pendleton Act of 1883. Yet today we are confronted with a weakened Senior Executive Service, a center piece of that reform, which many believe to be increasingly vulnerable to partisan political pressures. What does this mean in terms of whether we can retain a career service that can administer laws in a fair and nonpartisan way?

Under President Reagan we saw significant improvement in our financial management systems. Yet today the GAO points to numerous failures in our accounting systems and inability of certain agencies to turn out meaningful balance sheets. I doubt that the American public would be very reassured by the knowledge that no one knows how much of the funds Congress appropriates is wasted through excessive overhead costs. In a similar vein, as we rely more and more on outsourcing activities to private contractors, a number of agencies are losing capacity to administer these contracts. What does this mean with respect to the future incidence of contractual misuse of funds, blurred accountability, and our ability to utilize the private sector effectively in reaching the goals of the Government Performance and Results Act?

This list of problems could go on and on. Pending solution, each of these has a decidedly negative impact on our citizenry. Left unresolved, each will further erode the confidence of the American people in their government and its leaders.

In my view, every president must have an effective agent of continuous change beyond what now exists to meet the enormous demands of today and the even greater challenges of tomorrow. To the extent we continue to decrease the number of federal employees who serve the public without reducing their responsibilities, we must give even greater attention to making sure those employees who remain are highly qualified and work in structures and systems which are the very best we can devise. The public deserves no less.

Having said this, why is OMB not the Answer?

When assigned lead responsibility in 1970 for persuading Congress to support the establishment of the Office of Management and Budget, I had great hope that we could put the "M" in the Bureau of the Budget on an equal footing with the budget and that the two would be mutually reinforcing. There have been some bright spots. During the last several years, for example, OMB has been fortunate in having unusually able persons heading the management work. John Koskinen and Ed DeSeve have provided outstanding leadership, and there have been some useful initiatives. Yet the overall role of the "M" in OMB has been far less than what I anticipated and has fallen considerably short of what I assured Congress the members could expect. I believe the principal problem is that the management personnel in OMB have had to function within a budget dominated organization structure, which has limited their effectiveness. Let us look at several of these limitations:

OMB Has to Focus on the Budget

The federal budget has become more and more complicated. Programs have multiplied in number and increased in complexity as they are called upon to address issues intended to help solve domestic problems that are ever changing in a dynamic society. Today, the budget is intertwined with economic issues, many of which have both domestic and

international components. The OMB Director is necessarily caught up in a never-ending series of budget-related issues on which OMB is constantly in negotiation with departments and agencies, as well as Congress. Within this budget dominated pressure cooker, there is little time and energy left for most top OMB officials to address management issues except for a few that have a direct impact on the annual budget then under preparation. Further, because the budget is such a critical activity, the president understandingly looks for budget or economic experience, not managerial knowledge and expertise, in choosing OMB directors and associate directors.

An Office of Management would enable the president to draw upon top level leadership, supported by a team of highly qualified persons highly qualified in the field of management. And this team would devote its full time and energy to the formidable task of making government work better.

The Budget Fosters Tunnel Vision

BOB and OMB have enjoyed a rich tradition of having budget examiners (now members of resource management units) who are extremely talented. They function well under short timetables and extremely heavy pressure. However, the work of each examiner is focused largely on only a few programs that are closely related. Thoroughly familiar with the budgetary impact on those groups of programs, some of which involve many billions of dollars each year, these men and women provide a vital resource which serves the president well on matters relating to the budget and how budget decisions affect program objectives.

However, these OMB individuals have little time or incentive to divert their attention to look in any depth at management problems in individual agencies or those that cut across organization lines. Neither are they in any position to see the cumulative impact of either budget or program and management actions of the federal government on state and local governments, on families and individuals across the nation or on the thousands of business that fuel our economy. Yet the hidden burden of all these actions can be enormous.

The reward system for most OMB staff is based heavily, though not entirely, on how well they can pare the budgets in their assigned programs. As a result, the basic power structure of OMB is channeled along the budgetary tunnels of these resource management examiners, further working against many of the most basic management challenges of the government. I found this to be true even in the field of financial management where there was strong support for change, but we were confronted with so many divergent views among the examiners it was extremely difficult to move forward quickly or with a sharp focus. In fact, it was only when this function was transferred to GSA during my tenure there that we were sufficiently free of the budget process constraints to move forward in some areas.

Annual Budget Cycle Focuses on Short Term

Despite a strong interest on the part of examiners in the long-term impact of budget and management actions, and despite frequent rhetoric in support of multi-year considerations, the inexorable pressure of meeting the targets of the budget year often works against the best OMB intentions. Over the years, for example, I found this 12-month budget priority a major handicap in working with Social Security and other agencies in designing and implementing complex computer systems that were needed to better serve the public. It worked against investing in modern technology that required an initial investment of funds but would save money over a period of years. I found the resultant annual zigzag course of direction and level of effort particularly distressing when striving to improve systems of delivering services to the public.

As this Committee knows, one can nibble at management problems on a short-term basis, but the more significant changes we need cannot be compressed within a one-year time frame if they are to produce results. Proper planning of implementation, developing an understanding of why the reform is needed and what it entails, followed by institutionalizing it throughout the affected organizations, take time. Otherwise, it is little more than a misleading veneer in which a vigorous public relations campaign presents the illusion of reforms that are, at best, fleeting in nature.

Budget Domination Can Contribute to Waste and Abuse

Preoccupation with the budget has at times undermined the ability of agencies to improve operating effectiveness or prevent waste and abuse. The earlier merging of OMB management and budget staff in 1973, and the ascendancy of the budget process over good management, for example, torpedoed the plans of the General Services Administration to completely overhaul its procurement operations at no additional cost (the head of NASA's office of contracts had agreed to transfer to GSA), leaving GSA vulnerable to the furniture scandals which emerged not long after. Misguided budget considerations also contributed to the earlier consolidation of all auditors in the office of inspectors general, thereby largely robbing agency management of the critical way in which auditors can assist managers through early warnings of potential problems, crash audits, and other ways of preventing waste and abuse. This shift from prevention to "catching the crook" after the damage has occurred is one of several reasons HUD changed during the 70s and 80s from a model department to one that was ineffective and scandal ridden.

Little Attention to Important Organization Concepts

As Harold Seidman has often noted, it also has been difficult for OMB to devote the time required to develop criteria for government corporations despite numerous proposals to establish such entities. We lack consistency in the approaches advanced for performance based organizations. In fact, there is very limited understanding among most agencies as to what constitutes one. Further, in recent years little attention has been paid to the roles of field offices or headquarters-field relationships, even though the great majority of our federal employees are in the field. We have abandoned much of our effort to monitor

how the thousands of federal field offices relate to each other, to state and local governments, or to private businesses impacted by government actions.

Political Partisanship

The public has a right to expect the laws passed by Congress to be administered in a nonpartisan way, whether it be food inspection, air safety, or grants to educational institutions and local governments. Otherwise, we breed discrimination, favoritism and corruption. The structure, systems, and people we utilize in implementing these laws determine whether we succeed. And that requires the right kind of leadership by the heads of departments and the Executive Office of the President.

Although it is naïve to believe that any unit in the Executive Office of the President can be totally insulated from partisan political pressures, an Office of Management would be spared many of those to which OMB is subjected. Most budget issues have significant political implications making it difficult for OMB to escape the image of being a key part of an incumbent president's political machinery. Nearly every session of Congress experiences fierce political battles over key budget proposals. An Office of Management would be free of the political baggage that accompanies so many budget issues. A large number of management improvements have little, or no, partisan political overtones if properly developed, and benefit greatly from a bipartisan approach which would be much easier to develop in an Office of Management.

How Important is Budget Leverage?

Some acknowledge that the close linkage of management initiatives with the budget process creates problems, but assert that this is more than offset by the value of using the budget leverage to force departmental action. I found the opposite to be true. The more we were perceived in BOB and OMB as independent of the budget process, the greater our credibility with the departments, the more we could address true reform rather than simply marginal improvements, and the more rapidly we could act. The foregoing case of our success with improving financial management after separation from OMB is one example.

Although the earlier Office of Executive Management I headed was a part of BOB, it was perceived as having a measure of autonomy that enabled it to distance itself from most of the budget process. I particularly recall the hostility that Secretary of Defense Laird first displayed toward our office because he had the impression we were really a back door device of BOB to cut his budget. It was not until he was convinced of our operational independence that we were invited in to help the secretary and his deputy, David Packard, with some of the more vexing management problems the department faced, assistance that Secretary Laird warmly praised as he left office. Perhaps of special interest to the Committee, this level of autonomy also greatly facilitated our ability to assist the relevant committees of Congress, a role Harold Seidman had developed earlier most effectively.

Would the Office of Management Have the Necessary Tools?

The proposed new office could provide a new level of vigor and action on behalf of the president provided it is given the tools with which to function. I believe the proposed bill does this, particularly if the accompanying report provides the necessary explanatory statements. Drawing on practical experience of a number of us over the years, I will list several tools of the proposed office I regard as necessary for success:

Access. Access to the president when needed is one of the reasons the office must be in the Executive Office of the President. That location does not by itself guarantee access, however. This is dependent, in part, on other items in this list. I should also stress that management leadership does not need anything approaching the frequency of access required by a director of the budget or the national security advisor. I found it essential, however, to participate in the daily early morning meetings of the top White House staff.

Issuance of Regulations. The new office must be the one to circulate for clearance, and then issue, the management circulars. These cover many areas such as financial management, intergovernmental arrangements, interagency coordination, information technology, procurement and outsourcing. The office should also prepare and coordinate presidential executive orders (as the OEM once did), a very important role which would help give the office strength and stature.

Legislation. The Office of Management should have responsibility for drafting and coordinating legislation dealing with organization and management. It should also have the opportunity to review other proposed legislation from the standpoint of management implications.

Program Development. The office should participate in the development of new presidential program initiatives and programs to ensure their workability. In this respect, where was the management arm of OMB when consideration of critical operational and institutional dimensions were needed in the ambitious health reform plans as they were being developed early in this Administration?

Government Coordination. This office should provide leadership for interagency and intergovernmental regulations and arrangements.

Monitoring Capability. Although one of the advantages of an Office of Management is that of moving away from the negative "control" characteristic of relying heavily on budget leverage, it must have the ability to keep abreast of the state of management performance in agencies. Its own firsthand knowledge should be supplemented by that gained by working closely with the proposed Office of the Federal Budget and by information available from GAO, congressional committees, and other sources. Progress toward goals should be reviewed periodically with each department and agency head. Had this type of agency management awareness been maintained by OMB, the HUD and Savings and Loan problems would have been addressed much more quickly with considerable savings in taxpayer money and less erosion of public confidence in

government. The YK2 problems would have been addressed and resolved much earlier. I believe the decentralization steps in recent years would have been more effective.

Field Operations. The Office of Management should restore the top-level attention once given to the large number of federal field offices where most employees work. A portion of my staff spent much of their time in the field; helping to ensure that agencies coordinated those activities that impacted the same states and communities. The assignments of these Office of Management individuals should include some elements of an ombudsman's role, such as helping to break bureaucratic logjams and spotting jurisdictional issues among federal agencies that create difficulties for the public and private sectors.

Organization Skills. The new office would have to restore the knowledge and skill required to draft reorganization proposals, including the abolition of agencies that BOB once had. Few departments can afford to stockpile such skills that are surprisingly specialized. Further, no agency or department can address with objectivity those changes that transfer functions in or out of their jurisdiction. Strong leadership is required to move forward with performance based organizations worthy of the term.

GPRA. This office should provide leadership for the systems needed to make the Government Performance and Results Act a success, in part by helping to translate the lessons learned from performance monitoring into management improvements. The goals, and resources required to meet those goals, would remain with the new Office of the Federal Budget which should coordinate with the Office of Management in assessing whether goals are realistic in relation to the resources and implementation capacity.

Credibility. Most of the management personnel in OMB have been merged into the resource allocation units. This is the third time this has happened since BOB was placed in the Executive Office of the President. Each time it has had some positive effect on the budget process for a few years, but each time it has greatly weakened the management capability of the institution. As a result, OMB has been severely limited in the types of management and organization problems it can address. The Office of Management would be freed from this fundamental difficulty.

It is probably obvious, however, that in order for an Office of Management to take advantage of this greater freedom it must have highly qualified men and women to earn the necessary respect of departments and agencies as well as Congress. The bill wisely establishes the top positions at a level which makes this possible. However, I urge the addition of language requiring that appointees to the top positions authorized by the bill be men and women with successful leadership experience in managing large organizations, ideally in both public and private sectors. The Senate confirmation process should also underscore the importance of this point by focusing on whether the nominees are professionally qualified and have demonstrated leadership in the field.

Conclusion

I am pleased that this Committee is giving serious attention to this important legislation, and I congratulate Chairman Horn on his initiative in striving to make government work better. I believe the modern presidency requires the management leadership which this bill could provide to improve government performance and reduce waste. I believe the Congress would also find it very helpful in carrying out its legislative and oversight roles. Most of all, I believe the public would benefit in significant ways.

I would be happy to respond to questions.

Mr. HORN. Mr. Jasper, let me get Mr. Jasper in on this in terms of any example, and just reacting to the testimony of the Deputy Director for Management on that.

Mr. JASPER. I would like to draw a sharp distinction which may help us focus on some of the issues.

In Mr. DeSeve's prepared statement he suggests that somehow or other your proposal would transfer responsibility for GPRA to the new Office of Management. That is not necessarily true, and it is not written in your draft bill.

One of the things that we emphasized, and that Harold Seidman has just articulated, is that there are a number of functions that we call governmentwide organization and management. Those are the things that the new office would focus on primarily things that are of great importance to the President, not to discount the importance of internal agency management. And nothing in the bill would reverse the "OMB 2000" reorganization as I see it. The RMOs would continue to have responsibility for internal agency management matters and budget matters, and thus could achieve most of the objectives that Mr. DeSeve spoke about. But what is missing is some focus on the government as a whole and the cross-cutting issues that have been alluded to.

[The prepared statement of Mr. Jasper follows:]

Testimony by Herbert N. Jasper
Senior Associate, MMI/McManis Associates, Inc.
on a Bill to Create the Office of Management
in the Executive Office of the President
Before the House Subcommittee on Government
Management, Information and Technology
February 4, 1999

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to offer my comments on the bill to create the Office of Management in the Executive Office of the President. My views are shaped by my long experience in government-wide management and organization in the former Bureau of the Budget, as well as by service as an employee of the U.S. Congress and two of its staff agencies, a public management consultant with MMI/McManis Associates, and a Fellow of the National Academy of Public Administration (NAPA). I was Executive Secretary of the 1964 White House Task Force on Government Reorganization (the "Price Committee"). The views that follow are my own, and do not necessarily represent those of NAPA or MMI/McManis Associates.

Much of my career has focused on government-wide organization and management issues. At the outset, I must observe that these are issues to which the Office of Management and Budget (OMB) has virtually turned a blind eye. For example, when this subcommittee held hearings on restructuring the executive branch in May 1995, I had the privilege of testifying. But I was struck by the fact that there was no witness from OMB.

When I worked in the Office of Management and Organization in the Budget Bureau, I was one of about nine persons who worked full-time on government-wide organization and coordination issues. And another branch focused on government-wide management improvement initiatives. Since the OMB 2000 reorganization in 1993, there are no such branches under the Deputy Director for Management at OMB and he, together with one or two assistants, can not credibly carry out the manifold responsibilities vested in him by section 503 (b) of the Chief Financial Officers (CFO) Act of 1990. (Of course, there are statutory offices and staff that deal with the financial management responsibilities in section 503 (a) of the CFO Act, as well as with the procurement and information and regulatory responsibilities in section 503 (b) (2).)

As other witnesses such as Mr. Seidman and Mr. Ink can attest, the widely-held view that management will prosper through its association with the budget function and its leverage has proved to be groundless. I'd like to focus today primarily on the other side of the same coin, namely, the equally-faulty contention that "you can't separate management from budget." Perhaps you recall that the Vice President's then-assistant, Ms. Elaine Kamarck, made that remark to a reporter who asked for her comments on this committee's 1995 report in which you proposed the establishment of an Office of Management. The same view has been presented by OMB witnesses for the Administration.

What Might Be Part of a Comprehensive Management Improvement Program.

To put my views on the separability of management from budget into perspective, I'd like to list a number of management subjects that deserve, indeed, demand attention:

- Reorganization
- Performance measurement
- Benchmarking
- Information technology management
- Outsourcing
- Devolution
- Procurement reform
- Customer service
- Reforming the Internal Revenue Service
- Restructuring the Federal Aviation Administration
- Improving the federal workplace
- Managing for results
- Performance-based organizations
- Plain language for government publications
- Reinventing government
- Cutting the size of the federal workforce
- Flattening hierarchies
- Reducing the regulatory burden on the private sector
- Reducing internal regulations
- Reengineering
- Intergovernmental partnerships
- Labor management partnerships

Where Has OMB Been?

I'm pleased to observe that there have, in fact, been significant activities by this Administration concerning all of these important subjects. But where has that activity taken place? With a few exceptions, such as performance measurement and procurement reform, the leadership in these areas has come not from OMB but from the National Partnership for Reinventing Government (NPR) and its predecessor, the National Performance Review.

This Administration has, thus, demonstrated by its actions, not by its words, that much of the management agenda can be separated from budget. Indeed, it was evident in the first round of NPR in 1993 that OMB was on the sidelines. And when I testified here on NPR in May 1995, I voiced the hope that NPR II was off to a good start by establishing close coordination with OMB. However, I have learned since that the vaunted closer relationship through a co-chaired steering committee and advisory teams did not materialize. So, for six years, this Administration has actually separated most of its

management improvement initiatives from the budget process and from those working on it.

What is the NPR?

We need to ask whether there is anything wrong with having the Vice President and his NPR operation perform such wide-ranging management functions. It has been refreshing to see the President and the Vice President take such an interest in management. The President has delivered more than 30 speeches focusing upon or touching on management issues. And the Vice President has delivered almost 40 such speeches.

On the other hand, it should be noted that the NPR, which is the principal vehicle for translating the Administration's rhetoric into action, is something of a "pick-up team," not authorized in statute and not having its own appropriations. With a very few exceptions, its staff are on loan from government agencies. Thus, they serve for a while and then return to their regular agency jobs. Some of the few "permanent" staff are actually on the payroll of other agencies as well. Thus, whatever might be the value of the NPR's work, we are not accumulating management expertise that would be available to succeeding administrations.

Moreover, as this Administration has so frequently demonstrated, there is a serious "Not Invented Here" (NIH) syndrome at work. For example, instead of capitalizing on 50 or more years of successful experience with government corporations (most of which are already what the NPR has termed Performance-Based Organizations or PBOs), the NPR "reinvented" this organizational form as PBOs. As I mentioned in my July 1997 testimony for NAPA before this subcommittee, NPR actually proposed as candidates for PBO status at least two government corporations (GNMA and the St. Lawrence Seaway Development Corporation) without any demonstration of what of any significance was to be gained by this "new" status. Further, instead of trading on the momentum that had been building for converting the Patent and Trademark Office to a government corporation, NPR proposed that, instead, it become a PBO.

Can or should we expect that the next presidential administration will be likely to continue this pick-up team and the reinvention program of the Vice President's? Or will it also exhibit the NIH syndrome, as have prior administrations? Not as a political analyst, but as a long-time observer of the Washington scene and one who majored in Political Science at the University of Pennsylvania, I should like to offer a historical perspective on this matter. In the 20th century, only three sitting Vice Presidents have gained their party's nomination to succeed the President with whom they served. And two of them lost the election. So, statistically, we are gambling with the future of management improvement in the federal government by allowing such important responsibilities to reside in a transitory setting, such as the office of the Vice President.

Even if Mr. Gore earns the Democratic nomination, wins the presidential election in the year 2000, and asks his Vice President to take over the reinvention initiative, it would be surprising if the NPR were able to continue with its current leadership. Surely, the new

Vice President would be entitled to put his own personnel in the leadership positions. And the rest of the NPR staff would by then have returned to their agencies.

Has NPR Made a Significant Difference?

Maybe an eight-year run with reinvention is an accomplishment that we should not discount, even if it should come to an abrupt end in January 2001. As I testified before this subcommittee in 1995, however, the NPR is something of a "mixed bag." Perhaps my assessment was best captured in the title of an article I co-authored with Anita Alpern in the Spring 1994 issue of The Public Manager. The title was "National Performance Review: The Good, the Bad, the Indifferent."

Experience since then bears out that mixed assessment. For example, the General Accounting Office has revealed that the Reinvention Laboratories of the NPR were, in many cases, simply new names for efforts already launched without benefit of the so-called reinvention of government. More seriously, according to GAO, there has been little organized effort by NPR to propagate the highly-touted innovations of these laboratories. Certainly, there is little evidence that the capital M in OMB has undertaken to assure the replication of such progress as may have been made in the reinvention laboratories.

Congress, NPR and OMB are all emphasizing the importance of "outcomes" to evaluate programs. Many serious commentators on NPR's efforts point to the reduction of the size of the federal workforce by some-300,000 employees as NPR's principal outcome. But how did this come about and what were the costs attendant upon it?

First, it has been shown that much of the staff reduction came in the Department of Defense for reasons unrelated to NPR. Second, the mindless reductions in mid-level management along with outsourcing have left us with a smaller but less competent workforce. NPR proposed staff reductions in the very layer of the government that is principally responsible for crafting outsourcing initiatives and for assuring that the outsourced activities are soundly and cost-effectively managed. As Paul Light's new book has shown, the government has not gotten smaller if we count, as we should, the employees in the outsourced activities. Can anyone in NPR or in OMB tell you what has been the net change in costs? Or whether program effectiveness and accountability have suffered? Should Congress not have reliable answers to such questions?

Should Congress Simply Require that NPR be Absorbed by OMB?

If this were 1994, a good case might be made that the NPR should, in effect, be transferred to OMB, together with the then-current NPR staff and the funds being used to support them. But the very creation of NPR, its six years of substantially-independent operation, and the lack of capacity in OMB that gave rise to this *de facto* transfer of most of its "M" role to NPR, dictate that this would be "throwing good money after bad." As pointed out by other witnesses, the M in OMB has never reached its hoped-for potential. Most significantly, there is no longer any capacity in OMB to advise and represent the

President on such vital matters as organization and reorganization of the executive branch. The equally-important problem of assuring the coordination and rationalization of programs and activities that cut across agency boundaries has gone unattended for far too long.

Conclusion

The idea of elevating the M, or “transferring” management to the Budget Bureau in the 1970 Reorganization Plan was always over-stated or misunderstood. The M role had been part of the Budget Bureau’s responsibilities since its establishment in 1921. Soon after the Bureau of the Budget was re-named OMB (there was not much more to it than that) doubts arose as to whether the M would prosper.

In November 1980, some-nine years after OMB was established, a NAPA panel report noted the need to strengthen its management role. In November 1983, another NAPA panel first recommended the transfer of OMB’s management functions to a new Office of Federal Management. That same year, President Reagan’s “Grace Commission” also proposed the creation of an Office of Federal Management. In December 1988, NAPA’s Standing Panel on Executive Organization and Management published a report entitled “Strengthening Presidential Leadership by Establishing an Office of Federal Management.” (I note that Dr. Stephen Horn was, and is, a member of the standing panel.) That panel also supported a NAPA Occasional Paper by Chuck Bingman that outlined in some detail the responsibilities that should be assigned to an Office of Federal Management.

Congress “got into the act” first, in 1986, when Senator Roth (R-DE) introduced a bill to establish an Office of Federal Management. In 1990, a Senate Banking Subcommittee recommended the establishment of such an office in its committee print 123. As you know, then-Congressman Leon Panetta (D-CA) introduced H.R. 2750 to create an Office of Federal Management in June 1991. Unfortunately, as this Administration’s first OMB Director, he changed his position. The next major action in support of this now-15-year-old initiative was, of course, this committee’s recommendation for an Office of Management in its 1995 report.

Clearly, this is an idea whose time has come. Most of the persons who have filled the post of assistant or associate director for management in either the Budget Bureau or OMB have concluded that the M simply won’t work effectively in OMB. The requisites for its success as a separate agency are:

- Access to and support from the President
- Professional leadership
- An adequately-sized and expert staff
- Capability to assist the President in his role as Chief Executive
- Coordination with other policy and decision-making arms of the Administration
- A strong voice for the essentiality of continuous management improvement
- Capability of inducing agencies to take steps to improve management

It can be argued that without presidential support a separate management office might be weak. But, without presidential support, organization and management improvement will be just as weak, if not weaker, in OMB. Demonstrated competence to provide meaningful assistance on organization and management issues of presidential import will certainly lead to continued access to and support from the President. With access to the President, there will be the basis for needed coordination with White House staff, OMB and other agencies in the Executive Office of the President.

Providing sufficient staff will be a challenge. It would probably create "excess baggage" to propose an enlargement of staff incident to the establishment of this new office. But, perhaps, a way could be found to give it additional resources equivalent to those now being used by NPR.

Presumably, the staffs now devoted to financial management, procurement policy, and information and regulatory affairs will have to continue working on those important, but somewhat-targeted, programs. Thus, there would be no new resources with which the new office could resume the long-defunct role in government-wide organization and general management. At the least, some (perhaps half) of the 40 positions that were transferred to the Resource Management Offices in the 1993 reorganization of OMB could be assigned to the new Office of Management.

With experienced leadership, and a competent career staff, the new office will be able to give substantial assistance to the President. It will also be able to show departments and agencies that it is positioned to help, but with good ideas, rather than with authority to compel action.

This concludes my statement. I would be pleased to respond to any questions.

Mr. SEIDMAN. In 1952 they did the same thing, integrated the budget and the management functions, except that they did preserve the government organization staff. It was a small staff. They provided for Assistant Directors of each budget division for management and organization. All of them disappeared within 2 years and became budget examiners. And it didn't work and without any change in the rules, the Office of Management organization grew right back to where it was, to perform the functions that it needed to perform, without any formal statement of the change in purpose. It just did not work.

Mr. INK. That same merger that you talked about Harold, as I mention in my testimony, directly led to major scandals in the General Services Administration. The General Services Administration knew that they had a very weak and problem-ridden procurement system. They moved to reorganize it and set it up anew. They persuaded the head of procurement in NASA to come over to GSA and head it up and there would be no additional cost whatever. But the merger left OMB without management capacity, and OMB vetoed the procurement reform. Consequently GSA was left vulnerable to the furniture scandals that then began to emerge within months after that veto took place.

There are other instances. You look at the earlier down trend of HUD, and much of that goes back to a misguided budget influence that concluded HUD did not need any auditors in the management area, you need them all in the inspector general area. Once you do that, and that happened in agency after agency, once that happens, then you rob the secretary of a department of much of his or her capacity for prevention, and the emphasis on preventing fraud and abuse shifts to catching the crook after the damage has been done. This I think was a major problem that occurred, and it occurred largely because the budget dominated the management considerations in OMB after the merger.

Mr. HORN. I agree that deterrence helped win the cold war in foreign policy, but in domestic policy deterrence sort of got muddled away. That is really what you are saying. If you can get that fraud, waste and abuse to have a team that is responsible to the person that the President is holding responsible to run a series of programs, if they don't have those people on their staff working, it just isn't going to happen.

Let me ask Mr. DeSeve, we seem to be in agreement that we must find ways to continually link up management and budget within the Executive Office of the President, and I guess my question to you is how do you do it organizationally? You say that you can easily run to those five resource Directors; you should. But nothing would stop the Director of the Office of Management from doing the same thing. In fact, you wouldn't even need to change offices.

What we are talking about, though, is getting a focus on management questions so he can go bug those five Directors, because if the budget has clout, it needs some guidance from people who give their attention to management and not just budget. The way that we organize government now, under many administrations, we say let's squeeze them a little bit and give us back a few full-time

equivalents. We don't really think through how we are delivering these programs.

Granted, Congress gets into this in some ways; some ways we like and some ways we don't like, in terms of the authorizing committees. And I won't say that they are always wrong and I don't say that they were always right, but they are a factor when it comes to Cabinet departments and what you will have that Cabinet department do.

And so I guess I would like your views, Mr. DeSeve, as to why would a Director of an Office of Management in the same Executive Office of the President, where you can just walk next door and coordinate, it doesn't stop these people from working together just like you say that you are working together?

Mr. DESEVE. I have to go back to my own professor of public administration, James C. "Charles" Worth. I suspect that these gentlemen know Jim Charles Worth. Jim was a very gruff fellow. He called himself a shiny-pants colonel from one of the war procurement agencies.

And he said, "Son, you can coordinate that which you can control." I can coordinate my two hands because I can control them. I have a much harder time controlling Mr. Ink's hand, and he would take us by the hand and do that.

Without the unity of control shown in a single Office of Management and Budget, it is much more difficult.

We have heard the perspective of these gentlemen on fundamental changes in the nature of management over the last 80 years or 90 years, and I would like to give you my perspective, and I hope that I can do it quickly.

If we go back to Theodore Roosevelt, we see the things that Roosevelt was combating in putting in a personnel system that was fundamentally civil service. He was combating the legacy of the bootlegging and scandal in the Tweed administration in New York, and he then moved on. When we turn to the thirties when Gulick and Barnard were beginning the principles of administration that were laid out for us in that period. They were dealing with the existence and the coming of age of a large bureaucratic form of government which had not previously existed in the teens, twenties and thirties.

We are in a fundamentally different era now. We have changed how government operates. When you asked me how I administer cross-cutting programs, I do it through a network of chief financial officers, chief information officers, inspectors general and chief operating officers that come together continuously. Literally I will get 20 e-mails a day from the CIO council, the CFO council, the PMC and so on, and they have taken on much of the burden of working together to find new priorities.

One of the things that I didn't talk about in section 4, is all of the goals and objectives of those councils, all of which I chair. The goals are articulated in section 4. The councils are doing much of the work of Y2K. Kate Adams from the Social Security Administration is chair of the Y2K committee of the CIO council, and she and her colleagues have been laying out the pathway. I am the network manager. I make sure that they have food, water, and sustenance authority, so in a flow control way I cause that to happen.

This is fundamentally the same change that we have seen in computing. We went from mainframe driven to one that is now networked-based and distributed processing. So I think we are in a brand new era of management where worrying about the shape of organizational hierarchies was tremendously important as we invented a new bureaucratic society.

As we move to a much more distributed network society, we find a new way of managing, and I think that is where we are now. I have a much longer presentation complete with slides that I do, and if you would like to see that, I will be happy to send it down. But I think we are in a different time and place. I think management consists of more than organizational structuring. It consists of allocating resources. It consists of identifying the possibilities of technology. It consists in the kind of customer service that we provide, and it consists in tracing the root from political campaigns and the promises made there, through the legislative hierarchy into program implementation and beyond, into evaluation of the results of those programs and back into an articulation to the public of what those programs are actually delivering in terms of service. All of that is management, not just a smaller view of organizational structure.

Mr. HORN. Well, we agree with you on that. The whole purpose of GPRA and others has been to get better delivery of service by the executive branch.

Mr. DESEVE. And GPRA is in the budget; you will prepare in the budget and submit with the budget a plan of how your results are going to be achieved.

Mr. HORN. But I would hope they would be in the budget because the budget should be based on the goals that Congress and the President have given these agencies, and the budget should be simply the unifying document where you translate it into money to carry out the goals. But the problems come—as you know we had major ones on GPRA. It was a new experience for a lot of agencies when State government is going through this around the country for years, universities have and other public entities, and we are only just getting to this in terms of the executive branch.

Now, would you consider yourself the senior management officer within the Executive Office of the President, excluding the President, obviously?

Mr. DESEVE. I think the statute suggests that. The Chief Financial Officers Act creates the Office of Deputy Director for Management, and I believe it suggests that that is the case.

Mr. HORN. How many times have you met with the President in the last few months?

Mr. DESEVE. Six or eight, I would say.

Mr. HORN. This is eyeball to eyeball?

Mr. DESEVE. In meetings. I don't have a one-on-one relationship with the President.

Mr. HORN. The Director of the Budget presumably does have a one-on-one relationship with the President.

Mr. DESEVE. It is typical to meet with the President in groups. People who need to be there are there.

Mr. HORN. The chief of staff?

Mr. DESEVE. The chief of staff, head of the National Economic Council, Domestic Policy Council, National Security Council. There would be 8 or 10 people around a table.

Mr. HORN. I realize that there are a lot of things that go on in terms of bringing people and cueing them in and cluing them in, but it seems to me if you are going to get something done, the Director of the Budget in this case, and now Management and Budget, has to really say, Mr. President, let's sit down and talk about this thing, and you should know there are some real emergencies coming down the line and there are some things that can blow up in our face.

The HUD example under Reagan is a very good example while that whole apparatus that Brownlow suggested when he talked about six administrative assistants who were anonymous, and we have never had anyone anonymous in the White House staff since then, but nevertheless the President needs to know before something blows up and he reads it in the Washington Post and the Washington Times in the morning. The Director of the Budget, one of the most powerful positions in the government, should have that relationship. It seems to me if—has anybody talked to him about management in the last 6 months?

Mr. DESEVE. I certainly have talked to him about management in the last 6 months. One of the things that the President did very consciously is that he asked the Vice President in the Office of the President to bear the primary responsibility, and my interactions with the Vice President are much more direct and much more frequent. And he has taken that role, just as in other administrations the Vice President had other roles that the President cared about, and I believe as I communicate to the Vice President, we have a dialog going on right now on a particular labor management issue where I and the Vice President will communicate once or twice a week. He will be continuously talking to the President about how the President wants to handle that issue. The access that I have to the Vice President is unparalleled, and I think it represents the Office of the President in that way.

Mr. HORN. I think the President has made very good use of the Vice President, and we all tried to support the National Performance Review and hold hearings and all of the rest, but that isn't always going to happen, and that is the problem. Some Vice Presidents have been squeezed out by Presidents. The staff of President Kennedy didn't have much use for or faith in Vice President Lyndon Johnson.

Now, when Lyndon Johnson became President, he did the same thing to Humphrey for 6 months, as a matter of fact, as Humphrey would tell the story, that the Kennedy staff did to him. And that is sort of a very iffy thing, as you know. And then, of course, Vice President Bush was well known for going to a lot of funerals.

When I was in the Eisenhower administration, President Eisenhower did give Vice President Nixon, besides funeral duty, he gave him the Equal Employment Commission and a number of other things, but those are specific assignments that the President can give a Vice President even though technically under the Constitution he is a legislative officer; but he is a person in waiting, and I think the President made good use of Vice President Gore.

But that ad hockery is what we are trying to get away from. We are trying to get an institutional memory that will go between administrations, whether Democratic or Republican administrations. Often the succeeding administration of the same party has had a completely different approach to some of these questions than the preceding administration of the same party. So it isn't just partisan; it is just people and how they look at large organizations and what they expect to get out of it.

Is it not true that the budget demands often win out over management concerns within OMB?

Mr. DESEVE. You see, I can't separate the two. If you had sat with us in our Director's reviews this year, which is the time of the year during September, October, and November when the fundamental decisions are made, the first page would summarize the financial information about the budget. The second page would summarize the results expected under GPRA. The departmental totals would then be carried. We would then go into a series of issue papers. An issue paper, for example, would be how do we get a lower spending level in HCFA by eliminating some portion of the erroneous payments that need to be eliminated? And in that discussion paper, performance measures would be used to highlight what we were going to do and how we were going to do it. I sat through every review and asked all of the questions necessary. But the interrelationship is almost unitary between management and budget in those conversations.

Jack Lew, following on Frank Raines, following on Alice Rivlin, has taken to a higher level the ability to manage particular situations and make sure that in those particular situations, especially cross-cutting ones, we have a priority management objective verifying that the right person is getting the right benefit. We will be using the new hire data base that comes from trying to find deadbeat parents, people not paying their child support. That is a current data base of information. We will be using that to inform the people in student loan about how to find some of the deadbeat student loan folks. That is a management initiative across a series of areas. We will be doing other things like that in the benefits area. That stems from wanting to stay within the budgetary constraints as they exist. As an abstract management technique, it is something that cuts across eight or nine agencies in trying to get benefit verification done properly. We use certain kinds of IRS data, not confidential taxpayer information, but other data. So Jack has been very forceful in doing this and has demonstrated these management techniques as being terribly important in preparing this year's budget.

Mr. HORN. I ask Mr. Turner for his round to his heart's content, but first let me ask you: How many people from other White House offices sat in on those budget reviews? Did the head of Environmental Quality, did the chairman of the Economic Advisers, did they sit in?

Mr. DESEVE. We have tried it both ways. During Dr. Rivlin's tenure, we had the broader councils in to the conversation, and we found that it made it very hard to have them effectively deal because they didn't have good information.

So what we have done this year is disbursed it. We meet separately with those councils and bring their views back to Director's review, so we can represent the position of the Office of Science and Technology Policy about NASA's performance goals or Energy's performance goals.

The same thing with the Department of Environmental Protection in managing the Superfund program. We had to make some changes this year because the level of funding was not as high as we had requested in the prior year, so we had to change Superfund goals. In doing that we had to change some of the ways that the program was managed. And so what we do is we consult prior to the Directors' reviews, get the views of the other organizations in the White House and bring those into Directors' review. Honestly, it was just taking too long in the process to try to bring the other agencies up to speed at the table so we do it ahead of time.

Mr. HORN. But nothing stops a White House Director of equal rank to the Director of Budget—like the chairman of Economic Advisers, in particular, certainly has a long-standing role beginning 1946.

Mr. DESEVE. Absolutely.

Mr. HORN. Nothing stops them from coming into those Directors' reviews if they are invited?

Mr. DESEVE. That is correct.

Mr. HORN. We assume that, but it often doesn't happen.

Mr. DESEVE. They are seen as cousins, as opposed to brothers and sisters.

Mr. HORN. Have you had a chance to read "Inside OMB" by Shelley Lynn Tompkin?

Mr. DESEVE. I have not. I was interviewed for it, I believe. I was hoping she would send me a free copy.

Mr. HORN. As I book collector, I feel the same way.

But a recent book, "Inside OMB," she says on page 203, "Budget management mergers tended to result in budgetary pressures overshadowing the efforts of OMB staff to review agency management issues." That is her summary after talking to all of you experts.

Mr. INK. And she didn't interview me, by the way.

Mr. DESEVE. Is there a page where she refers to how excellently management is currently handled by Mr. Koskinen and Mr. DeSeve? I think there is.

Mr. HORN. Is she right? Is she wrong?

Mr. DESEVE. I think she is reflecting the past rather than the current state, and the state of the last several years. I think she did the research for that book in 1995. I beg off on the year.

Mr. HORN. I think it was fairly recent, the last 2 years.

Mr. DESEVE. I would stand with my colleagues at GAO who I believe will testify later that it is important to keep the functions together.

Mr. HORN. I now yield to Mr. Turner for such time as he would like for questions.

Mr. TURNER. Thank you, Mr. Chairman. First I apologize to the Chair and this distinguished panel for my tardiness. I was at the National Prayer Breakfast, and it tends to run a little longer than we expect. I apologize.

Mr. HORN. You had a delightful speaker this morning. I happened to listen on C-SPAN radio, and this is a plug for C-SPAN, 90.1 on your FM dial. He was hilarious.

Mr. TURNER. I hope the Chair will accept my opening statement as part of the record.

[The prepared statement of Hon. Jim Turner follows:]

**Opening Statement of The Honorable Jim Turner
"To establish an Office of Management
in the Executive Office of the President"
Feb. 4, 1999**

I commend the Chairman for his consistent and valuable leadership on government management reform. Chairman Horn reminds us that the government must keep changing and evolving to meet the needs of Americans. When it does not effectively manage itself and adapt to changing times, the government is not fulfilling its obligations under its social compact with Americans.

To me, the best way to look at management reform is to ask: How best can the government serve its constituents? Is it being managed so that it can effectively assist and serve the people of my district and every other district?

Clearly, a number of substantial management problems exist today in the federal government. The Government Accounting Office has focused attention for years on weaknesses in the management of certain federal agency programs, financial accounting systems, information technology investments, and large procurement operations. There is without a doubt much we can do to improve aspects of federal management.

The President and Vice President have recognized this. Vice President Gore created the National Performance Review, now called the National Partnership for Reinventing Government. Through the active

involvement of advisory councils such as the Chief Financial Officers Council, Chief Information Officers Council, and the President's Year 2000 Council, the Administration has created effective alternative structures to engage agencies in management improvements. The President is committed to assuring that federal agencies can finally balance their books after decades of neglect. Financial management is a high priority for the Clinton Administration.

Congress has recognized the need for better federal management since 1982 by passing reform legislation to increase the role of the Office of Management and Budget (OMB) in government-wide management. Many of the more recent management laws are still in their early implementation stages. These new statutes provide OMB with additional authority to improve federal management policies and practices.

In 1989, the GAO studied OMB's ability to address management issues. The GAO noted in this report: "While administrative management processes and structures are important, the essence of federal management is policy implementation and delivery of program service." GAO recommended in 1989 that "teams comprised of budget examiners and management staff blending program and management expertise during the budget process are critical to successfully changing OMB's approach." OMB adopted each one of the GAO's major recommendation in 1989 and reintegrated management functions with budget analysis in 1994 with its OMB 2000 initiative. OMB 2000 empowered program examiners to address and evaluate agency management issues. OMB is better able today to work closely with agencies on their management issues through its

program examiners.

In 1996, GAO noted that its review of OMB's budget documents clearly demonstrated greater attention to management issues by program examiners and reflected strong commitment of OMB's top officials to incorporate the treatment of management issues into the budget cycle.

I think that we all share the common goal of creating a government that works better; however, separating budget and management, rather than enhancing the emphasis on management, may in fact represent a reversal of a very positive trend in government toward performance-based budgeting. Agencies today are being encouraged to manage themselves based on performance and results -- and budgeting and funding requests should be intimately tied to performance and results.

Despite increased emphasis on long-term management issues and commitment by the Administration and Congress, we can and should do more to improve long-term executive branch management. As I mentioned earlier, it is an evolutionary process and discussing alternative approaches to management sharpens our focus.

I look forward to the testimony that we will receive and to considering other ways to approach government management so that we can assure better federal services to all our constituents.

Mr. TURNER. My experience, of course, is not as deep, Mr. Chairman, as yours in this issue. Inasmuch as I have not been with you on this subcommittee, but for last year, I did have some experience in management issues when I was in the State legislature. Texas I think in many ways led the Nation in performance-based budgeting and in performance reviews. Much of the Vice President's initiative on performance or on reinventing government came from the State of Texas where our State Comptroller, John Sharp, initiated a "reinventing government" effort for us there.

I fully appreciate the Chair's diligence in trying to improve the management practices of the Federal Government to be sure that taxpayers are getting the very best they can for every dollar that they pay into the Federal Treasury.

It does somewhat disturb me, however, to contemplate the legislation that we are having the hearing on, in spite of the distinguished panel of experts you have assembled, when the White House advises us they think that it would be a bad idea inasmuch as we know that it is primarily a responsibility of the President to execute the laws in an area of separating the Office of Management and Budget. Many management changes, as we all know, occur from time to time in government and business, and if they are not acceptable to those that the change is forced upon, they sometimes tend not to work.

I guess I would like to ask Mr. DeSeve to expand a little bit more on the comments that he made earlier because I have had the distinct impression, as we moved into this new age of performance-based budgeting, that there is in fact a very direct link between management and budget issues that does represent somewhat of a change from the way that things used to be done. If you don't mind commenting on that to be sure that I am on the right track.

Mr. DESEVE. If I may use the analogy of historic eras, I believe we have moved from what I call the hunter-gatherer era into a fundamentally different era. Budgeting, until recently and still in some places is, I will go to the Hill, I will kill the beast, I will bring it back to my department. They will have more.

And the department head who is most successful in bringing resources home was rewarded. That is the hunter-gatherer mentality in budgeting. We are hoping that is changing and moving to what I call the agricultural era. I don't think that we are in the Industrial Age yet.

The agricultural era says I will plant my corn in rows. I will plan where those rows will be. I will attempt to have a surplus to feed my family. That is what GPRA is. It is the notion that there is an orderliness to the process of planning the output, the crop that you will get, and the outcome, having a surplus to feed your family and trade in the village.

This requires a new set of disciplines. It requires you to have a new mind-set in how you approach budgeting. We are starting to see that fundamental change in departments and agencies. Certainly they want more, but in justifying that more, they were beginning again and again to talk about if you give me this, I can do that. I can reduce the time that it takes to do this, or I can fundamentally change the way that we deliver that service. So the relationship is becoming much more integral. If we were a company,

we would certainly want to integrate our production with our financial results so we understood our profitability. GPRA is the proxy of that. The Results Act is the proxy of that for the Federal Government, and it requires a more sophisticated kind of budget analysis that is also management analysis at the same time.

Mr. TURNER. Just as a followup on that, in watching our experience in Texas, where I served in the State Senate, and as we implemented performance-based budgeting ideas, I always was impressed that it seems to take some period of time to develop a sophisticated set of performance tools, and some of them in the early stages seem to be somewhat elementary. I would like to get your evaluation on where we are in the Federal Government in regard to really developing a sophisticated performance-based budgeting system.

Mr. DESEVE. I would like to make two points. First, I think that this committee and Majority Leader Arme y, and I have said this here before, have been invaluable in causing the focus on GPRA to occur. But I think GPRA fundamentally has three things that need to be focused on.

First, the usefulness of the measures for the managers. Can they use them in their everyday work to understand how to make their operation work better internally and for their clients?

Second, can they be used in resource allocation? Can they be used as appropriators make decisions?

Third, can they be used to change the fundamental nature of programs and the way services are carried out? Can the authorizers and the legislative base of those programs be fundamentally shifted as a result of having measures available?

Right now I would assert we are at a point in developing the measures where we have a good set of measures in many places, but they need to be tested against the legislative process of appropriation. We will need to get more and better involvement of people like your legislative body in Texas to ask the hard questions in the regular order of business.

Mr. Arme y and Mr. Horn have excellent oversight hearings, but in some ways it is oversight, not the regular order of business, that dominates the Congress. The appropriations process and the authorization process are much larger aspects of the Congress' life. We are beginning to see performance measures in the Higher Education Reauthorization Act last year. The use of performance measurement of that act was very appropriate, but we really don't see as much as we would like to see in the use by the appropriators in the regular order of business.

Part of the argument is that the measures have not been good enough. We would ask them to tell us how they would like them to be better. We are finding them useful in our own OMB processes. We use them more in the OMB process each year. I think the measures are getting better. They could get still better and be built into the legislation at the front end as we do authorization so it is clear.

One of the successes that we think that we have had is in the drug area. The chairman and Mr. Arme y have been very complimentary to General McCaffrey's cross-cutting measures in the drug arena. We are on our third set of measures there, and they

have great scrutiny in the authorizing process and in the appropriating process.

Mr. TURNER. In Texas I served on the Senate Finance Committee which did the biannual budgeting, and it seemed to me that in the process of developing our State budget, we went into a much greater analysis of the performance measures that had been developed than seems to occur here in the Congress through the appropriations process.

I must say that I am not on the Appropriations Committee and haven't had the opportunity to really go through the process, but it seems to me that there could be an improvement in terms of linking appropriations decisions to the performance-based measures that you work so hard to develop.

In fact, if the data is useful to you in a management sense, that is one thing, but at some point it has got to translate over into the appropriations process, and I really don't know if that is happening.

I guess what you are telling us is that you think that we need to improve in terms of utilizing the measures that are being developed.

Mr. DESEVE. OMB would never say that appropriators need to improve. Let me be very clear about that. We believe that there is the opportunity for you to use the measures. We are providing the opportunity, but we would never be so bold as to say the appropriators should improve the way they do business.

Mr. INK. But I would say that.

Mr. TURNER. You would.

Mr. INK. Yes, I would.

Mr. TURNER. I do not know if you could quantify where we are in terms of developing a sound performance-based budgeting system, but it would seem to me that we cannot be too far along the road, and that we have a long way to go before we really are able to realize the potential of the legislation that we passed and develop a performance-based budget at the Federal level.

Is that a fair assessment?

Mr. DESEVE. You and I are in complete agreement that there is a long way to go before performance-based budgeting is the order of the day. And agencies need to be not just reassured, but prodded by their own appropriators and authorizers in the process for them to sharpen their skills at measuring their performance.

Even OMB, as powerful as we are deemed to be, pales in comparison to a phone call from an appropriations Chair. They certainly want to prepare the President's budget and get all the numbers right, but the real action is with the cardinals.

Mr. TURNER. You know, the President's budget laid out the administration's management priorities, but where are we in terms of having the resources for OMB to be able to implement those priorities?

Mr. DESEVE. What we tried to do, and again, that is the set right there, the 24 items, what we do is we have a management system that tracks those 24 continuously. Most of the work to achieve them is either done in the agencies with our helping both from the RMO side as well as the statutory office side, helping them do it;

or in the various offices, the Chief Financial Officer's office, the Chief Information Officer's office.

When we talk, for example, about critical information infrastructure protection, the National Security Council will work through what's called the CIAO, the Critical Infrastructure Assurance Office, with the CIOs and the PMC to make sure that they have good practices. Under Presidential Decision Directive 63, there are plans developed which we participate in and the budget folks participate in, along with the NSC and each of the agencies.

So when we have the resources, it is a collective, it is a network that comes together that uses various nodes to create an overall critical infrastructure network, just as we are doing in Y2K. It's very similar to the way we are doing Y2K. John Koskinen and staff is fewer than five people, but he relies on the chief information officers throughout government and then the sectors in the private sector—the electric utility sector, the communications sector, the financial sector—and he gets their involvement and engagement in helping him do the work.

So we have enough resources to do the work because we find ways to use the resources of others and get them moving in the right direction. To me that is what management is about. There is a whole theory that the best manager is a lazy manager because he finds a way to get other people to do his job for him. I somewhat subscribe to that theory, although I have to be careful about calling myself lazy. I have to be real careful about that.

Mr. TURNER. Thank you very much.

Mr. HORN. The gentlewoman from Illinois and the vice chairman, Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman.

I think I am going to enjoy this committee and certainly learn a lot about history. I have already had a lot to absorb today, and I am afraid I do not know as much certainly as probably most of the members who have been on this committee about the issue, but I will try and ask some questions that will help me and hopefully shed some light on this.

When you were talking about contractors, it does not show the number of contractors. That was a question that was asked. What are the contractors that are involved in this issue?

Mr. INK. All I was saying is that, in addition to the number of Federal employees shown on the chart, there are also many contractor people that are funded by the taxpayers. In some instances as we decrease Federal employment, we increase the number of contractor people to carry out that particular program. And all I was saying is that we see a part of the equation here in this chart, which is a very interesting one, but it does not reflect the total burden on the taxpayers.

Mr. DESEVE. Let me refer you to a recent article in Government Executive Magazine called "The True Size of Government." It was written by a gentleman named Paul Light, who is at the Brookings Institution, and what he found was that, in addition to this work force, there is a very large what he called shadow work force, which are the contractors. He found that both have been in decline during the administration. This number came down and the number of contractors came down at the same time. But there is a large

work force out there that we support in the State and local arena as well with Federal dollars that he adds to that also.

Mrs. BIGGERT. Do you have any idea how many Federal Government management laws there are?

Mr. DESEVE. I actually have a book that was put together by this committee when Mr. Clinger was here that is about that thick, and it pertains to most of the management laws. It is about that thick. But we also know that there are titles on personnel management, other aspects of management, that are not in the core volume.

Mr. INK. And there are also, of course, many management implications in other laws that are not regarded as management laws per se.

Mr. SEIDMAN. They are often written in appropriations acts.

Mr. DESEVE. Too often found in writing.

Mrs. BIGGERT. I do not think I want to read all those.

One of the CRS specialists, Ron Moe, has put them into five major categories: Institutional and regulatory management, financial management, budget and accounting, human resources and ethics management, procurement and real estate, real property management and intergovernmental relations management.

How do you, as the Deputy Director for Management, make sure that the intent of these laws are being implemented?

Mr. DESEVE. In most cases, when you look at the chart, there is a specific reference in the law to the responsibilities of something like the Office of Federal Financial Management [OFFFM], or the Office of Federal Procurement Policy [OFPP], or the Office of Information and Regulatory Affairs. So the Director of those offices has responsibility, for example, for implementing Clinger-Cohen, which is the IT, that is in OIRA; or the Paperwork Reduction Act, which is in OIRA; or the Chief Financial Officers Act, or the Government National Reform Act, which is in OFFM.

So very often the statute points to the responsibility that the individual entity has. Where it does not, we try to use again the statutory reference; for example, ethics and waste fraud and abuse. The inspectors general are the group as they come together in the President's Council on Integrity and Efficiency that are most worried about that. So where there isn't a specific reference to an office in OMB, we more broadly use the government officials who have that responsibility to assist us in monitoring and making sure that the statutes are carried out.

Mrs. BIGGERT. What would be the difference of, like, a budget examiner and a management staff member?

Mr. DESEVE. We have actually have gone away from the word "budget examiner" at this point, although it continues to crop up. When you use a word long enough, it is hard to get away from it. There are now program analysts along the way.

You would be hard put to find the difference between people in the statutory offices and their counterparts on the budget side. The primary difference is, on a day-to-day basis, a budget examiner will have organizational segments and budget accounts within departments and agencies that they are responsible for, whereas someone in one of the statutory offices will have a crosscutting function or OMB circular. An OMB circular will make your eyes glaze over.

But let me use the example of David Childs. David is actually on the Budget Resources staff, although he does what would you call management work. David is our A-76 expert. This is a thing the committee has been concerned about, managed competition. The committee was very active in the Fair Act last year. So David will look across all the departments in a very narrow segment of management called managed competition. He will interact with his budget colleagues as they bring submissions forward under that and provide guidance for it. So he will be crosscutting on a fundamental management issue like managed competition, and the budget examiner will be dealing with the organizational issues.

They will intersect at various points, so various management staffers dealing with A-21, A-110, all the oldies but goodies. A-110 is also very current in the news now because intellectual research and science has been challenged to provide additional data according to A-110. So the people doing A-110 work very closely with the people in the science and technology community to make sure that it gets done properly.

Mrs. BIGGERT. Don't they have very different roles, then, and need different skills? If one is a systems—what did you call it?

Mr. DESEVE. Well, you can call it systems, or it can be a variety of things. It is a fundamental narrow management area, like procurement. Let's use procurement. That is perhaps a better example. In the procurement arena, we will have a specialist who knows a lot about performance-based contracts.

We had a circumstance the other day where in FAA, FAA has an initiative on performance-based contracts. The people in Michael Deich's area, which is one of the RMOs, dealing with this, had a very strong point of view. The Department had a very different point of view. They called their friends in OFPP, the contract area, and said, would you please come in and talk to us about how all this works elsewhere outside our narrow area. The OFPP people were able to come in and strongly support FAA and change the minds of the program examiners in that arena once they saw the broader perspective. So one cuts this way across the function, the other cuts this way through a department, and they meet as needed around these kinds of issues.

Mrs. BIGGERT. Thank you.

Mr. HORN. Let me pursue a few questions just for the record here.

What changes would you suggest in the Office of Management draft? There is one error here that legislative counsel put in that I did not want where he calls it the Office of Federal Budget Management. Sorry, knock the Federal out. It is Office of Budget, which is what will be basically in the bill. But do you have some suggestions to make to us?

Mr. DESEVE. The only other thing I noted, Mr. Chairman, was on page 3, I do not know what the Office of the Chief Financial Officer is, item No. 5 in section 1 on page 3.

Mr. HORN. Who is the one in the current chart of OMB that works with the financial officers?

Mr. DESEVE. The Office of Federal Financial Management, and that you have cited as No. 3.

Mr. HORN. OK, so that is all subsumed under that then.

Mr. DESEVE. That's correct. Technically, under the statute, the Deputy Director for Management is the Chief Financial Officer of the Federal Government.

Mr. HORN. Right.

Mr. DESEVE. However, the Controller, who is the head of the Office of Federal Financial Management, carries out that designation by cochairing the CFO council. There is no designation of the Office of the Chief Financial Officer.

Mr. HORN. Should there be?

Mr. DESEVE. I don't think so. The Controller in OFFM has that responsibility.

Mr. HORN. You also have the chief statistician, don't you, in OMB?

Mr. DESEVE. That's correct. That is Kathy Wallman, and she is in OIRA.

Mr. HORN. But she is not the Director of OIRA, she is part of it?

Mr. DESEVE. That's correct, because OIRA has multiple functions. I would say that OFFM has really a single function; that is, financial management. That is why the Comptroller also functions as the Chief Financial Officer. OIRA has regulations, statistics and information and technology subsumed.

Mr. HORN. Personally I am not particularly interested in loading down an Office of Management with a lot of other functions, and I would just like your reading of the Office of Federal Procurement Policy. Is that appropriate for an Office of Management, and what are the reasons you would argue that it should stay with the Office of Budget?

Mr. DESEVE. Having stipulated I am opposed to the Office of Management here, I am trying to perfect your draft rather than support it.

Mr. HORN. We look on you as a professional.

Mr. DESEVE. It is my disclaimer.

No, I think that the three statutory offices on the right-hand side of my chart, which you have in No.s 1, 2 and 3, are quite appropriate for that purpose.

Mr. HORN. For management?

Mr. DESEVE. Yes.

Mr. HORN. And right now are you the primary official of OMB that relates to them?

Mr. DESEVE. Yes. That again is by statute. If you look at the Chief Financial Officers Act, you will see that is the case. They meet with me, as my staff, weekly, and then we interact continuously on a daily basis.

Mr. HORN. Now, what is there under your jurisdiction besides those statutory offices? Is it simply the crosscutting role of bringing the right people together at Department and OMB on management questions or what?

Mr. DESEVE. Again, the other way we work—

Mr. HORN. Because we also in this draft, the legislative counsel felt we had to have the Office of the Deputy Director for Management as you merge it into a separate Office of Management.

Mr. DESEVE. What would happen here is this office would staff itself with some of the support functions on the left-hand side.

There is no way you could draw any of those out and put them into the management office. Some portion of them would have to be made available, or they would have to be recreated.

Mr. HORN. Well, as part of the Executive Office of the President, you have a separate Office of Administration, which is also statutory, in the White House that can handle the small amount, hopefully, of either personnel transactions or budget or anything else.

Mr. DESEVE. Certainly. I'm not trying to dispute that at all.

The real authority in the Deputy Director for Management is also resident in the way he relates across the government, so that leaving the authority of chairing the CFO Council, the CIO Council, the Executive order authority chairing the PMC, the statutory authority chairing the PCIE, as long as all of those authorities are in place in addition to oversight of the statutory offices, then you have the network that you need to do the job.

Mr. HORN. Is there anything else that we ought to be thinking about?

Mr. DESEVE. Well, I got a call from both Dave Barram, the head of GSA, and Janice LaChance, the head of OPM, who are both nervous about what this implied for them. So I certainly would not want to make them any more nervous by suggesting that.

I think the only additional item you would want to take out is perhaps, when we set up the RMOs, the personnel aspect went into the health and personnel arena so that if you were going to have an Office of Management, you probably would take that out, the personnel issues out, and put them in the Office of Management. You would refer to personnel. I think that's the only thing that is not there at this point.

Again, please, I continue in my opposition to this idea.

Mr. HORN. No, no, I understand that. But obviously, management is management and that includes a lot of things such as personnel.

Mr. DESEVE. That's correct.

Mr. HORN. But here you have, obviously, five resource officers that are basically budget oriented and they, too, can make suggestions on personnel, I would think. That is up to the President really. I am willing to give the President flexibility because different Presidents have different approaches.

President Eisenhower walked into the White House, he said, my heavens, the only thing around here was the Bureau of the Budget practically. They had no real congressional liaison staffing. President Truman had gotten two people over and put them in the Bureau of the Budget to at least read the Congressional Record for him every day and that was sort of the start of a liaison. And then President Eisenhower created a cabinet that actually he read the minutes and initialled them and then they had to report as to have they done it or haven't they.

So if you had a situation like the GAO material, in the Eisenhower administration that would have been a cabinet brief that would have gone out to all members, they would have talked to their people at the department level, they would have come back, and he would have gone over this and said, folks, we are going to have a 3-month and a 6-month reporting period to see that you

clean up your act in relation to what the General Accounting Office has followed.

Now, I do not see that happening nowadays. Does it? Am I missing something?

Mr. DESEVE. Yesterday I went through with the President's Management Council our tabulation of GAO's high-risk list and other management challenges. We do that periodically. I then looked at the priority management objectives as they link to those challenges. And we monitor many of the high-risk lists on a monthly basis.

When we review either monthly or quarterly the status of various of these updates, we also talk about the high-risk elements. We get the audits of the agencies in now, which didn't exist in Eisenhower's day, and we and GAO actually go out and meet with the agencies about how they are doing on their audits. Many of the items on the high-risk list will come up at the point.

So we use the PMC, the President's Management Council, as that vehicle, as well as the review of the agency's performance plans. President Clinton created the notion of the Chief Operating Officer in the Department, essentially the Deputy Secretary level, and we use them to deal with those issues as opposed to the more policy-oriented issues that we have.

Mr. HORN. Usually it is the under secretary, now called deputy secretary, that runs the department while the secretary is out spreading the good word. And nobody disagrees with that. Let's face it, somebody has got to run the store.

Mr. DESEVE. And that's the way we respond.

Mr. HORN. Well, that was true of the Eisenhower administration also. The Secretary ran around the country explaining administration policy and the good deeds or bad deeds of Congress as the case may be.

Now, do you have any other suggestions for us of such a fine constructive nature as you have provided this morning?

Mr. DESEVE. No, sir. I think I am suggested out.

Mr. HORN. Does anybody on the panel? Before we leave, we will take one question. Because we do not have a gem like you often here, Ed.

Have you a question for the distinguished Deputy Director for Management?

Mr. JASPER. No. I was going to make a suggestion as to what is missing from the bill.

Mr. SEIDMAN. His concept of management is exactly what we have. It is the broader concept. With reference to the councils and committees, in our experience when everybody is responsible for something, then nobody is.

Now, these councils are useful but I never saw a council that really did the kind of creative thinking necessary to solve problems. They can advise but somebody has to provide the leadership for it to work.

Mr. HORN. Mr. Ink, do you have any comment for Mr. DeSeve?

Mr. INK. Well, you know, I think the networking is useful so long as they are not really a decisionmaking group. But I want to add, it seems to me that you have developed some networking beyond what we used to have in Washington, but I do not see it in the

field. We used to have a lot of networking in the field that dealt with the field offices and with State and local governments and interface between State and local governments that dealt with how government impacted on families, how it impacted on communities and so forth. I don't see that happening now.

Mr. DESEVE. That is a good question. I think many of the departments have built their networks locally and not used the Nixonian principle of regional offices and field offices. We can argue about that probably at another time.

We decided to deemphasize the regional office and emphasize where we could the local office and local contact as well as more electronic interaction along the way. And I think the jury is still out on how that is going to work, whether you need a regional presentation or not.

We tried to delayer but let the local folks in our associations have greater access to headquarters rather than working always through the field. That's another structure we restructure from time to time. I am not as hard over on that one.

Mr. INK. I think that is worth looking at. And I would argue that it doesn't really depend on whether you have regional offices or don't have regional offices. The important concept is the communication out in the field and networking among the different agencies who have programs that are closely related all of which impact on local businesses, on local neighborhoods and so forth.

Mr. DESEVE. I agree with that. I would like to find a better model for that.

Mr. SEIDMAN. When I came into the Bureau, there was an identifiable budget season and the examiners were able to spend about half the year actively out in their agencies. They were out in the field. They were to us a source of information when we were doing the management work because they were intimately involved.

It is my understanding that that is not true anymore, and that they are pretty much tied to their desks.

Mr. DESEVE. I would agree with that. What has happened is we have had what we call the perpetual budget season. In the year where we are then trying to get to this gap closing, especially around the Balanced Budget Act of 1997, it has been necessary to continuously redo programs and policies to try to fit them into an ever-narrowing box and it has been a tremendous strain on the budget folks. It is not that they don't want to get out in the field. It is just the demands.

Congress sat last year, and this is not a criticism, sat last year through until October on budget issues and we were in the process of preparing the 2000 budget and finalizing the 1999 budget. So there was no break during that time. And the hearings were all through the summer.

Mr. INK. I agree, it is not a criticism of those people, but as that began to develop some years ago, the Office of Executive Management then began arranging for people to spend most of their time out in the field because the budget examiners could no longer do that. This role could be restored under an Office of Management.

Mr. HORN. Well, I agree with both of you on the field situation. In the days of modern communication, you do not need a regional office, you can get directly at people who are there where they

could have access on a person-to-person level. And we might well hold a hearing on that. We have had a few field hearings on regional offices a couple years ago and then we got off on the year 2000 bit. But we will get back to that and I think you both are right. Thank you very much for spending the time. Sorry to hold you up.

Gentlemen, now we can proceed with you. Do not read us your statement is all I ask. We are going to put about 10 minutes on this for each person and then Mr. Turner and I or anybody else who walks in on either side will ask you some questions. But we are interested in having you deal with the draft bill. And at this point we knock out "Federal" before "Office of Budget" on page 3. And as Mr. DeSeve suggested, we need to knock out the "Office of Chief Financial Officer."

Mr. JASPER. Could I make one suggestion as to something that is clearly missing, and it addresses Mr. Turner's question in some way. It builds upon the comment you made about the ephemeral nature of Vice-Presidential responsibilities.

Clearly, it will take a while to get this bill through the Congress, and if it should pass you would have an effective date that is sometime in the future so that there can be an orderly transition. I would respectfully suggest that a proper effective day for this bill would be early in 2001. So it would be the next administration that would have to envision the establishment of the Office of Management and appoint the first Director. Thus, it wouldn't be at odds with this administration's concern about the new office.

In fact, the NPR, as Mr. Turner knows, borrowed some people from Texas. I think he mentioned that, about 10 as I recall. It had a staff in the NPR. One incarnation, of close to 250 persons, more than I believe is the size of the management staff reporting to Mr. DeSeve. So there is a nucleus of management activity that has been going on outside of OMB. But there is no continuity to it because these people are all on loan from Federal agencies to the Vice President's NPR. And they will go back to their agencies and the NPR will disappear.

If you had a permanent Office of Management, you could think of it as simply institutionalizing the NPR in the next administration.

Mr. HORN. I agree with you. Well, I don't know if I agree about the expiration or the beginning point, but I certainly agree with you about the need for an institutional memory that the President can tap and not have it floating around in pieces where you cannot find it, and that is what is missing here and that is what got us into that.

Mr. SEIDMAN. I think one of the suggestions with respect to the bill is that the functions be transferred to the President, not to the office. This was true initially of the Bureau of the Budget and all of its functions were vested in the President. This then allows the President to allocate these functions. It avoids some of the problems where you have overlap, and I think it simplifies some of the problems of organization. Within the Executive Office of the President, I believe all the functions should be vested in the President so he has the flexibility to determine organization structure.

Mr. JASPER. Of course, as Harold said, it is not only true of the Bureau of the Budget but also of OMB; the functions were transferred to the President rather than directly to the new office.

Mr. SEIDMAN. I would also comment, since we are having a kind of a dialog, there was one thing that was totally absent, I thought, from Mr. DeSeve's presentation. Except for the Appropriations Committee, he didn't talk about the Congress. I don't think you can do this job without congressional support. That was basically one of the conflicts in culture, I think, between the budget examiner and the management analyst.

I spent a good deal of my time because of the President working with the staff of this committee and the Senate committee. You cannot deal with these problems unless you involve the Congress. They are interactive. You cannot separate. It is part of the process. We don't have separation of powers. We have separated institutions sharing power.

And all of us here, I spent to the horror, frankly, of the budget analyst because you didn't present legislation, you didn't deal with Congress. That was patently contrary to the role of what they did in the budget, which was behind the scenes. I would testify from 20 to 30 times a year.

When they did a self survey that said that within the budget side they were outside the mainstream, I said come back and look at my calendar. At that time I was supposedly outside the mainstream, I had testified 20 times. And as I think Dwight would confirm this, we looked at our role in the process of budget design, and I mentioned program design is an important part of how you do things, you would rise in providing advice when called upon to both the Congress and to the President.

Mr. HORN. Let me ask on that point, because Mr. DeSeve mentioned it, there would have to be a duplication of services with Office of Management from Office of Budget and that the implication was that this would be a parallel system. I do not see that. I do not see why you cannot draw on the services already operated in the Office of Budget or the White House Office of Administration, which is a huge operation now compared to what it was 30 years ago. And I think the important thing there is to talk for a minute about the Office of Legislative Reference historically in the Bureau of the Budget.

It seems to me, in coordinating on behalf of the President to see if the program is in accord with the program of the President, they can ask the Director of Management, just as they can every cabinet head, and piece it all together in one place.

Mr. SEIDMAN. That was our principal relationship, and Dwight will confirm, with the Office of Legislative Reference because they are not with the budget division.

Mr. INK. What happened was that handling of management legislation was in effect subcontracted out to the management staff. My Office of Executive Management, for example, actually handled the clearance of legislation that related to management.

Also in our work with the Office of Legislative Reference, they then farmed out to us the management aspects of other legislation that was not basically management in nature. But on the manage-

ment issues, we did the clearing, we did the negotiating with Congress on behalf of the President.

I was the representative of the President in persuading the Congress to establish the Office of Management Budget in the first place. And by the way, some of the Members of Congress, such as Senator Bayh in the Senate, and Chet Holifield, who used to chair this committee, said I was wrong. They said management was going to be subordinated to the budget, and it never will be able to stand on its own. Of course, they were right and I was wrong.

Mr. HORN. Confession is good for the soul.

Mr. JASPER. As an alumnus of Legislative Reference, as well as management at the former Budget Bureau, I would like to comment on your question.

One of the things that has happened with the politicization of senior positions in OMB, is there are now, of course, Program Associate Directors who are political appointees. The Legislative Reference policymaking function has virtually been decentralized to the PADs. So what used to be a Government-wide coherent view on what made good sense legislatively is now subordinated to the programmatic and agency-focused view of the Program Associate Directors. So that's a serious problem that has arisen since those positions were created. And while the functions of Legislative Reference have not diminished, the power or the influence of it has, because of this political reality.

Mr. INK. Related to all this is the fact that so many budget issues are heavily laden with political issues. They are fiercely fought battles from a partisan political nature. By setting up an Office of Management, you free it from those kinds of political overtones. So an Office of Management is in a far better position to represent the President in terms of dealing on a bipartisan basis with Congress.

Mr. HORN. I remember I used to attend the appropriations committees that had general government and the OMB budget was in there and usually the House was filled, at least for the appearance of the Director of the Budget, because Members here had all sorts of beefs to unload on the poor Director when he came up on either agricultural policy or something that one of the budget examiners has done and they were not interested in the management side so much as they were interested in what have you done to my people. And whereas they could not take it out on the President usually, they took it out on the Budget Director.

Mr. INK. On a new Presidential initiative, I would always, and I think Harold did too, meet jointly with the chair and the ranking minority, regardless of which party was in power. I would meet with them jointly and go over the President's proposal informally before any piece of paper ever came up. I would carry back to the President any major suggestions that they had, suggestions which the President might or might not adopt. But at least there was an opportunity for congressional input on a bipartisan basis before the formal proposals came up. Every single proposal I've associated with reorganization plan passed. Harold passed a lot more than I did.

Mr. SEIDMAN. Well, that was the policy when I was there. And certainly under Presidents Johnson, Kennedy and Eisenhower we did not send up anything until we could discuss with committees

and staff. It was quite conceivable that the Members of Congress had some constructive suggestions. We ought to pay attention to them. We weren't telling them.

In fact, one of the things we tried it once to this committee and they said, "Well, you have such a big committee, why don't you come up and meet the whole committee." I had to present to this committee our program for the year, and what we considered to be the principal management issues. You have to work together.

Mr. INK. But this bipartisan cooperative approach has been lost, you see. As the budget has been dominated, this dimension, which I think is terribly important in terms of the effective functioning of our government in terms of the legislative and executive branches working together, this has been lost.

Mr. HORN. I think that is a good point.

Mr. SEIDMAN. One of the things when I came up here I think is illustrative of the problems, Congress has been more interested in some of the management issues than the executive branch. An example is the Office of Federal Procurement Policy. That was a branch in my office when I was Assistant Director dealing with the questions of procurement and procurement policy. When the Bureau was looking for a way of finding positions to create these new Associate Directors, what they call them, PADs, Program Assistant Directors, on the budget side, they dumped the procurement functions on the General Service Administration with no positions.

It was the Congress that put the Office of Federal Procurement Policy back in OMB as an independent agency.

Mr. INK. That moved over when I went to GSA and the reason was the whole management field of responsibilities was going to be killed. And finally Mr. Ash decided, rather than killing management, he would put it in exile with Mr. Ink over in GSA. Fortunately, when I left GSA it came back to OMB.

Mr. SEIDMAN. The other thing I think we did which illustrates what wouldn't happen on the budget side and dealing at that time with the intergovernmental problems, which is again our systems, many programs are administered through State and local governments. We started surveys and I invited the Governors Conference, the Conference of Mayors, the Council of State Governments, to include people. We sent up joint teams out of my office, which had the people from the State and local governments on those teams. We had the inputs of both. Those would not have happened but on the budget side.

Mr. INK. You will find in the record joint letters from the heads of the big 7, the mayors, the Governors, the city managers, the counties, the State legislatures, complimenting this management group on the work that it did in streamlining the Federal Government and reducing the negative impact on State and local government and on communities. This is an example of reaching out to the public.

What you hear today are some very impressive things with respect to the budget. What you do not hear is how government affects people and families, what is the burden of government on families and people and businesses. That is missing. And you find to some extent in the GAO report, the GAO report looked at how the 2000 program affected the budget process. It really did not look

at how it affected the management issues we are talking about. And I would hope in the next review that GAO makes it can look at not only the budget but also look at the management role of OMB.

Mr. HORN. Any other comments on this dialog?

Mr. SEIDMAN. Well, the one thing which I think is always important is it is not only what you do but how you do it. And many programs fail because they are not properly designed.

The White House and the Congress both looked to us on the management side that then existed in the Bureau of the Budget for assistance in designing programs. This is another skill. If you don't do it right then, you run into problems. Frankly, there's sometimes conflicts between what makes administrative sense and what makes political sense, which is part of the problem.

Mr. HORN. I think the important point which very few people on the Hill now realize is that over 30 and 40 years, we had a group of professionals in the old Bureau of the Budget that served every President in that period. They were not political appointees. These were professionals that worked with whatever administration was in power. And that is not true. I guess starting with Kennedy there was more politicizing down into the bowels of the Bureau of the Budget. And we ought to get a chart on that from Mr. Moe.

Mr. INK. This would have been invaluable to Mr. Clinton early in his administration when he was struggling with health care proposals. Having the kind of resources we are talking about here, having an Office of Management, they could have been a part of the health reform team. Looking at the workability of these proposals before they were surfaced would have been a tremendous help to Mr. Clinton. But he did not have that help. It no longer exists.

Mr. SEIDMAN. One of the things that Mr. DeSeve did mention, with which I agree, is that we have a number of developments where we should be looking at their implications to the organization and management of the government. Such as the technological revolution, the increasing reliance on third parties to deliver government services. These are the things that we ought to be looking at. I agree that we cannot go on the old principles of that of change. Who is doing the constructive creative thinking? This requires a different, a longer-term perspective.

As I said, we have a cultural clash here. They are two different jobs between the management analyst and the budget analyst. One looks at long-term, one looks at the whole. But these things are going by the board. I have been raising this. We did this when I was there and we did what became the Bell report, which was done out of my office and was on contracting for research and development, you know, what are the implications of this.

Mr. INK. I recommend one change if I might.

Mr. HORN. Sure.

Mr. INK. I would like to amend the bill so as to require that the appointees to these top positions be men and women with successful experience in managing large institutions, ideally both public and private sector. I think it is very important.

Mr. HORN. You mean to be either the Director or the Deputy Director?

Mr. INK. Yes.

Mr. HORN. How about if you are the head of a major consulting firm, like Arthur D. Little, that has had management analysis experience, as opposed to simply being the chief executive? I am not against that, believe me. As an ex-chief executive, I am all for somebody there. But some people have also had deep experience in looking at a whole series of different types of organizational entities, and should that count?

Mr. INK. I think it is fine to have it count, but I think they also should have had some direct management experience. Not just critiquing, not just teaching, but should have some direct management experience.

Mr. HORN. I think back, and you can think back better than I do, often when a Republican was President they would put an accountant in charge of the Bureau of the Budget. When a Democrat was President, they would put an economist or perhaps a very skilled politician in that role.

Mr. INK. I think that is fine for the budget. But again, Mr. DeSeve has been talking all morning about the fine things done for improving the budget and I think some of these are excellent. I think some of these initiatives that have been taken, that Mr. DeSeve has been taking are extremely good in terms of improving the budget. What we are talking about today, however, are these broad fundamental management issues which have such an impact on people.

Mr. HORN. Does the gentlewoman from Illinois have any questions on this? The gentleman from Texas?

Mr. TURNER. No questions.

Mr. HORN. Well, we thank you. And if there are any last points you want to make, please make them.

Mr. SEIDMAN. We request that our statements be put in the record.

Mr. HORN. It is automatic. On this committee, the minute you are sworn in, the statement goes in the record.

Mr. JASPER. I would like to make one additional observation about the NPR as it relates to this whole question.

The allegation that you "can't separate management from budget" has of course been demonstrated to be false because management has been vested primarily in the Vice President's office during this administration.

Mr. DeSeve noted that his close working relationship with the Vice President allows him to essentially have his hand in, but he has his hand in something which is being executed someplace else. If you look at the reports of the NPR, you will find that they cover a wide range of management initiatives that ought to be institutionalized, as we discussed earlier.

Furthermore, if you look at the functions of the DDM as established by law in the Chief Financial Officers Act, I count some 8 significant management responsibilities which were nowhere reflected in his 24 management priorities. So the result of this administration's focus on performance-based government, as important as that is, is that it has overlooked a whole bunch of other statutory responsibilities that the Congress explicitly vested in the DDM.

I would submit that if there were a separate Office of Management, it would adhere more faithfully to the strictures of the CFO Act other than financial management—which is in a different section of the act.

Mr. INK. I have two quick comments.

One, departments and agencies long ago learned that it was unwise to merge together the management and budget capabilities. You don't find that around the departments. I don't know why we are so slow to realize the same principle applies to the Executive Office of the President.

Second, in establishing an Office of Management, while we feel very strongly that you not only don't need the leverage of the budget, and as a matter of fact in our experience that more often was a negative than a plus because it was a forceful action rather than a leadership action, nevertheless there are tools that would be required in an Office of Management in order for it to have stature, in order for it to be effective, and these are listed in my testimony.

Mr. JASPER. I would like to add just one more point. I reflected this in my prepared statement. And, given that there are members present from both parties, I want to emphasize that this is not a political statement, but it is a historical statement.

The unwisdom of using the Vice President for such a comprehensive management agenda is underscored by the fact that Vice Presidents rarely succeed Presidents. In the 20th century, only three sitting Vice Presidents have earned their party's nomination and two of them were defeated. So, statistically, if one thinks that what is in the Vice President's office is working well, the likelihood that it will continue in the future is slim, just from the standpoint of probabilities.

Mr. INK. Which is different from Mr. Gore providing political leadership, which we all feel has been a positive and very helpful role, but that is very different from the institutional capacity to make the system work.

Mr. HORN. Point well-taken.

We thank you gentlemen. You have had some great experience and wisdom on this question and we deeply appreciate it. Thank you for coming.

We now move to the last panel. This will be Dr. Harold C. Relyea, Specialist, American National Government, Congressional Research Service; Dr. Virginia McMurtry, Specialist, American National Government, Congressional Research Service; Mr. J. Christopher Mihm, the Associate Director, Federal Management and Workforce Issues, U.S. General Accounting Office; Mr. Paul Posner, the Director of Budget Issues, Accounting and Information Management, U.S. General Accounting Office; and Dr. Ronald C. Moe, Specialist, Government Organization and Management, Congressional Research Service.

You bring a lot of institutional memories to the table. If you will rise. Have we got everybody? Who are we missing?

Ms. MCMURTRY. Harold Relyea is not going to be able to join us. [Witnesses sworn.]

Mr. HORN. The clerk will note all four witness have been sworn.

So why don't we start down the row with Dr. McMurtry and give us about a 10-minute summary at the most. Why don't we turn the

clock on. We would like to have question period time. It means a lot to us. Your fine papers are already in the record.

STATEMENTS OF VIRGINIA McMURTRY, SPECIALIST, AMERICAN NATIONAL GOVERNMENT, CONGRESSIONAL RESEARCH SERVICE; J. CHRISTOPHER MIHM, ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, U.S. GENERAL ACCOUNTING OFFICE; PAUL POSNER, DIRECTOR, BUDGET ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT, U.S. GENERAL ACCOUNTING OFFICE; AND RONALD C. MOE, SPECIALIST, GOVERNMENT ORGANIZATION AND MANAGEMENT, CONGRESSIONAL RESEARCH SERVICE

Ms. MCMURTRY. Mr. Chairman and members of the subcommittee, my name is Virginia McMurtry and I am a Specialist in American National Government with the Congressional Research Service of the Library of Congress.

My colleague, Harold Relyea, also a CRS Specialist in American National Government, had planned to participate today with me in the presentation of our joint statement. Unfortunately, he is unable to be here now due to a home emergency. He has asked me to convey his regrets to the subcommittee, he really is sorry that he has to miss this session. We thank you for your invitation to appear here today for this hearing.

In October 1997, Dr. Relyea and I began meeting with subcommittee staff concerning the requested review of internal reorganizations of the Bureau of the Budget and its successor, the Office of Management and Budget, with a view to the structuring of BOB/OMB capacity and capability to guide or assess aspects of management, both governmentwide or by sectors, and in the Federal executive departments and agencies. The timeframe set for the review was 1921–1993; that is, beginning with the creation of the BOB and concluding with OMB structure on the eve of the arrival of the Clinton administration and OMB 2000. The study was transmitted to the subcommittee on May 7th, and we subsequently appeared before you to discuss it at a hearing last spring on May 12, 1998.

Last year we offered six observations on the basis of that study, and today I want to reiterate those findings and also provide some additional comments.

First, the BOB/OMB has experienced an ever-changing structuring of management responsibilities, reconfiguration seeming to occur more and more frequently with the progression of years after 1950. Over the years, the internal structure has tended to alternate between two patterns, a bifurcated structure with separate sides for management and budget staff, and a programmatic structure with budget examiners and management staff integrated in various functional units. The current structure of OMB of course reflects this latter approach. In 1994, the OMB 2000 reorganization merged the old budget examining divisions and most management personnel and units into the new resource management offices.

Second, the BOB/OMB has become responsible for various kinds of management: Administrative, intergovernmental, personnel utilization, procurement, paperwork/information, statistical, regulatory, and financial, among others, which appear generally to have increased with the progression of years after 1960. The BOB/OMB

has met these responsibilities in various ways; for example, through analyses and evaluations, coordination, and clearance with shifting resources.

While the accumulation and detailing of these diverse responsibilities was intended to strengthen BOB/OMB's management role, this legacy is likely to complicate any efforts to separate entirely the management duties from budget concerns in certain areas, such as intergovernmental and financial management.

Third, especially since the early 1960's, when PPBS, or the planning-programming-budgeting system, was introduced throughout the executive branch, the BOB/OMB has been required by successive administrations to adopt and adapt to a variety of changing arrangements for planning and budgeting. While these frameworks generally shared an orientation toward objectives and outcomes, each system entailed some modifications of BOB/OMB management capacity, sometimes for brief periods of only a few years.

Now perhaps a more stabilized planning and budgeting situation based upon a statutory mandate is evolving pursuant to the Government Performance and Results Act of 1993. The first governmentwide performance plan as required by that statute was submitted as a part of the President's fiscal year 1999 budget. Then the second effort of a governmentwide performance plan was of course included just released earlier this week in the fiscal year 2000 budget submission.

Fourth, considering the management-budget relationship within the BOB/OMB, it appears that the budget authority has largely been used or threatened to accomplish or seriously pursue management objectives but not vice versa.

Fifth, since the reconstitution of the BOB in 1970, the resulting OMB has during the succeeding years experienced an expansion of non-career middle managers and, consequently, a more complex and extended hierarchy between the more senior leaders of OMB and the first line staff. Moreover, specialized entities, such as the Office of Federal Procurement Policy, the Office of Information and Regulatory Affairs, and the Office of Federal Financial Management have been grafted onto the OMB.

Sixth, and finally, recent developments may engender a reexamination and reconsideration of OMB's management role and the most suitable structure for fulfilling the management responsibilities now vested in OMB. Experience with implementing the Government Performance and Results Act would be relevant to such a reassessment.

In addition, the achievement of a balanced budget in fiscal year 1998 for the first time in many years and the projection of continuing revenue surpluses might reduce OMB's preoccupation with budget concerns prompted by decades of Federal budget deficits. CRS, of course, takes no position on any particular option Congress may elect to pursue in these regards.

Thank you. I would be happy to respond to questions later.

[The prepared statement of Ms. McMurtry follows:]

Harold C. Relyea and Virginia A. McMurtry
Joint Statement
before the
**Subcommittee on Government Management,
Information, and Technology**
House of Representatives
February 4, 1999

Mr. Chairman and members of the subcommittee, my name is Harold Relyea and I am a Specialist in American National Government with the Congressional Research Service of the Library of Congress. I am also the head of the Executive and Judiciary Section of the CRS Government Division. Joining me is Virginia McMurtry, who is also a CRS Specialist in American National Government. We thank you for your invitation to appear here today for this hearing.

In October 1997, Dr. McMurtry and I began meeting with subcommittee staff concerning a requested review of internal reorganizations of the Bureau of the Budget (BOB) and its successor, the Office of Management and Budget (OMB), with a view to the structuring of BOB/OMB capacity and capability to guide or assess aspects of "management," both governmentwide or by sectors, and in the federal executive departments and agencies. The time frame set for the review was 1921-1993, *i.e.*, beginning with the creation of the BOB and concluding with OMB structure on the eve of the arrival of the Clinton Administration and *OMB:2000*. The study was transmitted on May 7, and we subsequently appeared before the subcommittee to discuss it on May 12, 1998.

The preparation of our review of BOB/OMB internal reorganizations, as source note citations indicate, was based upon library research, *i.e.* the examination of published scholarly studies and official government literature. This is an important limitation for our presentation. For example, we did not consult internal BOB/OMB records or conduct any interviews with present or former BOB/OMB officials. Moreover, the quantity of public literature describing or assessing BOB/OMB internal reorganizations is limited.

We appear here today to reiterate the observations we offered at the end of that review and to comment on some subsequent developments.

- The BOB/OMB has experienced an ever changing structuring of management responsibilities, reconfigurations seeming to occur more and more frequently with the progression of years after 1950. Over the years, the internal structure has tended to alternate between two approaches: (1) a bifurcated structure, with separate sides for management and budget staff; (2) a programmatic structure, with budget examiners and management staff integrated in various functional units. The current structure of OMB reflects the latter approach. The recent *OMB: 2000* reorganization merged the budget examining divisions and most management units into new Resource Management Offices.

- The BOB/OMB has become responsible for various kinds of management—administrative, intergovernmental, personnel utilization, procurement, paperwork/information, statistical, regulatory, and financial, among others—which appear generally to have increased with the progression of years after 1960. The BOB/OMB has met these responsibilities in various ways—*e.g.*, analyses and evaluations, coordination, and clearance—with shifting resources. While the accumulation and detailing of these diverse responsibilities was intended to strengthen BOB/OMB’s management role, this legacy is likely to complicate any efforts to separate “management duties” from “budget concerns” in some areas, such as intergovernmental and financial management.
- Especially since the early 1960s, when PPBS (or the planning-programming-budgeting system) was introduced throughout the executive branch, the BOB/OMB has been required by successive administrations to adopt and adapt to a variety of changing arrangements for planning and budgeting. While these frameworks generally shared an orientation toward objectives and outcomes, each system entailed some modification of BOB/OMB management capacity, sometimes for brief periods of only a few years. A more stabilized planning and budgeting situation, based upon a statutory mandate, seems to be evolving pursuant to the Government Performance and Results Act of 1993. The first governmentwide performance plan, as required by that statute, was submitted as a part of the President’s FY1999 budget, and the second effort was included in the FY 2000 budget.
- Considering the management-budget relationship within the BOB/OMB, it appears that budget authority has largely been used (or threatened) to accomplish (or seriously pursue) management objectives (but not *vice versa*).
- Since the reconstitution of the BOB in 1970, the resulting OMB has, during the succeeding years, experienced an expansion of non-career middle managers and, consequently, a more complex and extended hierarchy between the most senior leaders of OMB and first line staff. Moreover, specialized entities, such as the Office of Federal Procurement Policy, the Office of Information and Regulatory Affairs, and the Office of Federal Financial Management have been grafted onto the OMB.
- Finally, recent developments may engender a reexamination and reconsideration of the OMB’s management role and the most suitable structure for fulfilling the management responsibilities now vested in OMB. Experience with implementing the Government Performance and Results Act would be relevant to such a reassessment. In addition, the achievement of a balanced budget in FY1998 for the first time in many years, and the projection of continuing revenue surpluses, might reduce OMB’s preoccupation with budget concerns prompted by decades of federal budget deficits. CRS, of course, takes no position on any particular option Congress may elect to pursue in these regards.

Thank you. We would be happy to respond to questions.

Mr. HORN. Well, we thank you for that very thorough report. And not only will your testimony but the study that was personified by your statement will be put in the record at this point.

We will then go now, I think, to the next specialist from the Congressional Research Service. That is Mr. Moe, who has been very helpful to the committee over the years; and then we will go to the General Accounting Office.

Mr. Moe.

Mr. MOE. Thank you, Mr. Chairman, for inviting me to testify before your committee on the proposed Office of Management Act of 1999. It is appropriate at the outset to note that the opinions expressed here are my own and do not express those of my employer, the Congressional Research Service.

In my extended written statement for the record, I have attempted to trace the intellectual and political history of the debate over whether or not the two subject fields, budget and management, are best served by being in one agency or separated into two agencies. If I understand correctly the view of the subcommittee and its chairman, at any rate, this debate has been largely settled in favor of providing the President with two equal, separate offices, one for budget and one for management. You requested the witnesses to come forth with some ideas on what the Office of Management would do in the future.

However, as I listened to the overall discussion this morning, I have thrown out my prepared remarks and I want to go on some shaky ground but I think some things need to be fully understood in this discussion.

There is a fundamental debate that is going on at all levels of government, but particularly in the Federal Government, and it is a debate over the premises of management. What is the essential character of management in the governmental sector?

One school, the school supported by OMB and Vice President Gore and a host of professors argues, in essence, that business and government are essentially alike, both being subject to the same behavioral modes. They should use the same titles, that's why they are making up titles like CEO. If you have a program that works at General Electric, the odds of it working in the Federal Government are very high. So that is one school that argues on universality of administrative principles.

The opposing school argues that business and government are essentially unlike, distinctive in their norms, with surprising little carryover between the sectors. The first school argues, that is universality of principles. Government, they say, should be run like General Electric. And that's why you never hear them discuss Congress.

Congress, to the new entrepreneurial managers, is a nuisance. It is part of the old way, and remember the word "old" in their lexicon is bad; if you give an example that is over 3 years old, they will inform you that you are representing the old way of functioning.

Now, the second school argues that, in effect, public law is the basis of our management system and that all behavioral principles have to be within the construct of the law. The laws are passed by Congress. Congress is the board of directors. It is Congress that determines the mission of an agency. It is Congress that determines

its funding, its personnel systems across the board. It is Congress that does this.

Now in the new system, in effect, that they are promoting, they want the managerial class to make the missions. That's why a lot of this GPRA stuff has to be taken with a grain of salt. Performance is not the highest objective in the governmental sector; accountability is. In most instances, accountability and performance work together very well. But when there is a direct challenge, as was the case with the IRS, the IRS was off the boards. They were the model agency in terms of collecting money and able to measure it. They forgot one thing however, that's not the agency's highest job.

Their highest job is due process and the protection of the citizens' interests, and you all came back and forced them to go out to the performance system. And I promise that I won't bother you with performance and quotas any more.

So what we have here is a fundamental culture clash. This is why the panel here we are talking past each other.

Let me just mention four small points. One problem facing this government is proliferation of general management laws. The study that you asked for that we provided in 1997 is being updated in 1999, and it goes through the various management laws. There is no one overlooking them all. In fact, until this came out, if you asked OMB what they were, they would be unable to tell you.

Second, we are facing a situation where the disaggregation of government is increasing rapidly. Agencies proliferate or are spun off from departments. The civil service systems proliferate. It is my understanding that less than half of the civil servants remain in the general schedule as each agency manipulates its subcommittee on the Hill to have its own personnel system and preferably its own special pay system.

And what you have created with that chart that showed a decrease in the permanent employment is totally misleading. They decreased the middle managers by that amount, kept the same number of political appointees, and we have upgrade not only of personnel in the contractor sector but authorities going to them.

I could give you my favorite example of Ginnie Mae. What we have here is a situation where the government is disintegrating.

Third, we have an amateur government. We are a government run by political executives selected often because they were successful on the outside, frequently with no experience in the government. They come in for short periods, averaging 18 months; they leave; and they go out, typically, to a lobbying firm here on K Street.

You will have a hard time even finding any Federal employees in the Department of Energy because there is a 10 to 1 ratio of contractors to employees in that Department. We have no comprehensive plan today to attract, train, deploy a professional cadre of career civil servants, period. It is unbelievable.

I don't suppose that any other country could function this way. I talk to New Zealanders, when they come over here, and they see very little of what we have done here could be done there, and we don't know if we would ever do it again. They have no political ap-

pointees in New Zealand. They don't try to run their government with amateurs.

Entrepreneurial versus constitutional models of management. That is the issue. The entrepreneurial model is reflected in GPRA, and all of the literature that you see that is, for the most part, from Harvard Business School. And you will note that Congress is rarely, if ever, mentioned.

The other side are the constitutionalists who say Congress is the key. In an entrepreneurial model, the budget is supreme. It is the tool of control.

The constitutionalists argue that the purpose of management is to build the capacity of the government to perform the people's business.

Fifth and final, really what we hear that is passing for the latest management terms is process triumphant over substance. Performance is some sort of God put out there in which people argue over how best we can get there. If there is one thing that we have learned in this century, it is that the life expectancy of the latest reform is getting shorter. Five years from now we will be discussing a whole set of new words and this sort of thing.

That doesn't mean that having a Government Performance Results Act is a mistake. What it means is that you should recognize that it handles only the mid part of management. It has not gone up to the level of management that these gentlemen were talking about earlier. It is a substitution, a process over substance. So what we have is management by ad hoc groups.

The President's Management Council is not created by law. It has, according to Mr. Koskinen, and I heard him personally say that we have a 50 percent turnover at one of our rare meetings. Therefore, they are caught in a bind. Do they bring the last group up to speed or do they go on with half the group not knowing what is going on?

What they are telling you is that the institutional capacity of the President to supervise the Federal Government hardly exists. I perceive that the top management of the government of the United States is not getting better, but is getting worse, and that it is the reality. Since the executive branch isn't prepared to do anything about it, it is forcing Congress.

One final political comment, if I may. Much of this debate is really for an audience of one. That is, to really take on management, we have to have a President who wants to think about it once in awhile. It never will be his major concern, but he has to have an institutional support, not friends and neighbors, not part-timers from other departments, but institutional support in order for real management corrections to be made.

This being the case, it is very important that whoever is running for Congress—for the Presidency, conservative or liberal, to be aware of this debate at some level. Because if a President comes in and says, "this is important, I want to run the system right." Such a President would be the most likely to request Congress for this authority and during the honeymoon period they would be likely to get it. And so Congress ought to be thinking what do we want in this office and what don't we want.

I take a more comprehensive view on this. Nonetheless, it is a good reason for you to hold your hearings because your hearings provide the record on this issue over the last 4 years. It is an issue that the next President may decide is important, and that is what I think we are doing here.

Thank you.

Mr. HORN. We thank you. We always enjoy having contrarians on our panel, and you do a great job at that and we thank you very much. I know all of the fine documents that you have, we will put the general management laws, the selective compendium also in as an appendix if the budget isn't completely broken on the Committee on Government Reform.

[The prepared statement of Mr. Moe follows:]

STATEMENT BY RONALD C. MOE
CONGRESSIONAL RESEARCH SERVICE

HOUSE COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY

"Office of Management Act of 1999"

February 4, 1999

Mr. Chairman, thank you for inviting me to testify before your Committee on the proposed Office of Management Act of 1999, H.R. _____. This bill would provide for the reorganization of the present Office of Management and Budget (OMB) into two equal, separate offices; an Office of Federal Budget (OFB) and an Office of Management (OM). Both Offices would be in the Executive Office of the President and both Directors would report directly to the President.

Office of Management and Budget Today

Previous hearings and reports by this Committee have addressed the question: Is the Office of Management and Budget (OMB) as presently organized performing its managerial responsibilities in an effective manner? After many hours of testimony by OMB officials, both past and present, and by outside observers and scholars, the answer to this question appears to be in the negative. Arguably, the management interests of the President, the executive branch generally, and Congress are not being fully served by the current organization of OMB.¹ In the words of Subcommittee Chairman, Stephen Horn:

The capacity available to the President in the Office of Management and Budget has steadily declined and now barely exists, despite a competent Director of OMB and a Deputy Director for Management, whose talents in this area are underutilized. Federal management organization, oversight authority, and general influence have been consistently overridden by recurring budget crises and budget cycle demands, despite conscientious intentions to give "Budget" and "Management" equal voice within OMB....

¹ See: U.S. Congress, House, Subcommittee on Government Management, Information and Technology, *Federal Budget Process Reform*, Hearings, 104th Congress, 2nd session (Washington: GPO, 1996). U.S. Congress, House, Committee on Government Reform and Oversight, *Making Government Work: Fulfilling the Mandate for Change*, H.Rept. 104-435, 104th Congress, 1st session (Washington: GPO, 1995).

The question arises: Is the premise that budget and management issues are inseparable a valid premise? There is a substantial body of opinion contending, on the contrary, that not only are budget and management separable in theory, they should be separate in practice. Critics of the current OMB and the integration of management issues and personnel into budgetary processes argue that management values and issues can only be addressed properly if management is institutionally separate from the budget.⁸ The experiment with an integrated OMB is judged by many to be a failed experiment and that today crucial management and institutional issues are being addressed in a perfunctory way or not at all.⁹

The distinctions between the budgetary and management cultures are genuine. The budgetary culture necessarily and properly has a short-term perspective in which future resource allocation measured in financial terms is critical. It is a highly politicized process that emphasizes control mechanisms. The crucial variable in the budgetary process is annual "scoring" which often imposes relatively arbitrary limits on agency management to meet macro-financial objectives.

Management, on the other hand, though not innocent of political interests and values, is a culture that tends to operate with a long-term perspective and seeks to maximize the capacity of institutions to perform their statutory mission. Thus, management may seek to "invest" in management choices by making long-term, prospective decisions. The principal tool of Federal management is the 80 or so general management laws which assist or diminish, depending on the conceptual quality of the laws, the capabilities of agency management.¹⁰ Immediate budgetary

⁸ Dwight Ink, one-time President of the Institute for Public Administration, is someone who believes that management must be separate from budgetary priorities to be effective. "Having been responsible for the drafting of the reorganization plan establishing OMB and having had responsibility for defending that proposed agency before a skeptical Congress, which I would say in retrospect was a very serious mistake on my part, I have a very special interest in this subject. I also happen to have headed the management effort under both the Bureau of the Budget and the Office of Management and Budget.... I do not believe that the M can every truly succeed while part of OMB, and... I have long advocated a separate OFM...."

"The management side has to be able to establish its own agenda in support of the presidential and congressional policies rather than merely serving in a support role to the budget process." U.S. Congress, Senate, Committee on Governmental Affairs, *OMB's Response to Government Management Failures*, Hearings, 101st Congress, 2nd session (Washington: GPO, 1991), p. 29.

⁹ According to Paul Light: "[S]enior members of the National Academy of Public Administration (NAPA) have argued for the creation of an entirely new Office of Federal Management, the argument being that budget will always crowd out management. Far better to have the M ignored on its own than completely submerged by budget. After waiting three decades for OMB to begin the rebuilding, it appears that advocates of a separate office operating elsewhere in the Executive Office of the President have the winning argument." *The Tides of Reform* (New Haven: Yale University Press, 1997), p. 228.

¹⁰ U.S. Library of Congress, Congressional Research Service, *General Management Laws: A Selective Compendium* ed. Ronald C. Moe, CRS Rept. 97-613 (Washington: CRS, 1997). This Compendium is being updated and revised in 1999 per instructions from the

(continued...)

Management of the Federal Government should be a presidential priority.... To enhance the President's management capability, Congress should establish in the Executive Office of the President a top-level management and organization oversight office (Office of Management) headed by an administrator who has direct access to the President.²

Defenders of the present OMB organizational structure argue, on the other hand, that management problems can be addressed only when assigned the "clout" of the budget. It is the budget process, in their view, that promotes whatever management improvements are likely to occur, therefore it is essential that budget and management be located in the same agency. The National Performance Review (NPR) in 1993³ went a step further by rejecting earlier recommendations to rebuild the management side of OMB⁴ and implicitly proposed that OMB cease to have a separate management component altogether. A subsequent OMB reorganization ("OMB 2000 Review")⁵ largely implemented the NPR suggestion by integrating the small remaining staff of the General Management Division along with existing budget analysts into five Resource Management Offices (RMOs) structured along budgetary functional lines. Insofar as designated management functions remain in OMB, they are located in much reduced statutory elements of the agency (e.g., Office of Federal Procurement Policy).⁶

In defending the 1994 reorganization of OMB, then OMB Director, Leon Panetta, stated: " Critics of these recommendations may say the effort to 'integrate' management and budget will end in merely bigger budget divisions, whose management responsibilities will be driven out by daily fire-fighting on budget issues.... We believe this criticism is based on a false premise that 'management' and 'budget' issues can be thought of separately."⁷

² U.S. Congress, House, Committee on Government Reform and Oversight, *Making Government Work: Fulfilling the Mandate for Change*, H. Rept. 104-435, 104th Congress, 1st session (Washington: GPO, 1995), pp. 5, 8.

³ U.S. Executive Office of the President, National Performance Review, *From Red Tape to Results: Creating a Government That Works Better and Costs Less* (Washington: GPO, 1993).

⁴ National Academy of Public Administration, *Revitalizing Federal Management: Managers and Their Overburdened Systems* (Washington: National Academy of Public Administration, 1983). U.S. Congress, House, Committee on the Budget, *Management Reform: A Top Priority for the Federal Executive Branch*, Committee print, 102nd Congress, 1st session (Washington: GPO, 1991).

⁵ U.S. Office of Management and Budget, "Making OMB More Effective in Serving the Presidency: Changes in OMB as a Result of the OMB 2000 Review," OMB Memorandum No. 94-16, March 1, 1994.

⁶ Shelley Lynne Tomkin, *Inside OMB: Politics and Process in the President's Budget Office* (Armonk, NY: M.E. Sharpe, 1998).

⁷ Leon Panetta, quoted in "Executive Memo: OMB Management Merger," *Government Executive*, 26(April 1994), p. 8.

interests and constraints are necessarily influential, but they are only one of the factors that are critical in the management equation.

In the view of some scholars and practitioners of government management, when budget and management institutions and personnel are combined, short-term budgetary values and priorities necessarily displace longer-term management values and priorities. Long-term management issues and proposals often lack immediate political appeal and thus the intellectual capital necessary for institutional growth and creativity is sacrificed to the appeal of short-term, immediate "savings."

In this view, the net result of years of stressing budgetary over management values has produced a situation where major fields of governmental activities are essentially "unmanaged" from a central managerial perspective. Government corporations and enterprises, for instance, are being created *sui generis* with little central review in the executive branch to insure conformance with statutory and customary standards of organization, operations and accountability. Today, Performance-Based Organizations (PBOs) are being promoted by the Vice President and the NPR notwithstanding the absence of clear statutory authority to create such bodies and the absence of criteria and standards for financial accountability agreed to by Congress.¹¹ Throughout the whole "reinventing" process there has been an effort to "tailor-make" or exempt agencies and programs from the supervision of general management laws (e.g., personnel acts) and from congressional oversight.¹² PBOs are the organization of choice because they can be designed to be exempt from many general laws and to have a largely autonomous managerial cadre. Increasingly, the management of the executive branch is disaggregated, uneven in execution, often subordinated to budgetary priorities, and less concerned about congressional interests.

Are the Governmental and Private Sectors Alike?

The underlying premise of much of the "reinventing government" exercise is that the governmental and private sectors are alike and best managed according to certain generic business sector principles (e.g., "customer satisfaction"). The entrepreneurial management model outlined first in Osborne and Gaebler's popular

¹⁰(...continued)

Subcommittee on Government Management, Information and Technology of the House Government Reform Committee.

¹¹ Alasdair Roberts, "Performance-Based Organizations: Assessing the Gore Plan," *Public Administration Review*, 57(November/December, 1997): 465-78.

¹² Donald F. Kettl has detected a bias in the "reinventing government" exercise. "First, 'reinventing government' seeks the transfer of power from the legislative to the executive branch. In the Vice President's report, Congress is notable principally for its rare appearance. When it does appear, it is usually as an unindicted co-conspirator responsible for undermining effective management. The NPR criticizes Congress for micromanagement and for unpredictable budgetary decisions. Almost all of what the NPR recommends, in fact, requires that Congress give up power." "Beyond the Rhetoric of Reinvention: Driving Themes of the Clinton Administration's Management Reforms," *Governance*, 7(July 1994), p. 309.

book, *Reinventing Government*,¹³ and later in Vice President Al Gore's *National Performance Review Report*,¹⁴ seeks to replace the "old, broken way" with the "new entrepreneurial management" unencumbered by so-called red tape. "Effective entrepreneurial governments," the report asserts, "cast aside red tape, shifting from systems in which people are accountable for following rules to systems in which they are accountable for achieving results."¹⁵ This call to "cast aside red tape" is, on the surface, an appealing idea that has few straightforward opponents. However, one person's "red tape" often turns out to be another person's "fundamental right." "Red tape" is generally employed as a metaphor for laws, executive orders, regulations, and directives, the system that entrepreneurs argue is undesirable, obsolete and broken.

The traditional theory of public administration, in contrast to the contemporary entrepreneurial theory of governmental management, is based on the premise that the governmental and private sectors are fundamentally distinctive. They are not alike in their essentials and the applicability of business school axioms to government agency management is problematical at best. The foundation of governmental management, according to the traditionalists, is to be found in public law, not in behavioral theories of management. The fact is that the private and governmental sectors are based on fundamentally different streams of legal doctrine: one traditionally rooted in judge-made common law, protecting rights and asserting duties in the relations of private individuals; the other founded on the body of the Constitution and the Bill of Rights and articulated by a truly enormous body of statutory, regulatory, and case law to ensure continuance of a republican form of government and to protect the rights and freedoms of citizens from the excesses of an all-powerful state.

Public law is the under-appreciated "cement" that binds the separated powers of the administrative state, ensures political and legal accountability of its officials, and restrains abuses of administrative discretion and conflicts of interest.

With respect to management, the distinctions between the sectors has been described as follows: "*The distinguishing characteristic of governmental management, contrasted to private management, is that the actions of governmental officials must have their basis in public law, not in the pecuniary interests of private entrepreneurs and owners or in the fiduciary concerns of corporate managers.*"¹⁶ In

¹³ David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector from Schoolhouse to State House, City Hall to Pentagon* (Reading, Mass.: Addison-Wesley, 1992). Office of the Vice President, National Performance Review, *Businesslike Government: Lessons Learned from America's Best Companies* (Washington: GPO, 1997).

¹⁴ U.S. Executive Office of the President, National Performance Review, *From Red Tape to Results: Creating Government That Works Better and Costs Less* (Washington: GPO, 1993).

¹⁵ *Ibid.*, pp. 6-7.

¹⁶ Ronald C. Moe and Robert S. Gilmour, "Rediscovering Principles of Public Administration: The Neglected Foundation of Public Law," *Public Administration Review*, (continued...)

this traditional conceptualization, the hierarchical structure found in the executive branch is designed more to ensure accountability for managerial actions than to promote efficiency control measures over employees. The value of accountability to politically chosen leaders outranks the premium placed on efficient, low-cost service. It is less a question of pursuing one value at the expense of the other, however, than it is a matter of precedence in the event of conflict.

Under the traditional public law theory of management, what are the purposes of agency management? (1) **The purpose of agency management is to implement the laws passed by Congress as elected representatives of the people.** (2) **The President is the chief executive officer of the executive branch and Commander-in-Chief of the armed forces and as such is responsible for the proper execution and administration of the laws.** (3) **Executive branch managers are held legally accountable by reviewing courts for maintaining procedural safeguards in dealing with both citizens and employees and for conforming to legislative deadlines and substantive standards.** Additional requirements for presidential and agency management under the public law theory may be stated, but the point is clear: law is the foundation of public management.

General Management Laws as "Political Clout"

"General management law," as used in this testimony, is a term of art referring to those cross-cutting laws regulating the activities, procedures, and administration of all agencies of government, except where exempted by category of organization or by provision in their enabling statute. The quality of the general management laws is a crucial factor in maintaining the integrity and accountability of the executive branch to the President and, ultimately, to Congress.

General management laws are intended to provide appropriate uniformity and standardization for government organizations and processes. Uniformity and standardization by themselves, however, are not the objective of general management laws. Such an objective would stultify government as "one size does not fit all." What these laws do reflect, therefore, are the conceptual and legal agreements between the branches respecting the management of the executive branch. In functional terms, general management laws are statements of presumption guiding governmental behavior; that is, certain doctrinal provisions reflected in legal language stand until and unless an exemption is permitted. Exemptions may be assigned by a general statute to a category of agency or they may be present in provisions of the agency's enabling statute. Exemptions from general management laws may be mandatory or discretionary.

General management laws come in various guises and may be dramatic in their coverage and impact, as is the case with the Administrative Procedure Act; Budget and Accounting, Paperwork Reduction, and Freedom of Information Acts, or they may be of relatively low visibility (although visibility is not necessarily equatable with importance), such as the Federal Advisory Committee Act; and the Prompt

¹⁶(...continued)
55(March/April 1995), p. 138. (Italics in the original.)

Payment Act. In recent years a number of additional general management laws, such as the Federal Managers Financial Integrity Act, have been enacted, each supported and justified on its own definition of a problem, but often with what some observers believe to be little consideration of its probable impact upon other related general management acts.

One purpose of these general management laws, and of the host of additional similar acts, is to shift the focus of deliberation and decision to the general rather than the exceptional. The politics of general applicability is a politics by which the President, central management agencies, and Congress have the authority and leverage to keep the natural centrifugal forces of administrative practices within accountable limits. That is, the laws and regulations apply to all agencies, with the applicants for exemption carrying the burden of proof. The politics of exceptionality occur when there are no applicable general management laws or when those that exist have been permitted to atrophy or, conversely, become cumbersome or obsolete through extraneous amendments or technology.

Responsibility for the drafting and updating of management laws would, presumably, be a major responsibility of the OM. The political clout associated with this responsibility should not be underestimated. OM will be a major player in setting the "rules of the game" for agency management and will constitute an institutional source of expertise and memory in service to the President. Thus, an OM consisting of experienced generalists who have spent much of their career in executive branch management could be a cadre of strength for both the presidency and Congress.

Have general management laws, viewed both singularly and collectively, been designed to promote a consistent and comprehensible theory of management appropriate to the distinctive requirements of the governmental sector? Or, are the general management laws, viewed comprehensively, largely the sum total of many singular laws intended to achieve different and occasionally conflicting ends? Are there too many laws, or too few? Do they balance standards of legal accountability with the needs of agency management discretion? Are the laws and the regulations promulgated pursuant to them under the continuing supervision of, and subject to, periodic revision by central management agencies accountable directly to the President? Or, do the laws reflect a gradual presidential retreat from active management responsibilities? Do the laws encourage agency leadership to proceed largely on its own, seeking waivers from coverage and accommodations with other agencies, private contractors, and Congress? What interest does Congress have in current management laws? Do they provide opportunities to enhance the capacity of agency leadership to implement laws and policies, or opportunities to insure greater agency sensitivity to congressional committees? In short, Presidents, and less directly although equally critical, Congress, have a stake in the quality of the general management laws. Indeed, this Committee has a special stake in the quality and administerability of the general management laws since roughly half come under its jurisdiction.

At Hearings of this Committee in 1996, ("Federal Budget Process Reform"), one segment was devoted to Sections 2 and 6 of the Omnibus Budget Act that would have provided for the reorganization of the present Office of Management and

Budget into two equal separate offices, an Office of Budget and an Office of Federal Management, a proposal not unlike the one we are discussing today. At that time the subject of general management laws was raised. The Chairman asked if there was any official listing of acts of a general management character. Learning that there was none, he subsequently requested CRS to develop such a listing with analysis of each act. Mr. Chairman, in June 1997, CRS published a compendium on the general management laws applicable to the executive branch.¹⁷ We are presently involved in writing a revised edition of this Report, per the request of this Subcommittee. This compendium provides an overview of the laws that, for the most part, would be the responsibility of the new OM.

Office of Management: Organization

The bill, "Office of Management Act of 1999," provides for the reorganization of the present Office of Management and Budget into two separate and equal agencies within the Executive Office of the President; an Office of Federal Budget (OFB) and an Office of Management (OM). Each agency shall be headed by a Director appointed by the President and confirmed by the Senate. Each agency shall have a Deputy Director who shall be appointed by the President and confirmed by the Senate. The rank of Director in both agencies shall be at Executive Level I; the rank of Deputy Director shall be at Executive Level II.

It should be noted that Executive Level I is considered as "Cabinet rank" although it remains the prerogative of the President to determine if the Directors of OFB and OM are to participate in Cabinet deliberations. The current Director of OMB is designated as Executive Level I and does participate when the Cabinet is convened.

Generally speaking, this ranking will permit the Director of OM to deal as an equal with departmental Secretaries. Given the informal, yet firm, protocols ("pecking order") in the executive branch, equals tend to speak only to equals. If the OM, or the OFB for that matter, are to be considered more than staff offices in the Executive Office, it is appropriate that their chiefs have this formal rank.

Associate Directors

Although no OM bill was formally introduced in the 105th Congress, considerable discussion of a draft proposal occurred. The draft, as distinguished from the current bill as introduced, provided some detail on how the OM might be organized. The following comments are based in part on the 1998 draft OM bill. In the 1998 draft, the OM, for instance, would have had 6 Associate Directors appointed by the OM Director to Senior Executive Service (SES) General Positions.

¹⁷ U.S. Library of Congress, Congressional Research Service, *General Management Laws: A Selective Compendium*, ed. Ronald C. Moe, CRS Rept. 97-613 (Washington: CRS, 1997). This report can usefully be read together with: U.S. Congress, Senate, Committee on Governmental Affairs, *Office of Management and Budget; Evolving Roles and Future Issues*. Prepared by the Congressional Research Service, S. Prt. 99-134, 99th Congress, 2nd session (Washington: GPO, 1986).

These Associate Directors would be selected from among persons in the SES and would carry the rank and compensation of SES Level 6. Such appointees may be reassigned in accordance with provisions of the Civil Service Reform Act of 1978 (CSRA) (P.L. 95-454).

The intent of this provision in the draft appeared to be to emphasize the non-partisan mission of the agency and the need to develop and reward institutional competence in this staff office that is close to the President. It apparently intended that this Office seek out the best career managers from among the serving managers in the executive branch. Given the category of Noncareer Executive Appointment (NEA) authorized in CSRA, it is still possible, on a case-by-case basis, for the Director to appoint an Associate Director from persons outside the career service.

Reorganization of Statutory Offices

Over the years and for various reasons that seemed persuasive at the moment, three Offices within OMB have been established with direct legal authority by-passing the Director and assigned directly to subordinate officers. The following Offices established by statute would be abolished and their functions as provided in their enabling statutes, are transferred to the Director of OM for, presumably, redelegation to one or another of the Associate Directors. The Offices in question are:

1. The Office of Information and Regulatory Affairs (44 U.S.C. 3503)
2. The Office of Federal Procurement Policy, as established under section (a) of the Office of Federal Procurement Act (41 U.S.C. 404(a))
3. The Office of Federal Financial Management (31 U.S.C. 501)

Additionally, two executive positions are abolished in the 1999 Office of Management bill: (1) The Office of the Deputy Director for Management, and (2) The Office of the Chief Financial Officer.

The apparent rationale for the transfer of authority to the Director of OM is to insure that lines of accountability are clear and that the OM is not "balkanized" into small fiefdoms. Political accountability normally assumes legally based hierarchical reporting structures. Generally speaking, public administration theory and practice discourage the direct assignment of legal authority to a subordinate within an agency. The *Hoover Commission Report* succinctly stated the rule of thumb in 1949: "Under the President, the heads of departments must hold full responsibility for the conduct of their departments. There must be a clear line of authority reaching down through every step of the organization and no subordinate should have authority independent from that of his superior."¹⁸

¹⁸ U.S. Commission on the Organization of the Executive Branch of the Government, *Hoover Commission Report* (New York: McGraw-Hill, 1949), p. 24.

Areas of Management Concern

The 1998 draft provided that the Director take necessary steps to insure that the following areas of concern are administered with professional competence. As it happened, there were six areas of concern listed, a number equal to the number of Associate Directors. It appears that this was intentional but it is worth noting that the manner in which this provision was written indicated that the assignment of these areas of concern was purely a decision of the OM Director. The six areas of concern were: (1) Government Organization; (2) Financial Management; (3) Human Resources Management; (4) Regulatory Review; (5) Management Development; and (6) Procurement, Grants-in-aid, and Logistics Management.

For discussion purposes, what follows are possible provisions to be considered under the Functions of the Office of Director in the 1998 draft.

- D. The Director shall take necessary steps to insure that the following areas of concern are administered with professional competence:
1. Government Organization
 - a. Review Governmentwide organizational structure on a continuing basis, periodically reporting to the President and Congress and the state of Government organization and of proposals to improve the performance and efficiency of Federal programs.
 - b. Oversee the overall operations and management of Government corporations, Government-sponsored enterprises, quasi-governmental entities, and other institutions with a Governmental interest.
 - c. The Director shall be responsible for developing criteria and standards to be met prior to the submission of legislation or establish new or reorganize existing Government corporations, enterprises, and other entities with a government interest.
 - d. Facilitate interagency cooperation and assist in developing effective coordinating mechanisms throughout the Government.

It would appear from this provision that it is intended to establish a core Office to view Federal management from a presidential perspective. This would be a cadre of career generalists who will be available to design, organize, and reorganize the organizations of the executive branch according to general policies set out by the Director. This Office would perform many of the functions once performed by the Administrative Management Division of the Bureau of the Budget during the 1940s and 1950s.¹⁹ The provision apparently proceeds from the critical analyses that cite fairly persuasive evidence that the management of the executive branch from a

¹⁹ Frederick Mosher, *A Tale of Two Agencies: A Comparative Analysis of the General Accounting Office and the Office of Management and Budget* (Baton Rouge: Louisiana State University Press, 1984). National Academy of Public Administration, *Two Presidents: The Bureau of the Budget and Division of Administrative Management, 1939-1952*. Occasional paper by Charles F. Eingman (Washington: NAPA, 1992).

presidential perspective is in its third decade of decline²⁰ notwithstanding the claims of the National Performance Review that management now claims top priority.²¹

Congress as Co-Manager

The purpose of executive branch management is to implement the laws passed by Congress. This statement of the purpose of government management is fundamental to order under our Constitution. As a matter of direct delegation under Article I, Congress makes the laws, establishes offices and departments, and appropriates necessary funding. The missions and priorities of agencies are determined by law, not by the President or by the departments heads, either collectively or separately.

While comity and cooperation among Congress, the President, and the agencies are the bases for most relationships between the branches, the authoritative element in the relationship is clear. Management of the executive branch, both in terms of process and behavior, is ultimately dependent upon Congress and the law. Moreover, Congress (individual members, committees, institutional subordinates, and staff) is deeply involved in setting and overseeing both the broad dimensions and detailed particulars of programs, processes, procedures, work rules, and management of performance standards. In one policy area after another, what were once broad, unspecified statutory delegations of power to the executive have been laced with nearly countless requirements, limits, directions, prohibitions, personnel restrictions, deadlines, hammers, "no-expenditure" clauses, and other means of asserting direct congressional access to detailed policy development and program administration.

Robert S. Gilmour and Alexis Halley, after reviewing ten case studies of administrative management issues, concluded:

[T]he relationship between Congress and the executive branch... leads to the overall conclusion that the Congress observed in these cases was not only an active and authoritative overseer but also a thoroughly involved participant -- a co-manager -- with (or sometimes in spite of) the executive in directing the details of policy implementation and program execution. The cases collectively suggest that the term *congressional co-management* of policy implementation and program execution characterizes the transition from a congressional reliance on post-audit oversight of

²⁰ For a discussion of the purported presidential retreat from managerial leadership of the executive branch, see: Alan Dean, Dwight Ink, and Harold Seidman, "OMB's 'M' Fading Away," *Government Executive*, 25(June 1994): 62-64. Light, *The Tides of Reform*, chapter 6. Mark L. Goldstein, "The Flickering M in OMB," *Government Executive*, 22(March 1990): 26-32. Ronald C. Moe, "At Risk: The President's Role as Chief Manager," in *The Managerial Presidency*, 2nd ed., James Pffifner, ed. (College Station, TX: Texas A&M University Press, 1999): 265-84.

²¹ U.S. Office of the Vice President, National Performance Review, "Businesslike Government: Lessons Learned from America's Best Companies," (Washington: National Performance Review, 1997). David Osborne and Peter Plastrik, *Banishing Bureaucracy: The Five Strategies for Reinventing Government*, (Reading, MA: Addison-Wesley, 1997).

executive branch performance to pre-audit congressional program controls and direct congressional participation with the executive branch in the full scope of policy and program development and implementation.... The cases also suggest that congressional co-management is as much a result of actions in the executive branch as it is a result of actions in the legislative branch.²²

In the private sector, there are compliant boards of directors which occasionally challenge the policies and decisions of management, but they can in no way be compared to the supervision provided agency management by Congress. Repeatedly, outside "CEOs" brought in to "reinvent" or "re-engineer" this program or that agency along private sector lines are shocked to find that they must meticulously obey laws and regulations and are answerable to Congress for their actions. This congressional involvement is not aberrational behavior nor is it a political strategy employed by an "imperialistic" Congress. Because of Congress's immense legislative powers to organize and control the orientation, even the very existence of every aspect of executive branch management, Congress has always had the potential -- frequently realized in contemporary practice -- to be a veritable co-manager of policy and program implementation. Whenever there is a vacuum in executive branch leadership, and these vacuums have increased in number and scope in recent years,²³ direct congressional intervention in the details of administrative management is a distinct possibility.

Recent Presidents have tended to not accept or appreciate the legitimate congressional role in executive management and have followed strategies (e.g., "Administrative Management Strategy")²⁴ to circumvent Congress which, for the most part, have resulted in counter-measures by Congress to protect their prerogatives and limit presidential discretion. In the absence of a staff agency to

²² Robert S. Gilmour and Alexis Halley, eds. *Who Makes Public Policy? The Struggle for Control Between Congress and the Executive* (Chatham, NJ: Chatham House Publishers, 1994), p. 335.

²³ Breakdowns in executive branch leadership are often the center of congressional attention. For example, in 1990, the Department of Housing and Urban Development (HUD) was undergoing management problems with respect to one of its major programs. William M Diefendorfer III, Deputy Director of OMB for Management, described OMB's management oversight of the executive branch as "moribund." "We had one person looking at the management side for all government." With respect to the management problems at HUD Diefendorfer stated: "OMB's review of HUD's budget and programs is handled primarily in one budget branch of five or six examiners. That is presently [in 1990]. I think during the period between 1982 and 1988 it was about four or four-and-a-half on average people in that branch. This is a very heavy workload for five or six people. The staff can deal with aggregate program data and address major budget policy issues, but not much more." U.S. Congress, Senate, Committee on Banking, Housing and Urban Affairs, *HUD/MOD Rehab Investigation: Final Report and Recommendations*, Comm. Prt. 124, 101st Congress, 2nd session (Washington: GPO, 1990), p. 135. Ronald C. Moe, "The HUD Scandal and the Case for an OFM," *Public Administration Review*, 51(July/August 1991): 298-307.

²⁴ Richard Nathan, *The Administrative Presidency* (New York: John Wiley and Sons, 1983).

remind Presidents of their long-term institutional interests, Presidents are prone to listen to political aides and indulge in unwise legal confrontations with Congress. Though Presidents periodically challenge Congress on administrative matters, such as the latter's interpretation of appointments under the Vacancies Act, there has been little comprehensive leadership provided by the President or OMB on government-wide management problems.

One of the most important and least reported trends in recent decades has been the shift of initiative over executive branch management from the President to the Congress. Paul Light observes: "A recurring theme in making the government work is just who will lead the effort. Congress has clearly been ascendant in reform during the post-Watergate period, become the most frequent originator of reform ideas."²⁵ Congressional interest in management has increased just as the President's interest has declined. Various comprehensive management laws (e.g., Inspector General Act of 1978) have been initiated and carried through by Congress with the President simply reacting to proposals of others.

In the 1970s Congress strengthened its institutional capacity by up-grading the General Accounting Office (GAO) and creating both the Congressional Research Service and the Congressional Budget Office. Taken together, these congressionally oriented agencies constitute a potentially powerful instrument for affecting the management of the executive branch. A review of GAO reports and initiatives in the management field, for instance, reveal continuing weaknesses in the departments and agencies and uneven attention being paid by OMB and the NPR. This imbalance of authority and resources between the branches, however, is not necessarily a positive factor in the overall management equation and it is this imbalance that advocates contend is being addressed in the proposal for an OM.

Leveling the Playing Field

Why have recent Presidents apparently retreated from their management responsibilities? In addition to the larger philosophical issues raised by the heroic vision of a politically-centered presidency,²⁶ recent Presidents seem to have been influenced as well by other, less heroic, factors in their decision to remain one step removed from executive branch management. First, and possibly foremost, Presidents and their aides perceive little political advantage accruing from their managerial role nor are they rated for such by historians. White House aides are quick to point out that the costs of managerial improvements tend to be immediate while the benefits tend to be in the future, in someone else's Administration.

Management is not a field that interests most incumbent Presidents as it involves both abstract theory and detailed application. Presidents seek not so much to manage the executive branch through properly conceptualized management laws

²⁵ Light, *Tides of Reform*, p. 208. Light provides evidence pointing to shifts in institutional balance between Congress and the President in the pre-1974 and post-1974 periods.

²⁶ Richard Neustadt, *Presidential Power: The Politics of Leadership* (New York: John Wiley and Sons, 1960).

and trained professional managers as to control government through short-term political appointees. For the most part, no matter how effective political appointees may have been in the private sector, they are inexperienced as governmental managers and often uninformed on the substance of their subject field. They are expected to be loyal to the Administration in power, rather than committed to their agency and its programs. Attempting to initiate and maintain a capacity-building management strategy with deep levels of political appointees, whose tenure is likely to be short (typically 18 months) and whose career objectives may lie outside the agency and generally outside the government is likely to be an exercise in frustration

Writing in 1989 on the subject of political appointments and their impact on management, the National Commission on the Public Service (Volcker Commission, after its chairman, Paul A. Volcker), concluded that the total number of presidential appointees was excessive and counterproductive to the ability of the President to meet his administrative responsibilities.²⁷

The utility of this politically appointed management cadre to the institutional presidency and the executive branch generally is problematical at best. Paul Light recently observed that the "thickening" of leadership ranks in the federal government, by which he means the growth in layers of management in departments, ill serves the President and the nation. "Leadership is not measured by the number of people the President brings into office or the number of helpers at the top and middle of government."²⁸

The presidency as an institution has and retains its capacity to protect its interests on political matters. This is not the case, however, with respect to matters of executive management.²⁹ The contemporary presidency has, arguably, been steadily losing its capacity to lead the executive branch on a day-to-day basis, in large measure because of the absence of a supportive institutional presence to project and protect the President's interests in government operations. It is not enough for management purposes to rely on the budget process with its short-term deadlines and spending biases. Nor can ad-hoc groups tied to some unit within the Executive

²⁷ The Volcker Commission concluded: "[The] growth in recent years in the number of presidential appointees, whether those subject to Senate confirmation, noncareer senior executives, or personal and confidential assistants, should be curtailed. Although a reduction in the total number of presidential appointees must be based on a position-by-position assessment, the Commission is confident that a substantial cut is possible, and believes a cut from the current 3,000 to no more than 2,000 is a reasonable target.... The mere size of the political turnover almost guarantees management gaps and discontinuities, while the best of the career professionals will leave government if they do not have the challenging opportunities at the sub-cabinet level." National Commission on the Public Service, *Leadership for America: Rebuilding the Public Service* (Washington: National Commission on the Public Service, 1989), p. 7. On January 19, 1999, Senators Feingold and McCain introduced legislation (S. 125) that would limit the number of political appointees government-wide to 2,000. *Congressional Record* (daily ed.) January 19, 1999, p. S554.

²⁸ Paul Light, *Thickening Government: Federal Hierarchy and the Diffusion of Accountability* (Washington: The Brookings Institution, 1995), pp. 181-82.

²⁹ Moe, "At Risk: The President's Role as Chief Manager," p. 276.

Office (e.g., National Performance Review; President's Management Council) substitute for permanent management leadership, as traditionally defined and understood. The challenge, however, is not only how best to equip the President with the institutional support he needs, but, it appears, to convince Presidents that they need such institutional support.

Conclusion

The contemporary President, just as much as George Washington, is chief manager of the executive branch and cannot escape judgment regarding that stewardship. His choice is not whether to manage; but how to manage. Whether by intention or neglect, recent Presidents have, arguably, been ineffective managers, and the negative results have been cumulative. Presidents need to recognize anew the distinctive character of their constitutional responsibilities to insure that the laws are faithfully executed.

The foremost tool by which a President can manage and hold accountable the world's most complex social system is through high quality, conceptually sound, general management laws and their administration by the current OMB or by an OM, as proposed in this legislation.

To build a competent government requires a long-term commitment, one lasting over successive presidencies and one transcending partisanship and political philosophy. Such a commitment can be met only with strong institutional support, the kind of support that advocates of an OM believe to be possible. There is nothing romantic about the desire for competent government. Competent government is simply a necessity if the United States is to retain its pre-eminent status into the twenty-first century.

Mr. HORN. Let us move now to our friends from the General Accounting Office who do very thorough work, just as the Congressional Research Service does, and that is Mr. J. Christopher Mihm, the Associate Director, Federal Management and Workforce Issues.

Mr. MIHM. Thank you, Mr. Chairman and Mr. Turner. It is an honor to appear before you today. My colleague, Paul Posner, and I are pleased to be here to discuss OMB's efforts to lead the management of the executive branch.

Our colleagues, Susan Ragland, Denise Fantone, and Lauren Alpert were instrumental in helping us prepare our statement.

As you mentioned, Mr. Chairman, last month we issued a new series of reports—and you held up just two of them, but I must hold up the whole group—entitled, “Performance and Accountability Series: Major Management Challenges and Program Risks.” We issued separate reports on 20 agencies as well as reports providing a governmentwide perspective and an update on our high risk series.

Collectively, the reports show that long-standing performance and management challenges continue to hinder the Federal Government's efforts to achieve results. The report series highlights numerous opportunities for agencies to make fundamental improvements in management, performance and accountability.

At the same time, the reports also underscored the pivotal role that OMB must play in guiding and overseeing agencies' efforts to fix their shortcomings and implement needed changes.

As you observed in your opening statement, Mr. Chairman, and as the discussion with the first panel clearly illustrated, OMB's perennial challenge is to carry out its management leadership responsibilities in such a way that leverages opportunities of the budget process, while at the same time ensuring that management concerns receive appropriate attention in an environment driven by budget and policy decisions and the tight timeframes that those efforts require.

Our prepared statement detailed OMB's efforts in 11 separate management issues that have been of special concern to this committee and the focus of much of our work. Implementation of the Results Act, financial management, the year 2000 problem, and implementation of the OMB Circular A-76 are among the issues that we discuss. We show that, overall, OMB has made uneven progress in fulfilling these important management responsibilities.

In the interest of brevity, rather than go through each of these issues, this morning we will offer observations in two areas that are of particular importance to improving the management of the Federal Government.

First, I will discuss the factors that are necessary for successful management improvement. Second, Mr. Posner will discuss our prior work on OMB's organization and how the Governmentwide Performance Plan prepared under the Results Act can be used to articulate a Federal management improvement agenda.

Turning to our first point, the experiences to date suggest that certain factors are associated with the successful implementation of management initiatives. Building and sustaining these factors is important regardless of the specific organizational arrangements

used to implement management initiatives. I will touch on each of these factors in turn.

First, top management support and commitment both within OMB and the White House is often critical to providing a focus on governmentwide management issues throughout the budget process and within agencies. The commitment to achieving a clean financial audit opinion that Mr. DeSeve referred to as one of the priority management initiatives provides a case in point. However, top leadership's focus can change over time, which can undermine the follow-through needed to move an initiative from policy development to successful implementation.

Mr. Chairman, the point that you made in the first panel about the importance of institutional memory, given the turnover, is relevant here. This suggests that the top leadership support is a necessary but not sufficient factor in sustaining management improvements.

Second, a strong linkage with the budget formulation process can be a key factor in gaining serious attention for management initiatives throughout government. As you were suggesting, Mr. Turner, many of the management policies require budgetary resources for their effective implementation, things like addressing the Y2K problem or improving human resource improvement initiatives as well.

Furthermore, initiatives such as the Results Act seek to improve decisionmaking by explicitly calling for performance plans to be integrated within agencies' budget requests. The Results Act is intended to address exactly the type of issues that you were raising, Mr. Turner. How do we integrate performance planning within agencies as part of the resource allocation system? We have found that previous management reforms, such as the planning-programming-budgeting-system [PPBS], which I know that the chairman has been kind enough to instruct us all about, and management by objectives, suffered when they were not integrated with routine budget presentations and account structures.

In short, management initiatives need to be reflected in and supported by the budget but, I would stress, no single organizational arrangement by itself guarantees this will happen.

Third, effective collaboration with the agencies, through such approaches as task forces and interagency councils which Mr. DeSeve referred to as network management, has emerged as an important central leadership strategy in developing policies that are sensitive to implementation concerns and gaining consensus and consistent follow-through within the executive branch.

Finally, support from Congress has proved to be critical in sustaining interest in management initiatives over time. Congress has served as an institutional champion for many of these initiatives, providing a consistent focus for oversight and reinforcement of important policies. This subcommittee's focus on the Y2K issue has, without question, had a major influence in shedding the executive branch's initial optimism about the nature and scope of the problem and the executive branch's adopting a more aggressive posture to addressing the crisis.

In conclusion, these four factors—top leadership, commitment, linkages to the budget process, collaboration with agencies, and

congressional interest and oversight seem to be critical to governmentwide improvement efforts no matter what specific organizational arrangement is used.

With that, I conclude my statement.

[The prepared statement of Mr. Mihm follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government
Management, Information and Technology
Committee on Government Reform
House of Representatives

For Release on Delivery
Expected at
10:00 a.m., EST
on Thursday
February 4, 1999

**GOVERNMENT
MANAGEMENT**

**Observations on OMB's
Management Leadership
Efforts**

Statement of J. Christopher Mihm, Associate Director
Federal Management and Workforce Issues
General Government Division

and

Paul L. Posner, Director, Budget Issues,
Accounting and Information Management Division



Statement

Government Management: Observations on OMB's Management Leadership Efforts

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our observations on the Office of Management and Budget's (OMB) efforts to carry out its responsibilities to set policy and oversee the management of the executive branch. As you know, last month we issued a major new series of reports, entitled Performance and Accountability Series: Major Management Challenges and Program Risks, and an update of our high risk series. Collectively, the reports show that long-standing performance and management challenges hinder the federal government's efforts to achieve results. The report series also highlighted numerous improvements that agencies need to make in their performance, management, and accountability. Making these improvements will require the sustained efforts of the leadership and staff within agencies. At the same time, the report series also underscored the pivotal role that the federal government's central management agencies—in particular, OMB—must play in guiding and overseeing agencies' efforts to address the shortcomings that we identified and to implement the changes necessary to improve performance.

Today, as requested by the Subcommittee, we will cover three major points. First, we will provide an outline of OMB's wide-ranging

¹ Performance and Accountability Series: Major Management Challenges and Program Risks and High Risk Series: An Update (GAO/OCG-99-228ET, January 1999).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

management responsibilities and note that the question of whether to integrate or separate management and budget functions has been long debated. Second, we will discuss the effectiveness of OMB's management leadership, which, in our view, has been uneven. Finally, we will discuss the factors that appear to contribute to progress in sustaining improvements in federal management. As agreed, our statement today is based on, and updates as appropriate, the testimony we provided on these three points when we appeared before this Subcommittee last May.² Our observations are made on the basis of work we are currently doing and have done at federal agencies and at OMB.

OMB Has Wide-Ranging Management Responsibilities

OMB was established under presidential reorganization authority in 1970, in large part to increase the attention given to management issues in the federal government. OMB is the lead agency for overseeing a statutory framework of financial, information resources, and performance planning and measurement reforms designed to instill a performance-based approach to federal management, decisionmaking, and accountability. This framework contains as its core elements financial management improvement legislation, including the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act of 1994, and the Federal

² Government Management: Observations on OMB's Management Leadership Efforts (GAO/T-GGD/AIMD-98-148, May 12, 1998).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

Financial Management Improvement Act of 1996; information technology reforms, including the Paperwork Reduction Act (PRA) of 1995 and the Clinger-Cohen Act of 1996; and the Government Performance and Results Act of 1993 (the Results Act).

The CFO Act mandated significant financial management reforms and established the Deputy Director for Management (DDM) position within OMB. In addition to serving as the government's key official for financial management, the DDM is to coordinate and supervise a wide range of general management functions of OMB. These functions include those relating to managerial systems, such as the systematic measurement of performance; procurement policy; regulatory affairs; and other management functions, such as organizational studies, long-range planning, program evaluation, and productivity improvement.

OMB is responsible for providing guidance and oversight for various other laws and executive orders as well. For example, the Federal Acquisition Streamlining Act (FASA) requires that executive agency heads set cost, performance, and schedule goals for major acquisition programs and that OMB report to Congress on agencies' progress in meeting these goals. Executive Order 12866 directs OMB to coordinate the review of agencies' rules and regulations to ensure that they impose the least burden, are

Statement
Government Management: Observations on OMB's Management Leadership Efforts

consistent between agencies, focus on results over process, and are based on sound cost/benefit analysis. OMB also has been responsible since 1967, through its Circular A-76, for carrying out executive branch policy to rely on competition between the federal workforce and the private sector for providing commercial goods and services.

**Historically, There
Have Been Questions
About Whether to
Integrate or Separate
Management and
Budget Functions**

OMB's perennial challenge is to carry out its central management leadership responsibilities in such a way that leverages opportunities of the budget process, while at the same time ensuring that management concerns receive appropriate attention in an environment driven by budget and policy decisions. Concern that OMB and its predecessor agency, the Bureau of the Budget, lacked the support and institutional capacity necessary to sustain management improvement efforts throughout the executive branch has prompted numerous calls for changes in the past.

During the past 50 years, a number of presidential advisory groups have recommended changes designed to strengthen the Office's central management leadership. In response to the recommendations of one of these groups, the Ash Council, the Bureau of the Budget was reorganized in 1970 and renamed OMB, thereby signaling the intent to heighten the management focus in the agency. However, the creation of OMB did not ensure that an institutionalized capacity for governmentwide management

leadership would be sustained, nor did it establish how OMB should balance its budget and management responsibilities. As a result, observers have continued to debate how to best ensure that management issues can be effectively considered within the context of—yet without being overwhelmed by—the budget process. Some observers have advocated integrating the two functions, while others have proposed the creation of dedicated offices or a separate agency to provide governmentwide management leadership.

Prior OMB reorganizations, reflecting these different points of view, have alternated between seeking to more directly integrate management into the budget review process and creating separate management offices. Previous congressional and OMB attempts to elevate the status of management by creating separate management units within OMB sought to ensure that an adequate level of effort was focused on management issues. Underscoring its concern that management issues receive appropriate attention, Congress established the DDM position to provide top-level leadership to improve the management of the federal government.

In 1994, OMB reorganized to integrate its budget analysis, management review, and policy development roles, in an initiative called "OMB 2000." This reorganization was the most recent of a series of attempts to bolster

Statement
Government Management: Observations on OMB's Management Leadership Efforts

OMB's management capacity and influence. To carry out its responsibilities, OMB's Resource Management Offices (RMO) are responsible for examining agency budget, management, and policy issues. Linking management reforms to the budget has, at a minimum, provided the opportunity to include management issues as part of the president's yearly budget reviews—a regularly established framework for making decisions.

The RMOs' efforts are supplemented by three OMB statutory offices created by Congress: (1) the Office of Federal Financial Management (OFFM) to guide the establishment of systems and controls needed for agencies' financial management; (2) the Office of Federal Procurement Policy (OFPP) to provide overall direction for executive agencies' procurement policies, regulations, and procedures; and (3) the Office of Information and Regulatory Affairs (OIRA) to direct and oversee agencies' management of information resources and reduction of unnecessary paperwork. The OMB 2000 initiative reduced the statutory offices' staffing levels and transferred their responsibilities for overseeing agencies' implementation of many governmentwide management initiatives to the RMOs.³ This increased OMB's reliance on RMO managers and staff to focus on management issues and coordinate their activities with the statutory

³OIRA retained its oversight responsibilities for regulatory and paperwork issues.

Statement
Government Management: Observations on OMB's Management Leadership Efforts

offices.¹ In fiscal year 1997, OMB obligated \$56 million and employed over 500 staff.

**The Effectiveness of
OMB's Management
Leadership Has Been
Uneven**

In recent years, OMB has focused increased attention on management issues, but there is much more that needs to be done. In last year's budget, the Administration took an important first step in what can be seen as an evolving results-based planning and budgeting process. The first Governmentwide Performance Plan, as required by the Results Act, was prepared as an integrated component of the President's 1999 Budget; this year's Plan, released on Monday with the President's 2000 Budget, again describes three aspects of federal government performance: fiscal, management, and program. In OMB's view, the performance of government programs is inextricably linked to the fiscal and economic environment and the management framework in which they operate.

In our assessment of the Fiscal Year 1999 Governmentwide Performance Plan, we noted that the separate management performance section within the plan was a useful approach that added essential context and depth to the Plan.² This year's Plan follows a structure similar to that developed last

¹See Office of Management and Budget: Changes Resulting From the OMB 2000 Reorganization (GAO/GGD/AIMD-96-50, Dec. 29, 1996) and OMB 2000: Changes Resulting From the Reorganization of the Office of Management and Budget (GAO/T-GGD/AIMD-96-68, Feb. 7, 1996).

²The Results Act: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999 (GAO/AIMD/GGD-98-159, Sept. 8, 1998).

year, including (1) a discussion of the Administration's High Impact Agencies initiative, which focuses on defining service delivery commitments, developing customer and employee satisfaction measures, using interagency partnerships, and enhancing electronic access; and (2) 24 specific priority management objectives (PMO), many of which are also on GAO's high risk list. These PMOs were selected by OMB as areas in need of real change and are intended to create a clear set of priorities for the Administration's management improvement efforts.

The PMOs include not only governmentwide issues, several of which we discuss further on, but also program- and agency-specific issues, such as Department of Energy contract management and Federal Aviation Administration management reforms. We have not yet fully reviewed the PMOs included in the Fiscal Year 2000 Governmentwide Performance Plan. However, in our assessment of the Fiscal Year 1999 Plan, we noted that there needed to be a clearer and stronger linkage between these PMOs and the underlying agency annual performance plans. Specifically, by improving the discussion of the program performance consequences of the PMOs, OMB could better ensure that agencies develop relevant goals and strategies in their performance plans and clarify agency accountability for specific results. We recommended that OMB ensure that agencies incorporate appropriate goals and strategies in their annual performance

Statement
Government Management: Observations on OMB's Management Leadership Efforts

plans and describe their relevance to achieving the priority management objectives described in the governmentwide performance plan.

Today, we will highlight some of the management issues that have been both of particular concern to this Subcommittee and the subject of our recent work.

**Helping Agencies Meet
Information Technology
Management Challenges**

Like most organizations, federal agencies increasingly depend on information technology (IT) to improve their performance and meet mission goals. Federal agencies, however, face serious challenges in ensuring effective performance and management of the nearly \$27 billion in planned obligations for computer technology and information systems each year. Agencies face the challenge of meeting recent legislative reform requirements to implement strong IT leadership and effective processes for improved management of information technology investments. Of primary concern are agencies' abilities to identify and correct date coding problems with mission-critical systems to meet the Year 2000 deadline. Safeguarding critical government systems and sensitive information from unauthorized access is also crucial. As the policy and oversight arm of the executive branch, OMB is responsible for guiding and overseeing agency efforts to meet these challenges and enforcing accountability through the executive branch budget formulation and execution process.

**Increasing Year 2000
Compliance**

Resolving the Year 2000 computing problem is the most pervasive, time-critical risk facing the federal government today due to its widespread dependence on large-scale, complex computer systems to deliver vital public services and carry out its massive operations.⁶ Over the past 2 years, the government has revamped and intensified its approach to this problem. In February 1998, the President established the President's Council on Year 2000 Conversion. Chaired by an Assistant to the President who previously served as OMB's DDM, this Council, which is supported by OMB, is charged with ensuring that no system critical to the federal government's mission experiences disruption because of the Year 2000 problem.

As the Council has concentrated its efforts on international, private-sector, and state and local government issues, OMB has played a key role in tightening requirements on agency reporting of Year 2000 progress. OMB now requires that, beyond the original 24 major departments and agencies, 9 additional agencies report quarterly on their progress, and that all agencies report on their status.⁷ Further, OMB places each of the 24 major agencies into one of three tiers after receiving quarterly progress reports,

⁶Year 2000 Computing Crisis (GAO/T-AMMD-98-101, Mar. 18, 1998).

⁷Progress on Year 2000 Conversion. U.S. Office of Management and Budget, as of November 1998.

based on OMB's judgment as to whether evidence of the agency's reported progress is or is not sufficient. Additionally, OMB has clarified instructions on agencies preparing business continuity and contingency plans.⁸

Many congressional committees have played a central role in addressing the Year 2000 challenge by holding agencies accountable for demonstrating progress and by heightening public appreciation of the problem. The Congress also passed important Year 2000 legislation.

However, serious risks remain. Our reviews of federal Year 2000 programs have found uneven progress; some major agencies are significantly behind schedule and are at high risk that they will not correct all of their mission-critical systems in time.⁹ In summary, it is essential that OMB provide leadership in ensuring that priorities continue to be set, rigorous testing be completed, and thorough business continuity and contingency plans be prepared to successfully meet the Year 2000 challenge.

Enhancing Information Security

Continuing computer security weaknesses also put critical federal operations and assets at great risk. In September 1998, we reported that

⁸Year 2000 Computing Crisis: Business Continuity and Contingency Planning, Exposure Draft (GAO/AIMD-10.1.19, Mar. 1998).

⁹Year 2000 Computing Challenge: Readiness Improving, But Critical Risks Remain (GAO/T-AIMD-99-49, Jan. 20, 1999).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

recent audits have identified significant information security weaknesses at virtually every major agency.¹⁰

Since 1997, when we designated information security as a governmentwide risk, there has been increased recognition by the Administration and others of the importance of information security. This has led to significant actions, including a Presidential directive requiring each major department and agency to develop a plan for protecting critical infrastructures. A series of Senate hearings also highlighted these risks and the need for greater action. OMB, the Chief Information Officer (CIO) Council, and the National Security Council are working collaboratively on a plan to (1) assess agencies' security postures, (2) implement best practices, and (3) establish a process of continued maintenance.

In addition, on January 22, President Clinton announced major new initiatives to strengthen our nation's defenses against attacks to our critical infrastructure, computer systems, and networks. Implementing these initiatives effectively will require a more concerted effort at individual agencies and at the governmentwide level. Agencies need to do a better job of establishing comprehensive computer security programs that address systemic problems as well as individual audit findings in this

¹⁰ Information Security: Serious Weaknesses Place Critical Federal Operations and Assets at Risk (GAO/AIMD-98-92, Sept. 23, 1998).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

area. Moreover, we found that most agencies have not addressed enhancing information security in their fiscal year 1999 performance plans. In addition to individual agency actions, more effective governmentwide oversight is important to (1) ensure that agency executives understand the risks, (2) monitor agency performance, and (3) resolve issues affecting multiple agencies. As these efforts progress, it is important that OMB play a key role in ensuring that a comprehensive federal strategy emerges.

Information Management
Capabilities

Over the last several years, OMB has taken a number of important steps to support agency efforts to implement the requirements of the Paperwork Reduction Act and the Clinger-Cohen Act and to improve IT planning and decisionmaking. For example, in 1995, OMB worked with us to design new, more effective governmentwide guidance, including a joint guide that established a "select, control, evaluate" decisionmaking framework.¹¹ OMB also issued additional IT investment management guidance, including rules for funding systems investments, a guide on overall capital programming, and a policy on information technology architectures.¹² To monitor agency progress in implementing effective IT management processes, in 1997 OMB requested that agencies submit information on

¹¹ Evaluating Information Technology Investments: A Practical Guide, Version 1.0 (Executive Office of the President, Office of Management and Budget, Office of Information and Regulatory Affairs, Information Policy and Technology Branch, November 1996).

¹² "Funding Information Systems Investments," OMB Memorandum M-97-02, October 25, 1996; Capital Programming Guide, Version 1.0 (Executive Office of the President, Office of Management and Budget, July 1997); OMB Memorandum M-97-16, "Information Technology Architectures," June 18, 1997.

Statement
Government Management: Observations on OMB's Management Leadership Efforts

their processes as part of the fiscal year 1999 budget cycle review.¹³ In addition, working with the CIO Council, OMB recently revised its guidance to agencies on preparing and submitting their annual IT budget requests. The new format for agency budget exhibits provides greater clarity about types of IT spending and the mission area of the agency that these investments support. Finally, OMB has indicated its intention to revise governmentwide guidance dealing with strategic information management planning and security.¹⁴

Nevertheless, broad IT management reforms are still in their early stages in most federal agencies. As our reviews demonstrate, agencies continue to be challenged by (1) weaknesses in IT investment selection and control processes; (2) slow progress in designing and implementing IT architectures; (3) inadequate software development, cost estimation, and acquisition practices; and (4) the demand for effective CIO leadership and organizations.¹⁵ Improvements in these areas will be difficult to achieve without effective agency leadership support, highly qualified and experienced CIOs, and effective OMB leadership and oversight. With the

¹³ OMB Memorandum M-97-12, "Evaluation of Agency Implementation of Capital Planning and Investment Control Processes," April 25, 1997.

¹⁴ OMB Circular A-130 (Revised), "Management of Federal Information Resources" (Executive Office of the President, Office of Management and Budget, Feb. 8, 1996).

¹⁵ Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO/OCG-99-1, January 1999).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

Deputy Director for Management serving as its co-chair, OMB must continue to work effectively with the federal CIO Council to focus management attention on putting in place disciplined information technology management processes that can lead to improvements in the delivery of high quality, cost-effective results. The development of the "Raines' Rules"—requiring agencies to satisfy a set of investment management criteria before funding major systems investments—can potentially serve to further underscore the link between information technology management and spending decisions. These criteria were incorporated into OMB guidance to agencies for the fiscal year 2000 budget process.

**Greater Attention to
Financial Management
Issues**

OMB's DDM and the OFFM, in concert with the CFO Council, have led governmentwide efforts to focus greater attention on financial management issues. OMB has played a pivotal role in fostering ongoing financial management reforms ranging from improved financial systems and reporting to the Federal Accounting Standards Advisory Board's new accounting and cost accounting standards. We are seeing positive results from OMB's efforts. For instance, 11 agencies received unqualified audit opinions on their fiscal year 1997 financial statements—up from 6 in fiscal year 1996.

Statement
Government Management: Observations on OMB's Management Leadership Efforts

At the same time, there are major obstacles to overcome. The most serious challenges are framed by the results of our first-ever audit of the government's consolidated financial statements, for fiscal year 1997; deficiencies in the statements prevented us from being able to form an opinion on their reliability. These deficiencies are the result of widespread material internal control and financial systems weaknesses that significantly impair the federal government's ability to adequately safeguard assets, ensure proper recording of transactions, and ensure compliance with laws and regulations.

Financial management has been designated one of OMB's priority management objectives, with a goal of producing performance and cost information in a timely, informative, and accurate way, consistent with federal accounting standards. To help accomplish this goal, a May 26, 1998, presidential memorandum required agency heads to develop plans for resolving the problems that have been identified. Further, House Resolution 447, passed on June 9, 1998, underscored congressional expectations for timely resolutions of the problems.

Considerable effort is now being exerted as several agencies have made good progress towards achieving financial management reform goals. With a concerted effort, the federal government as a whole can continue to make

progress toward generating reliable financial information on a regular basis.

While annual audited financial statements are essential to identifying any serious problems that might exist and providing an annual public scorecard on accountability, an unqualified audit opinion, while certainly important, is not an end in itself. The CFO Act is focused on providing on a systematic basis, accurate, timely, and relevant financial information needed for management decisionmaking and accountability. For some agencies, the preparation of financial statements requires considerable reliance on ad hoc programming and analysis of data produced by inadequate financial management systems. Thus, the overarching challenge in generating timely, reliable data throughout the year is overhauling financial and related management information systems.

OMB is focusing on improving financial systems. Through its participation as a principal member of the Joint Financial Management Improvement Program (JFMIP), which issues financial systems requirements to be followed by all CFO Act agencies. Together with the CFO Council, OMB has established eight priorities as discussed in OMB's Federal Financial Management Status Report and the Five-Year Plan (June 1998). They are: (1) obtaining unqualified opinions on financial statements and issuing

Statement
Government Management: Observations on OMB's Management Leadership Efforts

accounting standards, (2) improving financial management systems, (3) implementing the Results Act, (4) developing human resources and CFO organizations, (5) improving management of receivables, (6) ensuring management accountability and control, (7) modernizing payments and business methods, and (8) improving administration of federal assistance programs.

Finally, OMB is currently piloting accountability reports that provide a single overview of federal agencies' performance, as authorized by the 1994 Government Management Reform Act. By seeking to consolidate and integrate the separate reporting requirements of the Results Act, the CFO Act, and other specified acts, the accountability reports are to show the degree to which an agency met its goals, at what cost, and whether the agency was well-run. If effectively implemented, accountability reports that include information on the full cost and results of carrying out federal activities could greatly aid decisionmaking for our national government.

Instilling Performance-Based Management Through Implementation of the Results Act

OMB has a vital role in leading and overseeing agencies' efforts to instill a more performance-based approach to decisionmaking, management, and accountability. OMB has shown a clear commitment, articulated in its fiscal year 1999 annual performance plan and the fiscal year 1999 governmentwide plan, to implement the Results Act.

Statement
Government Management: Observations on OMB's Management Leadership Efforts

As part of that commitment, we have recommended that OMB implement a concerted agenda aimed at substantially enhancing the usefulness of the agencies' performance plans for congressional and executive branch decisionmaking. That agenda should center on five key improvement opportunities that our work suggests are particularly important to improving the usefulness of annual plans. These key improvement opportunities are: (1) better articulating a results orientation, (2) coordinating crosscutting programs, (3) clearly showing how strategies will be used to achieve goals, (4) showing performance consequence of budget decisions, and (5) building the capacity within agencies to gather and use performance information.¹⁶ More generally, we also have recommended that OMB work with Congress and the agencies to identify specific program areas that can be used as best practices. We believe that this would help to demonstrate the use and benefits of performance-based management and how concrete information about program results can contribute directly to congressional and executive branch decision-making.

Improving Capital Decision-Making

OMB's efforts to improve capital decision-making are another example of where OMB's leadership efforts are yielding some results. OMB and GAO have worked together in this area, with OMB developing a Capital

¹⁶ For more information on these improvement opportunities, see *Managing for Results: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans* (GAO/GGD/AIMD-99-228, Sept. 8, 1998).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

Programming Guide that provides agencies with the key elements for producing effective plans and investments.¹⁷ OMB's Guide drew on GAO's work on best practices used by leading private sector and state and local governments, which was subsequently published.¹⁸ Consistent with these best practices, OMB has required agencies to submit 5-year capital spending plans and justifications—thus encouraging a longer-term consideration of agency capital needs and alternatives for addressing them. OMB's Guide provides a basic reference on principles and techniques, including appropriate strategies for analyzing benefits and costs, preparing budget justifications, and managing capital assets once they are in place. In addition, OMB has worked closely with the President's Commission to Study Capital Budgeting, which is expected to issue its report and recommendations soon.

**Enhancing the
Government's Human
Capital**

As federal agencies implement the performance-based management agenda established by the Congress in the 1990s, the government's human capital policies and practices will increasingly become prominent issues. Leading performance-based organizations understand that effectively managing their human capital is essential to achieving results. Organizational success hinges on having the right employees on board and

¹⁷ Capital Programming Guide, Version 1, July 1997 (Executive Office of the President, OMB).

¹⁸ Executive Guide: Leading Practices in Capital Decision-Making (GAO/AIMD-99-32, Dec. 1998).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

on providing them with the training, tools, structures, incentives, and accountability to work effectively. Thus, human capital planning must be an integral part of any organization's strategic and program planning and human capital itself should be thought of not as a cost to be minimized but as a strategic asset to be enhanced. The challenge—and opportunity—confronting federal agencies as they seek to become more performance-based is to ensure that their human capital policies and practices are aligned with their program goals and strategies.

An important opportunity exists for OMB to take a leadership role in impressing upon the agencies the importance of adopting a strategic approach to human capital planning—traditionally a weak link in federal agency management. Although the Office of Personnel Management's role in informing the agencies about effective strategic human capital planning is potentially significant, the Results Act provides the statutory impetus for OMB to bring its considerable influence to bear. The Act requires agencies to describe in their strategic plans and annual performance plans the human resources they will need to meet their performance goals and objectives. OMB Circular A-11 states that annual plans may include goals and indicators involving the workforce or the workplace environment, such as employee skills and training, workforce diversity, retention, downsizing, and streamlining.

Statement
Government Management: Observations on OMB's Management Leadership Efforts

Nevertheless, in examining the first round of agency strategic plans and annual performance plans, we found that few of these documents emphasized human capital or the pivotal role it must play in helping agencies achieve results. Through active participation in the development of agency strategic and annual performance plans and by holding agencies accountable for their attention to human capital considerations, OMB could bring considerable energy and discipline to the federal government's efforts to build, maintain, and marshal the human capital needed to achieve results.

Reviewing Regulations

We also testified and reported on the inadequacies of OMB's efforts to meet congressional paperwork reduction goals.¹⁹ In particular, we do not believe that OMB has fully satisfied the Paperwork Reduction Act's requirements to review and control paperwork, develop and oversee information resource management policies, or keep Congress and congressional committees fully and currently informed about major activities under the Act. OIRA does not attempt to set priorities for agencies' regulations on the basis of risk (e.g., the number of lives saved or injuries avoided). Concerns have been raised by experts in regulatory issues that federal regulations are not sufficiently focused on the factors

¹⁹Paperwork Reduction: Governmentwide Goals Unlikely to Be Met (GAO/T-GGD-97-114, June 4, 1997); Paperwork Reduction: Burden Reduction Goal Unlikely to Be Met (GAO/T-GGD/RCED-96-186, June 5, 1996); Regulatory Management: Implementation of Selected OMB Responsibilities Under the Paperwork Reduction Act (GAO/GGD-98-120, July 9, 1998).

that pose the greatest risk and that, as a result, large amounts of money may be spent to accomplish only a slight reduction in risk.²³ Using these same resources in other areas that pose higher risks could yield significantly greater payoffs.

**Streamlining the
Procurement Process**

OMB's OFPP has worked to implement FASA and the Clinger-Cohen Act. OFPP has also been working to streamline the procurement process, promote efficiency, and encourage a more results-oriented approach to planning and monitoring contracts. OFPP is spearheading a multi-agency effort to revise parts of the Federal Acquisition Regulation (FAR). For example, a major revision to Part 15 of the FAR should contribute greatly to a more flexible, simplified, and efficient process for selecting contractors in competitively negotiated acquisitions. OFPP also developed best practices guides to help agencies draft statements of work, solicitations, and quality assurance plans, as well as to aid in awarding and administering performance-based service contracts. OFPP issued a best practices guide for multiple award task and delivery order contracting to encourage agencies to take advantage of new authorities under FASA. In addition, OMB has encouraged agencies to buy commercial products,

²³For example, see Tammy O. Tengs and John D. Graham, "The Opportunity Costs of Haphazard Social Investments in Life-Saving," in Robert W. Hahn, ed., *Risks, Costs, and Lives Saved* (New York: 1996).

conduct electronic commerce, and to consolidate their ordering to take advantage of the buying power of the federal government.

Implementing OMB's
Circular A-76

OMB's Circular A-76 sets forth federal policy for determining whether commercial activities associated with conducting the government's business will be performed by federal employees or private contractors. The A-76 process calls for agencies to contract for commercial services once they have determined on the basis of cost studies that it would be cost effective to contract out these services. Agencies' efforts to undertake cost studies—with the important exception of the Department of Defense—have declined significantly in recent years.

In June 1998, we testified that OMB had undertaken only limited efforts to monitor or enforce compliance with its A-76 guidance or evaluate the success of this process.²¹ Since then, Congress passed the Federal Activities Inventory Reform (FAIR) Act that, among other things, provides a statutory basis for some requirements of Circular A-76. Like Circular A-76, FAIR requires federal agencies to develop a list of all commercial services that are possible candidates for performance by the private sector. OMB is reviewing agencies' efforts to develop commercial activities

²¹ OMB Circular A-76: Oversight and Implementation Issues (GAO/T-GGD-98-146, June 4, 1998).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

lists and is developing supplemental guidance to Circular A-76 to assist agencies in complying with FAIR.

Analyzing Crosscutting
Issues

Finally, OMB's oversight role across the government can provide the basis for analyzing crosscutting program design, implementation, and organizational issues. We have pointed to the need to integrate the consideration of the various governmental tools used to achieve federal goals, such as loans, grants, tax expenditures, and regulations. Specifically, we recommended that OMB review tax expenditures with related spending programs during their budget reviews.

In addition, our work has provided numerous examples of mission fragmentation and program overlap within federal missions as shown in table 1.²⁵

²⁵Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap (GAO/AIMD-97-146, Aug. 29, 1997) contains an annotated bibliography of GAO work on mission fragmentation and program overlap.

Statement
 Government Management: Observations on OMB's Management Leadership Efforts

Table 1: Areas of Fragmentation and Overlap Discussed in GAO Products

Mission area	Program
Agriculture	• Food safety
Commerce and housing credit	• Financial institution regulation
Community and regional development	• Community development • Economic development • Emergency preparedness • Housing • Rural development
Education, training, employment and social services	• Early childhood programs • Employment training • Student aid
General science, space, and technology	• High performance computing • National laboratories • Research and development facilities • Small business innovation research
General government	• Federal statistical agencies
Health	• Long-term care • Substance abuse • Nuclear health and safety • Telemedicine
Income security	• Child care • Welfare and related programs • Youth programs
International affairs	• Educational programs • Policy formulation and implementation
Law enforcement	• Border inspections • Drug control • Investigative authority • Drug trafficking • Combating terrorism
Natural resources and environment	• Federal land management • International environmental programs • Hazardous waste cleanup • Water quality

OMB, in the Fiscal Year 1999 Governmentwide Performance Plan, sought to present a thematic picture of federal performance that grouped together similar programs and allowed for different agency goals and performance measures to be related. To do this, OMB chose to aggregate agency performance into budget functions—a well-known and long used budget classification structure that focuses on federal missions, or “areas of national need.” We found in reviewing the Fiscal Year 1999 Plan that in several parts of the Plan, descriptions of program performance were presented in a sequential, agency-by-agency format that missed opportunities to address well-known areas of fragmentation and overlap. Organization-based presentations are appropriate to emphasize agency accountability but tend to “stovepipe” performance discussions and inadequately describe crosscutting governmentwide performance goals.

More broadly, we concluded that while the use of the budget functions offers a reasonable and logical approach, it does not always provide mutually exclusive descriptions of governmentwide missions and that a more cohesive picture of federal performance was needed. A more cohesive picture of federal missions would be presented if discussions were broadened beyond functional lines where necessary to capture the full range of government players and activities aimed at advancing broad federal goals.

Statement
Government Management: Observations on OMB's Management Leadership Efforts

Beyond questions of how best to analyze and describe governmentwide missions and performance, OMB's efforts to ensure crosscutting programs are properly coordinated may be hampered if efforts to resolve problems of program overlap and fragmentation involve organizational changes. OMB lacks a centralized unit charged with raising and assessing government-organization issues. OMB has not had such a focal point since 1982 when it eliminated its Organization and Special Projects Division.

**Sustaining
Improvements in
Federal Management**

Mr. Chairman, the record of OMB's stewardship of management initiatives that we have highlighted today suggests that creating and sustaining attention to management improvement is a key to addressing the federal government's longstanding problems. In the past, management issues often remained subordinated to budget concerns and timeframes, and the leverage the budget could offer to advance management efforts was not directly used to address management issues.²⁹ The experiences to-date suggest that certain factors are associated with the successful implementation of management initiatives. Building and sustaining these factors appears to be pivotal regardless of the specific organizational arrangements used to implement the management initiatives.

²⁹Managing the Government: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-88-65, May 4, 1988).

First, top management support and commitment within both OMB and the White House is often critical to providing a focus on governmentwide management issues throughout both the budget process and the executive agencies themselves. As our study of OMB 2000 pointed out, management and performance measurement issues gained considerable attention in the budget formulation process initially because of the clear commitment of OMB's leadership. However, top leadership's focus can change over time, which can undermine the follow-through needed to move an initiative from policy development to successful implementation. Thus, institutional focal points can have important roles in sustaining these initiatives over time by serving as continuing "champions" to maintain attention to management initiatives and help ensure follow-through.

Second, a strong linkage with the budget formulation process can be a key factor in gaining serious attention for management initiatives throughout government. Regardless of the location of the leadership, management initiatives need to be reflected in and supported by the budget and, in fact, no single organizational arrangement by itself guarantees this will happen. Many management policies require budgetary resources for their effective implementation, whether it is financial management reform or information systems investment. Furthermore, initiatives such as the Results Act seek to improve decision-making by explicitly calling for performance plans to

Statement
Government Management: Observations on OMB's Management Leadership Efforts

be integrated with budget requests. We have found that previous management reforms, such as the Planning-Programming-Budgeting-System and Management By Objectives, suffered when they were not integrated with routine budget presentations and account structures.⁵⁴

Third, effective collaboration with the agencies—through such approaches as task forces and interagency councils—has emerged as an important central leadership strategy in both developing policies that are sensitive to implementation concerns and gaining consensus and consistent follow-through within the executive branch. In effect, agency collaboration serves to institutionalize many management policies initiated by either Congress or OMB. In our 1989 report on OMB, we found that OMB's work with interagency councils was successful in fostering communication across the executive branch, building commitment to reform efforts, tapping talents that exist within agencies, keeping management issues in the forefront, and initiating important improvement projects.

Finally, support from the Congress has proven to be critical in sustaining interest in management initiatives over time. Congress has, in effect, served as the institutional champion for many of these initiatives, providing a consistent focus for oversight and reinforcement of important

⁵⁴Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation (GAO/AIMD-97-46, Mar. 27, 1997).

Statement
Government Management: Observations on OMB's Management Leadership Efforts

policies. For example, Congress—and in particular this Subcommittee's—attention to the Year 2000 problem, information management, and financial management, has served to elevate these problems on the administration's management agenda.

Separate from the policy decisions concerning how best to organize and focus attention on governmentwide federal management issues, there are some intermediate steps that OMB could take to clarify its responsibilities and improve federal management. For example, OMB could more clearly describe the management results it is trying to achieve, and how it can be held accountable for these results, in its strategic and annual performance plans. Many of OMB's strategic and annual goals were not as results-oriented as they could be. Continued improvement in OMB's plans would provide congressional decisionmakers with better information to use in determining the extent to which OMB is addressing its statutory management and budgetary responsibilities, as well as in assessing OMB's contributions toward achieving desired results. In our 1995 review of OMB 2000, we recommended that OMB review the impact of its reorganization as part of its planned broader assessment of its role in formulating and implementing management policies for the government. OMB has not formally assessed the effectiveness, for example, of the different approaches taken by its statutory offices to promote the integration of

Statement
Government Management: Observations on OMB's Management Leadership Efforts

management and budget issues. We believe it is important that OMB understand how its organization affects its capacity to provide sustained management leadership.

Mr. Chairman, this concludes our statement. We would be pleased to answer any questions that you or other Members of the Subcommittee have at this time.

(410419/935297)

Mr. HORN. Mr. Paul Posner is Director of Budget Issues, Accounting and Information Management, U.S. General Accounting Office. This is a joint statement, and we are delighted to have you here since your division has also done some terrific work for us.

Mr. POSNER. Thank you, Mr. Chairman. It is a pleasure to be here.

I want to reflect for a few minutes on the work that GAO has done.

In 1989, we did a study of the management of OMB, of their effectiveness in carrying out their management leadership functions, and we returned to that subject in I think it was 1995–1996 with the study of OMB 2000. We looked at the first year and we assessed how well management issues fared in that new, integrated process over there, and we have been kind of addressing this very question that you have been raising. And I will tell you that, as someone said at a NAPA lunch that I attended the other day, we are firmly on the fence. It is not particularly comfortable, but we arrive at that uncomfortable position honestly.

Mr. HORN. You know what Theodore Roosevelt called people on the fence. Those were the mugwumps. Mug on one side and the wump on the other.

If you don't mind, with those fine studies you mentioned in 1989 and I think 1996, we would like to have them for the record. And Mr. Turner would like a set, and I would like a set. And also the staff directors on both sides might like one.

[NOTE.—The May 1989 GAO report entitled, “Managing the Government—Revised Approach Could Improve OMB’s Effectiveness,” GAO/GGD–89–65 is retained in subcommittee files.]

Mr. POSNER. Let me say that we do view the idea of integrating management into the budget and vice versa as being mutually reinforcing. We have talked to a number of people here particularly about the benefit that management gets from being associated with the clout of the budget, the fact that the budget process is the single signaling device respected by management, by managers. And, after all, it is agency managers that are the linchpin to improving the way that these programs are carried out; and getting their attention is obviously critical.

I will note over the years when we have been studying this that even when management has been encompassed at OMB, the linkage is problematic and difficult. We looked at 1989, OMB had a separate division; and we found that frequently those people were often on their own pursuing their own agendas and the budget examiners were pursuing theirs and the twain never met, so to speak. What we called for there was a closer integration so that the budget examiners would take some ownership of these management issues, because after that is what we felt was important to reinforce these important policies.

But another thing about the integration that is also important—budgeting can gain from the integration as well. In other words, good budgeting should involve understanding the financial management of agencies and the financial position, financial statement. Good budgeting should involve a clear understanding of the performance measures and indicators that agencies are using and their track record.

Good budgeting, for example, should involve knowing the quality of the data that you are getting about the spending that agencies are doing. For the first time this year, we are subjecting that data to the discipline of the financial audit in the 1998 statements, and we are going to get some useful information about whether agencies can even keep track of their unobligated and obligated balances, essential things to knowing what money we have spent, never been audited before.

I think there is a tremendous spin-off benefit from having these management initiatives, from having budget people take ownership of these things. I think it improves their ability to do budget analysis in some sense.

Notwithstanding this, Chris has pointed to our work that Mr. Turner talked about on performance budgeting where, you know, just understanding that linkage has become a very difficult question but essential, as we found looking at PPB and ZBB and all of the other acronyms over the years. The key feature that prompted the volatility and the short lives of those initiatives was the fact that they were not firmly linked into the budget process that people paid attention to, and we are concerned that GPRA may go the same way if appropriators do not pay attention to it.

Having said all of this, the reason why I think it is such a difficult issue is because when you place management initiation in the budget, as you have heard and to use someone else's words, the urgent tends to drive out the important.

The real question that we raised on OMB 2000, while we found some very positive results when Alice Rivlin was there and a lot of attention was being paid to these things, we raised the question, how sustainable is this? Will an initiative that primarily devolves responsibility to these things be sustainable over the long term without an institutional gadfly or nudges, as Ed DeSeve called them, to keep the focus on these things? And that, frankly, is a serious question and one that is worthy of much of our time and attention.

I think what has happened in this period as well is that, in the absence of a defined focus on management, we have also seen what I will call a differentiation of management leadership responsibilities. We have seen the President appoint an Assistant to the President for Y2K. We have seen the Vice President take responsibility. We have seen responsibility spun to agency counsels, and we have seen GAO taking some responsibilities and issuing executive guides on a variety of things. Perhaps that is healthy, but perhaps also it reflects a lack of a sustained focus.

One of the devices, and I will conclude with this, that has been developed I think which could be a management leadership tool, are the performance plans, particularly the governmentwide plan, that OMB has just issued. This plan provides a vehicle to address the fragmentation that we point to time and time again. So often when we look at things from an outcome perspective we have so many programs that are considered in isolation, tools that we use to address the same problem, whether it is housing or agricultural and through tax expenditures and loans, a variety of grant and spending programs and the like that are never really thought about in a fabric together.

And what we hope—and, again, we know OMB is perhaps the only institutional focus that can do this—is that this plan could become a vehicle to bring some attention to these cross-cutting issues that Mr. Seidman referred to as an essential part of management leadership. So we are looking for those plans to become that vehicle possibly in the future.

That concludes my statement.

Mr. HORN. Any other comments that any member would like to make reacting against other panelists' testimony? I regard you experts as very expert people. If you didn't like what somebody said or if you did like what they said, do you want to reinforce it?

Dr. McMurtry, any comments on your colleagues and their ideas?

Ms. MCMURTRY. I guess what strikes me, having heard the various presentations this morning on the former panel as well as this one, I am not sure that we are going to come up with a perfect arrangement.

I think we all agree that management functions are very important. They have been packaged various ways over the years within BOB and then OMB. Is creating a separate office necessarily going to be a cure-all? I don't think so.

Would having some kind of a statutory office within OMB be an improvement? Perhaps. If we leave things as they are, with the impact of developments such as the budget coming into balance and continuing implementation of the Government Performance and Results Act, perhaps if no organizational changes occur, things will still improve.

I guess I am somewhat optimistic at the place we are. I didn't expect to be at this place where we had a surplus in 1999. So from someone who has followed the budget more closely than the management side, although I have been interested in OMB as an institution, I think it is a fairly optimistic time.

Mr. HORN. OMB did not get us to a budget with no deficit.

Ms. MCMURTRY. This is true.

Mr. HORN. Regardless of who is in power.

Ms. MCMURTRY. I didn't mean to imply otherwise. I was just notifying the circumstances now.

Mr. HORN. How about the General Accounting Office? Any comments that you want to make on CRS?

Mr. POSNER. I will defer.

Mr. HORN. Dr. Moe is not shy. Go ahead.

Mr. MOE. Well, this is an important issue, and a lot of us have institutional constraints. You have the administration's view from Mr. DeSeve, who presented it very well.

I would like to read one little part of the prepared remarks I didn't read, and I hope that this raises some interesting questions.

As Paul Light and others have argued, much of government is "hollow." In an unenlightened attempt to keep the statistics of government employment artificially low and to equate this statistic with the size of government, thereby meaning if you decrease the number of Federal employees, you are decreasing the size of government. A high price has been paid for this strategy by Congress, the President, the agencies and the public.

At the same time that Federal employees have declined both absolutely and relative as a percentage of the work force, the work

is increasingly assigned to third parties, principally private firms with very different perspectives and interests than those of the Federal Government.

Paul Light has recently estimated that 17 million persons versus 2 plus million in direct civil employment are part of this third party orbit of government. Let's look at one instance of the consequences of this current practice of equating Federal employment with the size of government.

The Federal National Mortgage Corporation, better known as Fannie Mae, is a privately owned, government-sponsored enterprise. Its portfolio is about \$1 trillion in mortgage-backed securities. The president of Fannie Mae received approximately \$7 million in compensation in 1996. All of the other executive employees are paid similarly high salaries.

Performing a similar function with a half a trillion dollar portfolio is the Government National Mortgage Association known as Ginnie Mae. Fannie Mae, to perform its functions, has 3,400 employees. The salary of the president of Fannie Mae is considerably larger than the compensation for all Ginnie Mae employees put together. Ginnie Mae runs with only 53 employees.

Why is the Federal Government so much more efficient than the private sector? I mean, any time you want to see something luxurious, go to the Fannie Mae headquarters. And yet what we have is 53 employees running Ginnie Mae, and they want to decrease it. It was 72 a few years ago, and I phoned up and found that they dropped employment to 53.

So how is it that we have a half a trillion dollars being watched over by so few people? And the answer is that they have essentially turned over the management of this function to some private firms.

And if you read the GAO report on Ginnie Mae written in 1993, there are some very disturbing statistics in there and very disturbing quotes. Because, in point of fact, even the contractors themselves say we are not being properly supervised. So what is the hidden cost when you use employment numbers as a measure of size? We are paying a tremendous cost in moral hazard as a people.

This is similar to when 2,500 savings and loans were going under. We came up and asked for 43 employees at the Federal Savings & Loan Insurance Corporation so they could begin to look at these 2,500 insolvent savings and loans. OMB said, no, you can't have them because that would disturb our policies of cutting back on employees. I have heard people estimate that ended up costing us \$20 billion to \$40 billion because we did not have the capacity to go into governmentwide management issues.

Ginnie Mae is a classic case here where we are understaffed. They don't have their own legal staff. They contract out 4,000 hours of legal work. I don't care how good these law firms are, the fact is that, within Ginnie Mae, they have very little capability to judge the quality of what they are getting back on their legal work because they have no law office.

So there is often a hidden cost to what I view as relatively simplistic proposals. What I just said to you does not appear in any of the process programs. You can read GPRA forever and building management capacity will never come up because to them it is a numerically driven concept without substance.

So I find it is not all bad, but I am telling you that it is not the complete story and that is presumably why people concluded that

So I find it is not all bad, but I am telling you that it is not the complete story and that is presumably why people concluded that you will never have the complete story, never, as long as management is subordinate to budget.

Mr. HORN. Mr. Posner.

Mr. POSNER. I want to augment what Ron just said. Because I think the more our programs involve third parties, State and local governments and the private sector and really doing most of what we find important in government, the more management makes a difference, but also the more it makes a difference how we design these programs. How do we design these incentives to encourage or avoid things like moral hazards?

You look at a program like the student loan program. We had a default rate exceeding 20 percent. Was it because we had bad management at the Department of Education? It is unclear, but we know that we were giving the banks absolutely no interest in screening people or collecting these moneys. We had a situation where we were encouraging all sorts of, frankly, fly-by-night providers to enter the program and serve lower income people with ineffective training that gave clients little prospect of paying back the loans.

It was—retrospectively, when you look at how we designed it, we couldn't have helped but had an over 20 percent default rate. And Congress took that on with Department of Education's insight, and managers stepped up and worked in the implementation phase, and they redesigned it, and the default rate has come down significantly.

That is a parable of how so many of our programs are really run and why these performance problems reflect management, but they reflect a lot more than just management.

Mr. HORN. That is a good point. You have raised a couple of interesting issues, and certainly the Congress is partly at fault on the thrift situation, and the Congress is also partly at fault on the student rate default. Because when they put proprietary schools into that mix, that is when the nonpayment went up substantially.

I remember once trying to make a telephone call. I walked across the floor and Representative Waters was taking on the whole Committee on Education. This was in the Democratic-controlled Congress of 1993 and 1994. I listened to her; and I said, she is right. And so I waded in on her side. And my friend Bill Ford, who I had worked with for 20 years in higher education when he headed post-secondary ed, he and the committee, both parties, they beat us solid because, apparently, we had had a lot of interest of the proprietary schools in Members of Congress of both parties, and that is part of the problem.

As far as Fannie Mae, I have been wanting to hold a hearing on that for a long time. There was a leak once out of my committee on just an innocent five words in a report that got to them and suddenly seven of the highest paid lobbyists in Washington show up on Capitol Hill thinking, "Gee, they might be looking at us in a future year." We will be. We will get to them. It is amazing, and you have made some very interesting points.

I now yield all the time that he wishes to consume to the gentleman from Texas, Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

This has been an interesting discussion; and I was certainly interested in your comments Dr. Moe. You don't hesitate to state your position, and I found that somewhat enlightening, and I appreciate that.

When you labeled the management model and the entrepreneurial model and the accountability model, is that basically the way you would describe the two approaches?

Mr. MOE. Constitutional.

Mr. TURNER. Constitutional.

The thing that has always impressed me in my years of service in elected office is how, oftentimes, we fail to appreciate the people in government who are the line managers. Because I really believe to be a manager in government is probably one of the most difficult management jobs you can ever be assigned because, in essence, you are constantly faced with that dilemma of those two models.

It seems to me to be easier to be in the business world and be a manager because the bottom line is all you have to worry about. You are looking for productivity and profit. In government, these two models intersect.

I am one who has always expressed concerns about the move toward privatization because I firmly believe, if government is run right, we ought to be able to manage government as efficiently as the business world does. But there is a concept afoot in this country today that says somehow government is bad and that business knows better and that we need to just run government like a business and everything will be OK.

Certainly, we do need to have sound business management practices in place in government, but it doesn't necessarily mean that government can be run like a business, because we know that businesses run on the entrepreneurial model and in a democracy and constitutionally based form of government there are other interests other than the bottom line that always have to be protected.

Maybe one of the things that we can do to help improve government is to be more sensitive, particularly those of us who are in elected positions, to not making derogatory comments about government as compared to business, and to try to end, if we can, the attitudes that prevail in many quarters of our country today that government is bad and business is good. We need to make both of them good.

Maybe we need to work harder to try to encourage young people to go to some of our schools of public affairs, like the Lyndon B. Johnson school that I am familiar with in the State of Texas, where we can train managers and make young people feel proud to enter into the service of government.

But, I found your comments enlightening, and I guess the conclusion I came to on this is that—and I think several of the panelists have stated this position—I am not sure that the structure is our big problem. I am not sure that we can even say that simply institutionalizing government is the right thing to do versus having ad hoc committees, because even in the business world sometimes it is that ad hoc group that shakes up the institutional structure and makes some improvements in the institutional structure.

One of the good things about our democratic system is that as we elect new people and new leaders, they do bring new ideas. But we can improve the institutional structure and the quality of the people who serve in those positions who ultimately are going to make the government work efficiently and effectively—not only like a business but also to serve the needs of the people that we all collectively agree have to be served.

So maybe there is no easy answer here, but it could be that simply through a better effort on our part to enhance the importance of the role of government and to clearly enunciate what that role is, as you have done, and to talk about the contrasting models, that perhaps through that effort we can come to some better resolution of some of these management issues. Because it is not easy, and actually very difficult.

I welcome your comments.

Mr. MOE. To talk briefly about the theoretical dispute that you mentioned, oddly enough, it is very difficult to have a mesh of the two. That is why they talk past each other as models. The fact of the matter is that the fundamental management of the executive branch is by the general management laws. They provide the rules of the game.

The rules of the game in the private sector are the maximization of equity return to owners. You don't do that, you go to jail for fiduciary irresponsibility. But that is not the objective in the Federal Government. It is designed to implement the laws passed by Congress, wise and unwise.

When you do not have an agency downtown that is capable of sending up to Congress an administrable program or an administrable agency, no amount of process management will save the day.

So what has also occurred is that, as the proliferation of these general management laws have occurred, you see that book explains what every manager in government has to have in front of them, these are the laws that I have to follow. So the laws are what drive them.

In order to have in the executive branch an institution that takes these laws as seriously as Congress does, you have to separate them from the budget. I know that this may sound unusual, but budget to me is only one part of management. It is the most important single part, but there are other elements to the management equation. And those other elements, if they are subordinated to the budget, will never get sufficient hearing.

This is why—for example, GAO reports 25 risk areas this year. Notice that is all after the fact. How much time is spent on not getting to the risk point? Not very much. I have been here for 25 years, and I have never been to a discussion about how to properly design an agency of the United States that had great influence.

Structure is important. Proper structure is a necessary but not sufficient basis for proper management in the Federal Government because accountability remains our highest value. That means we may have to sacrifice performance on occasion because it is a political decision. You try to keep such trade-offs to a minimum, but the two sets of values are different.

For years I believed that we could get what it is that we are worried about and change the culture of OMB and not have to split. I believed that until but 1986 or so, and then I finally concluded it isn't going to happen because the current culture of OMB cannot properly address the management issues which is—this final thing on privatization.

If you had an Office of Management, presumably one of its responsibilities would be to keep track of and to know all about the various privatization—itsself a term with many definitions—activity going on in the country, in the Federal Government, up here on the Hill, and be able to aid agencies and inform committees about what are some of the rules that we have learned historically about how to do a privatization correctly, as opposed to incorrectly.

But we have none of that today. So what we have, in essence, is that every agency is told you are on your own to make a deal with your congressional committees. This is why the FAA got its own civil service system. It went to its committees, did not go to the Civil Service Subcommittee, and got exempted from title 5 because everybody is on their own.

This is one of the hidden agenda objectives of the National Performance Review. They believe that government should consist of numerous organizations all competing with one another to offer services to one another, we call this franchising, and so forth.

Basically, there are not many rules on organizational management. There is no law, for example, saying that the executive branch can create a performance-based organization [PBO]. This is just made up. And so what we have here is sort of a disaggregation and disintegration of the concept of fundamental management, and structure does play a big role in any reassertion of our management responsibilities. It isn't the whole thing, that is for sure, but I think OMB experiences a failure.

Mr. MIHM. On the notion of accountability that Ron pointed out, the point that I would make is that accountability for most agencies is something that cuts in many, many different directions at the same time and in opposing directions.

One of the places where the concept that government ought to work like business breaks down most directly in my view is that, unlike in the private sector, we don't have one bottom line. Businesses have profit and market share and these all create incentives for certain types of behavior.

The problem that managers in the public sector face is that they have competing sets of priorities from which they have to build goals. These competing priorities are embedded in the very missions of organizations, that force them to systematically create goals that tug agencies in different directions.

In Ron's opening statement, I believe he mentioned the situation at IRS. They have to create a goal that, on the one hand, deals with the collection of revenues but, on the other hand, ensures a directly competing priority to make sure that IRS treats taxpayers in a fair and courteous manner. In fact, Commissioner Rossotti has mentioned that customer service is what the agency is now going to be about. So the notion of accountability is very ambiguous at the Federal level.

One of the good things about the Government Performance and Results Act is that it provides a venue through strategic plans and annual performance plans for raising these types of issues up for discussion, and to make sure that decisionmakers understand the various tensions that agencies' operations are under.

We did some work at the EPA a number of years ago, and they told us one of the best things about reaching out to stakeholders, which is a requirement of the Results Act, was not so much that they heard from stakeholders but that they educated the public about the different pressures that the EPA is under. EPA needs to manage and deal with different priorities that are placed on it, such as reducing burden on businesses and at the same time protecting health and safety. How does it strike the appropriate balance? There is no immediate or easy answer for that, and EPA is accountable for both.

Mr. TURNER. You mentioned how the Results Act is working, and I may be wrong on this, Dr. Moe, but it seems to me when we talk about trying to place an emphasis on management institutionally, that the National Performance Review effort was that very thing. We know that it is not institutionalized, and we know that it may not last past this administration, and we may not agree with all of the theories that they are pursuing, but, in essence, wasn't that what that was? Maybe it was not planned and maybe nobody thought through that "we need to emphasize management," but that is what that amounted to, to place emphasis on management?

Mr. MOE. It did. It implicitly made the case for a separate Office of Federal Management. They knew right off the bat that if they took their exercise into OMB, they were dead. They didn't draw the right conclusion, however, from their experience.

The proper conclusion should be—my view on this—would be that you would have a separate Office of Management to continue the activities that we did plus the activities we are talking about. However they didn't draw that conclusion.

So it is sort of up for grabs. The future is sort of up for grabs. That is the problem. When you have an institutional problem, you should have an institutional response to it. And merely asking somebody to do a good job doesn't generally get it done and particularly in the government where our laws and regulations are relatively strict.

One reason that it is important to have one agency watching over all of these laws—and when you talk about clout, the real clout comes from being able to design and implement the general management laws, and here is why. It is an intellectual reason.

The purpose of a general management law is, in essence, a contract between the executive branch and the Congress on how certain procedures and laws shall be implemented. It remains in effect unless an exemption is given by Congress to it. Notice what we have done in this situation. We have created the politics of generality. In other words, the burden of proof to be exempted from some law or exception lies with the agency that is seeking it, OK? So in the absence of a persuasive case, the government is wholly accountable to OMB and to the President through OMB.

The other politics, and this is the one represented by the National Performance Review and that is the politics of

exceptionalism and that is you have very few general laws and you don't have continuing institutions in place. But, in point of fact, a thousand flowers shall bloom throughout the government, all agencies with their own independent compensation systems, and those seeking to have general management laws apply across the board have the burden of proof. That is why we are here.

So we are trying in this act to reimpose accountability across the board and not have everybody with their own little dukedom out there. We have to make a case for this argument. That is what we are trying to do here, to restore some overall accountability to the President.

Now, I have to say this. Presidents since Kennedy have found the management function to not be politically rewarding. They say, if you do something good in management, the benefit will accrue to your successor; but if there is a problem with it, you get the criticism. So their political advisers say that management is not a very profitable thing to get involved with.

But we have paid a price for that, and that is it is the President who has to support those actively who are concerned about all these laws. For example, these laws are not related very well to each other, you see. In 1933, we passed a law and it reflected the values of 1933. We passed another law in financial regulation law in 1993 to reflect the values of 1993.

We don't have anybody there to integrate the laws in a way that makes them contemporary. We are a republic and the laws do run things and the fact that you try to do everything outside the legal system is a weakness and Congress doesn't realize it. That is why I believe we do have to have a quality constitutional system in which Congress is an active player and we don't get caught up in business school jargon.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. HORN. I thank the gentleman. There are some excellent questions and dialog.

Let me ask Dr. Moe at this point, and then I will move to the GAO. I just have a few more questions.

You noted, Dr. Moe, that major fields of government activities are essentially unmanaged. Would you give examples of how this has led to statutory laxity and the neglect of standards for organizations, operations and accountability?

Mr. MOE. I am not sure that I followed your question well.

Mr. HORN. I can repeat it, because it is a cumbersome question.

You note the major fields of government activities are essentially unmanaged. Would you give us some examples of how this has led to the statutory laxity and neglect of standards for organizations, operations and accountability? Is this a matter of statutory laxity or is it just that they don't know what they are doing?

Mr. MOE. There is a sequence for proper management in the Federal Government. Notice I am saying Federal Government, which is different than GE or a university. At the top rung is the law. If you have to design a law that is conceptually sound, particularly in programmatic terms, knowing full well because of the political process and if you require great management perfection you are going to be discouraged, but nonetheless you can avoid some of the worst problems because history is not something to be ignored,

which we have a tendency to do, it is something that you build upon. You don't need to make the same mistakes over and over again.

The second level has to do with your central management agencies. One of the NPR's major points has been to downgrade and to disembowel the central management agencies. That is OMB, for example. They are shadow agencies now, and we have a hollow central management operation. But central management remains the absolute key to ensuring that all of the officials, most of which, as I pointed out, are short term political appointees are following on the same team. Without it, everybody goes their own way.

So the second element is the quality of your central management agencies.

And the third element has to do with the quality of your leadership. It is very difficult to get an 18-month Assistant Secretary in a department to get all enthusiastic about a 10-year improvement program. Incidentally, the National Performance Review has never addressed the question of political appointees. They apparently want more of them. They don't want to cut them, even in relationship to the mid-level people.

So we have here this very large group of people who have not been trained for this job, and yet we are asking them to be management gurus. Well, the fact that we are going to be disappointed shouldn't come as a surprise. There is a dysfunction between the needs of the agencies and the quality of leadership that we force upon them.

And a fourth element is the quality of the individual agency structure itself. There are many activities that could be properly designed, and that is the keyword, government corporations rather than appropriated agencies, and they would run very well. So we need to recognize that within the governmental structure itself there is a wide range of options available for us on how to design an agency and its program in a way to maximize administrability, but this requires quality people in a central location so that each subcommittee on the Hill or each agency in government isn't designing itself.

I always view this as something of a conflict of interest. This is where we have assigned the project since, if you got on the telephone and tried to phone OMB and asked to speak to their expert on government corporations, the odds are that they would say that they don't have one. I have phoned them for years, and they don't have one. The agencies themselves are at a disadvantage in the absence of that type of managerial assistance.

I hope that I answered your question or at least answered toward it.

Mr. HORN. Well, you are warm on that one. There is no question about it, that we lack that memory to give them options in trying to deliver on a particular program.

When I was in the administration back in 1959 we had a crew that worked with the Congress on, say, the Labor Management Disclosure Act of 1959, and we were ready to implement that the day that the President signed the law. And we had thought through and gotten the basis for having that agency work. But, as you say, when you phone up OMB, who is the expert on govern-

ment corporations? Who has had some experience with them, and who has looked at the current ones, and are they doing what we thought they should do? And that will start with TVA right on up.

Mr. MIHM. We did a report on government corporations several years ago, and they directed to us Dr. Seidman. They said, go see him in NAPA.

Mr. HORN. That will look good in the committee report on the floor.

Mr. POSNER. Can I add to Ron's response?

Again, if you are looking at what really matters in terms of the implementation of these programs and an interconnected environment, it is true that agency matters, structure matters, but what equally matters is the rules, the incentives and the way we design these things. I do believe that has been kind of a neglected area of public policy, public administration.

I was involved 10 years ago in the U.S. Administrative Conference study that produced a guide to grant design for Members of Congress. What do you do about something so obscure as maintenance of effort which most people are very dimly aware of which has a huge impact on whether Federal money is going to get where it is supposed to go or not? And when you look at the largest programs, most of them don't have a maintenance of effort provision or it is outdated. It is no wonder why we are not getting the performance we think we should be getting.

Chris mentioned the notion that we need better information about what we are getting, so it is structure, but it is also information. I mean, for many, many years GAO has had to become the primary data collector of record on things that agencies should very well understand and know. IRS didn't have any idea who owed them delinquent tax debt. They had no idea how many were businesses, how many were individuals and different types, and now they are getting better information.

We had to do samples, very time-consuming work; and what you are hopefully going to start seeing is we developed this information infrastructure under GPRA and IT is that we are going to become better able to understand how our programs are linked to the behaviors that we are trying to implement. And the interesting questions will get to be the things that Chris said—what we really care about, how we are impacting or not impacting the behavior, and which of these conflicting goals do we want to put priority on. And that is where “management” becomes part of the policy debate.

Mr. HORN. I think the point that you are making also here is that Presidents are busy people. They have demands from every interest group in America, and so do their Cabinet officers. But there is no great incentive to have good management until the chickens come home to roost, and then you have a major scandal, and then everybody scurries around and says gee, not me, let's do something about that.

There is no question if a President starts on it in a 4-year term—and we have had many Presidents with 4 years and not 8 years—if you do something worthwhile, credit may go to your successor, whether your party or the opposite party, so there is no great incentive in that. And the bureaucracy can wait you out and say this, too, shall pass.

I remember PPBS, that was supposed to be across the board with Mr. McNamara and later with President Carter, all that zero-based budgeting. And they say, folks, this, too, shall pass.

And that is what we are down to. Somewhere we need that institutional memory that, even if the President can't spend much time on it, he can give some leadership and direction and he can let his Cabinet know that he is serious about it. And that is essentially how President Eisenhower used a Cabinet. Many Presidents haven't even had them in the room.

Certainly Franklin Roosevelt ran the government in a number of unique ways and didn't very much care if his Cabinet ever met, but at least his people knew here is what he wanted to achieve. And then the question was, how can you most effectively and economically achieve it? And until they know that the President is serious, nothing much is going to happen, no matter who is in the White House.

Let me ask one last question here of GAO. Has the Congressional Budget Act of 1994 strengthened or hindered good management? And what, if any, changes do you see in that act that should be made? Any thought given to you that—

Mr. POSNER. The Congressional Budget Act?

Mr. HORN. I testified on it at the time.

Mr. POSNER. Well, I think that there were some information provisions, as I recall. It was title VII, and I am not sure that that has really had much of an impact at all.

It reminds me of the Intergovernmental Cooperation Act of 1968 that mandated that GAO do periodic studies of programs and document the various agencies that were at play and recommend ways to consolidate and streamline. We did not exactly receive deafening interest following that up from our clients here. So those things are all well and good.

I do think that the Congressional Budget Act did set up a very interesting structure where the budget committees have to assign spending by functions, the 17 broad mission areas, and I think that has largely remained an academically interesting exercise that does not drive resource allocation. And it gets back to the government-wide performance plan, that somehow we need to be focusing on those as our unit of analysis for making a decision, and we have not yet succeeded in doing that.

We focus on discretionary spending, \$555 billion. It gets divided up among 13 appropriations subcommittees, which is very difficult to understand. So the promise of the act in that regard as an allocational device across goals that we care about as a Nation has yet to be fulfilled.

Mr. HORN. There is no question that we have a lot of problems with that act, although we are stumbling and muddling through with it, as the British might say. We certainly could do better.

Let's face it, the aim of both the La Follette and Maloney bill in 1946, which didn't last too long either when it came to budgeting, and the 1974 act was to try to get the relevant people together that make these decisions up here, namely the Finance and the Ways and Means Committees and the various appropriations subcommittees and get them to relate to each other since one is either going

to have to raise revenue and the other is going to have to cut spending if you are going to have a balanced budget.

Unfortunately, that isn't the way that the process worked. We have a Budget Committee that is sort of out there somewhere that has some of these people on it and some other people on it. It wasn't a bad idea because the other people presumably would try to keep honest the appropriators and the revenueurs. Yet we don't have the guidance that is needed, and you get sort of artificial caps, and you wonder this year if we are going to have any caps.

The Budget Committee has been sort of a political obstacle to most Members of whatever party that is in control because they have a whole bunch of crazy ideas in there as to how they might do this and this. And your opponent throws that at you on the stump, and, by George, it is a document of the House, and it is your party, whether it is Democratic in the 103d or Republican in the 104th, and it really has no real impact. And it is the appropriating committees that count, is reality, and that is where they are segmented.

The President took 130 years, I think, for the President to have a unified budget. It used to be that the department heads sent it to the Secretary of the Treasury, and he put a binding on it and shipped it up here. And we, unfortunately, have 13 subcommittees that we will never be able to get rid of. It doesn't happen that easy.

I suggested 20 years ago, let's have five to match their resource areas. The President brings that budget together in five major areas. We could do that, too, but nobody is going to give up their chairs unless there is a crash somewhere, but it is a heck of a way to do business.

We appreciate all of your wisdom that you have given us. It has been very helpful. These have been excellent statements, and they will be in the record, and we will refer to them, and over the next few months we will put the pieces together.

I am going to read the staff members into the record.

I want to thank not only the witnesses but the staff members: J. Russell George, the staff director for the Subcommittee on Government Management, Information, and Technology and chief counsel. Bonnie Heald, our director of information is sitting patiently back there wondering where the media is. They are not interested in management, right? Harrison Fox, to my left, professional staff member responsible for this hearing; Mason Alinger, staff assistant. And we have two interns here, Paul Wicker and Kacey Baker.

And then for the minority we have Faith Weiss the professional staff member and Earley Green, staff assistant.

And we have two court reporters, and they are both here at the same time: Doreen Dotzler and Ryan Jackson. We thank you both. It is tough when we have all of the dialog going back and forth, and we appreciate it.

With that, this meeting is adjourned.

[Whereupon, at 1:05 p.m., the subcommittee was adjourned.]

