

# QUALITY MANAGEMENT AT THE FEDERAL LEVEL

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## HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,  
RESTRUCTURING AND THE DISTRICT OF COLUMBIA  
SUBCOMMITTEE

OF THE

COMMITTEE ON  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

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OCTOBER 15, 1999  
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# CONTENTS

Opening statements:	Page
Senator Voinovich .....	1
Senator Akaka .....	7

## WITNESSES

FRIDAY, OCTOBER 15, 1999

Charles O. Rossotti, Commissioner, Internal Revenue Service, Department of the Treasury .....	4
Martha N. Johnson, General Services Administration .....	8
Colleen M. Kelley, National President, National Treasury Employees Union ...	23
Bobby L. Harnage, Sr., National President, American Federation of Government Employees .....	25
J. Christopher Mihm, Associate Director, Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office; accompanied by James R. White, Director, Tax Policy and Administration Issues, General Government Division, U.S. General Accounting Office; and Bernard Ungar, Director, Government Business Operations Issues, General Government Division, U.S. General Accounting Office .....	33

## ALPHABETICAL LIST OF WITNESSES

Harnage, Bobby L. Sr.:	
Testimony .....	25
Prepared statement .....	77
Johnson, Martha N.:	
Testimony .....	8
Prepared statement submitted by David J. Barram, Administrator of General Services .....	56
Kelley, Colleen M.:	
Testimony .....	23
Prepared statement with an attachment .....	65
Mihm, J. Christopher:	
Testimony .....	33
Prepared statement .....	94
Rossotti, Charles O.:	
Testimony .....	4
Prepared statement with attachments .....	43

## APPENDIX

Dr. Jack West, Past President, American Society for Quality, testimony of ASQC before the National Commission on Restructuring the IRS, September 10, 1996 .....	109
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## QUALITY MANAGEMENT AT THE FEDERAL LEVEL

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FRIDAY, OCTOBER 15, 1999

U.S. SENATE,  
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING,  
AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,  
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 9:06 a.m., in room SD-628, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich and Akaka.

### OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Good morning. It is nice to have Senator Akaka with us this morning.

Senator AKAKA. It is good to be with you this morning.

Senator VOINOVICH. Unfortunately, we have a vote at 9:15. I know all of you are very busy people and I have quite a lengthy statement that I may submit for the record, because I think we should move forward with the panels.

First I will introduce the witnesses that we have here today. Then I will ask you to stand, administer the oath, and then we will proceed with the hearing.

In a nutshell, what we are hoping to do with these hearings is to see if during the next 2 to 3 years we can change the culture of the A-team, the people that really make a difference in the Federal Government, the people who are the middle managers and the rank and file workers who survive administration after administration, but I think in too many instances have not had an opportunity to participate. I am interested in empowering our workforce. I am interested in providing the money that is necessary for upgrading people's training. I am looking for ways that we can provide new incentives for our Federal workers, and overall create the best environment that we can for our Federal workforce.

When we instituted quality management in State Government, it took us 8 years, but it is the most important piece of work that I did as Governor of Ohio in terms of improving the overall quality of life for the citizens of Ohio, and also the quality of life for the 58,000 people who worked for the State of Ohio. I know at the Federal level, it is going to be a much bigger job, but I think if we stay with it, we can make a difference.

The prepared opening statement of Senator Voinovich follows:

## PREPARED OPENING STATEMENT OF SENATOR VOINOVICH

The hearing will come to order. Good morning, and thank you all for coming. Today the Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia holds its second hearing on Total Quality Management. For at least the next 2 years, hearings like this will be an important part of my efforts to change the culture of the Federal workforce.

I am interested in improving the work environment and culture of Federal career civil service employees and middle-managers who, I believe, do most of the heavy lifting and receive little acclaim for their hard work. I call these dedicated men and women the "A-Team."

I would like to start this hearing by again defining Total Quality Management and outlining what I believe it can do for the operations of the Federal Government. Quality management is a system that (1) focuses on internal and external customers; (2) establishes an environment which facilitates team building, employee contribution and responsibility, risk taking, and innovation; (3) analyzes work processes and systems; and (4) institutionalizes a goal of continuous improvement. For TQM to be successful, several important elements must be present, including management-union partnerships, effective employee training, modern personnel policies, and an established system to measure program outcomes. This last point is a core characteristic of the Results Act.

At our last hearing on July 29, we highlighted what quality management has done on the State level. Representatives from the State of Ohio and their union partners described to the Subcommittee the great success that they have enjoyed with their own brand of Total Quality Management, called Quality Services Through Partnership. Today's hearing will address what is happening at the Federal level.

The Federal Government is moving in the right direction. The Results Act requires that all Federal departments and agencies adopt strategic plans, and that they collect performance information to measure the effectiveness and efficiency of their programs.

However, I am concerned that the formulation of strategic and performance goals may be a wasted, paper-pushing exercise if it fails to include the perspectives of line employees and middle-managers who really know the programs and know how to make government work better. The rank and file must be involved in establishing the goals of Federal agencies. That's why I believe we must have in place at the Federal level both a strategic framework, which is proved by the Results Act, and a quality management framework, which will enable the government to use the Results Act to its full potential. In other words, quality management is the means by which agencies can achieve their Results Act goals.

Through my work as Chairman of this Subcommittee, I will do all I can to help create an environment where our dedicated public servants can maximize their talents. I believe that if the Federal Government were to adopt quality management, it would lead to greater employee satisfaction and empower the "A-Team" to really make a difference in the lives of the American people.

Today, we will move away from the hypothetical and focus specifically on quality management initiatives already in place at the General Services Administration (GSA), and the Internal Revenue Service (IRS). GSA is one of the three central management agencies in the government that provides a wide array of goods and services to other Federal agencies, and the IRS is the Nation's tax collector. Both agencies have undergone or initiated significant reorganizations in response to congressional oversight and criticism of management and customer service practices. This is an opportunity for these two agencies to discuss what they have accomplished, what remains to be done, and whether their success with quality management can be replicated in other Federal agencies. I would note that because of my duties as Chairman of the Subcommittee on Transportation and Infrastructure, I am more familiar in general with GSA and its program than the IRS.

I am encouraged from what I have learned about the efforts of GSA and the IRS. Both agencies seem to have taken customer service to heart: GSA with their motto of "thrilling the customer," and the IRS with new strategic goals focusing on "Service to Each Taxpayer," "Service to All Taxpayers," and "Productivity Through a Quality Work Environment."

Information technology is also playing a prominent role in agency reforms. GSA has hundreds of thousands of items for purchase on the Internet, and has leveraged the purchasing power of the government to save money. Despite some early setbacks, the IRS is attempting what is surely one of the most ambitious and important computer modernization projects in the Federal Government. I realize how challenging the computer modernization must be, given the shortage of information technology specialists and the difficulty of recruiting them into government service.

I am eager to learn if the personnel flexibilities allowed under the Reform Act have assisted the IRS in this area.

We must all keep in mind that major reforms are often lengthy and require a great deal of patience. We should not expect quick results nor be disappointed when they don't materialize conveniently overnight. The purpose of today's hearing is to demonstrate that there are Federal agencies in the midst of dynamic change that have made a long-term commitment to quality management as a tool to realize the goals they have set for themselves under the Government Performance and Results Act. I believe that the success of these efforts builds the case for a governmentwide quality management initiative.

An equally important objective of this hearing is to stress the importance of labor-management partnerships. I am encouraged that the White House is directing Federal agencies to increase union participation in workplace decisions. The active participation of employees at all levels is essential for reforms to take hold successfully in Federal agencies. I believe it will be demonstrated, especially in the case of the IRS, that employee involvement is one of the keys to success.

I would now like to introduce today's witnesses. On our first panel are the Hon. Charles O. Rossotti, Commissioner of the Internal Revenue Service, and Martha Johnson, Chief of Staff, of the General Services Administration. I have asked them to discuss the major changes to organization and operations that their respective agencies have begun to implement.

Also joining us for our second panel are Colleen M. Kelley, National President of the National Treasury Employees Union, and Bobby L. Harnage, National President of the American Federation of Government Employees. Ms. Kelley and Mr. Harnage were asked to discuss the participation and role of their union members in the reform efforts currently underway at IRS and GSA, respectively.

On the third panel is J. Christopher Mihm, Associate Director of Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office. He is accompanied by James R. White, Director of Tax Policy and Administration Issues, General Government Division, and Bernard Ungar, Director of Government Business Operations Issues, General Government Division. Mr. Mihm will first present an overview of common features that have been identified in successful government management initiatives. Mr. White and Mr. Ungar will be available to discuss the extent to which reforms at IRS and GSA have incorporated these features and the degree of success that they have experienced. We have also asked all witnesses to address the feasibility of implementing the types of reforms underway at IRS and GSA at other Federal agencies. We thank you all for coming and look forward to your testimony.

Before we adjourn, I would mention that at our next quality management hearing, the Subcommittee will examine Federal agencies' employee training programs and budgets. Continuing education has been an important feature of Ohio's quality management program, and I think it makes sense for us to examine what the Federal Government is doing in this area. Thank you.

Senator VOINOVICH. The witnesses on our first panel are Charles O. Rossotti, who is the Commissioner of the Internal Revenue Service, and Martha Johnson, who is the Chief of Staff of the General Services Administration. I have asked them to discuss the major changes to organization and operations in their respective agencies.

Joining us on our second panel are Colleen M. Kelley, National President of the National Treasury Employees Union, and Bobby L. Harnage, National President of the American Federation of Government Employees. Ms. Kelley and Mr. Harnage were asked to discuss participation and role of their union members in the reform efforts currently underway at the IRS and at GSA, respectively.

On the third panel is J. Christopher Mihm, Associate Director of Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office, and he is accompanied by James R. White, Director of Tax Policy and Administration Issues, General Government Division, and Bernard Ungar, Director of Government Business Operation Issues, General Government Division. Mr. Mihm will first present an overview of common features that have been identified in successful government management

initiatives, and Mr. White and Mr. Ungar will be available to discuss the extent to which the reforms at IRS and GSA have incorporated these features and the degree of success they have experienced.

We have also asked all witnesses to address the feasibility of implementing the types of reforms underway at IRS and GSA at other Federal agencies.

We thank you for coming and if you will stand, I will administer the oath. Do you swear that the testimony you are about to give before the Subcommittee is the truth, the whole truth, and nothing but the truth?

Mr. ROSSOTTI. I do.

Ms. JOHNSON. I do.

Ms. KELLEY. I do.

Mr. HARNAGE. I do.

Mr. MIHM. I do.

Mr. WHITE. I do.

Mr. UNGAR. I do.

Senator VOINOVICH. Thank you. Let the record show that everyone answered in the affirmative.

I would like to remind the witnesses that your entire statement will be entered into the record and if you can keep your testimony to 5 minutes or thereabouts, I would be grateful.

Mr. Rossotti, we would like to start with you. I want to say that I really enjoyed meeting you yesterday. You have a big challenge there at IRS, and you have been there for just a short time and there have been some terrific changes. I want to remind everyone that nothing is perfect, but the reason why GSA and IRS are here today is because of the fact that they are innovative, they are making change, and they have had success. So I want you to know, this is not a hearing to beat up on anybody. We have enough of those hearings around here.

Mr. Rossotti.

**TESTIMONY OF CHARLES O. ROSSOTTI,<sup>1</sup> COMMISSIONER, INTERNAL REVENUE SERVICE, DEPARTMENT OF THE TREASURY**

Mr. ROSSOTTI. Thank you very much, Mr. Chairman and Senator Akaka. We appreciate the opportunity to be here. We have with us today three people that are actively participating in different ways in our effort. David Allen and Glen Jacobsen are both front-line revenue agents that are participating in our teams that are working on the changes, and Mr. Boswell has recently joined us to head our agency shared services organization.

When we look back a little over a year ago to the passage of the Restructuring Reform Act, we can see it really set a fundamentally new direction for the agency. The way I would summarize this new direction was that we were being asked to measure our success in terms of its effect on people as well as on the taxes that we collect, both being important in the future. To accomplish this goal, we are undertaking some very pervasive changes that are going to affect

<sup>1</sup>The prepared statement of Mr. Rossotti with attachments appears in the Appendix on page 43.

all 100,000 of our employees and managers, as well as our 125 million individual taxpayers and 6 million businesses that we serve.

I think even before the passage of the act, there was a general consensus developing on the nature of the change that was required by the IRS, and the RRA pretty well locked it in and gave it clear direction. But even after the passage of the act, there were still many decisions and issues that needed to be decided. Of course, we also know that even with the passage of a law, in the end, our inside and outside stakeholders all have to support and engage in these decisions for the program to be successful.

If you look at this whole process, we refer to it as modernization because we hope that it is bringing us forward to where we want to go in the future. While I think we have had some success so far, most of the work, as we noted yesterday, still remains ahead.

But just to outline what we have been doing, the first aspect is to deal with what I call the softer issues, and they are summarized in the top half of the chart over there. They involved rewriting our mission statement, reformulating our goals and objectives and our guiding principles, which are on the top there, and I think if you just look at the mission statement, it really was developed with a lot of participation of our workforce, and in just 27 words, it says, "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all."

Then we have translated that into three specific goals that every employee and manager can, we think, make a contribution to. The first one is to provide top-quality service to each taxpayer we deal with in any transaction that we have with them. The second one being to provide service collectively to all taxpayers by ensuring that compliance with the laws is done so that the few taxpayers who may not want to pay their taxes are not allowed to put a burden on the others. And the third one, very importantly, is to provide a top-quality work environment for our employees so we can enable them to provide service to our customers. That is basically what this whole thing is about.

Now, in order to make those goals a reality, one of the other things that we have been doing is making it clear that the way we measure performance in the agency and the way we set people's job objectives, that all three of these goals have to be achieved at the same time. In other words, we cannot any longer say that we are successful if we collect the taxes but we do not provide the right kind of service to taxpayers. Nor is the reverse true. We cannot provide wonderful service but not collect the taxes. We have to do all of those and we have to provide our employees what they need to do that job.

I think that is also the principle that is mandated by GPRA, the Government Performance and Results Act, which says you should measure performance in a framework that is tied to what your mission is. So that is what we are trying to do with the first part of this.

Now, as important as it is to lay those goals out and to communicate and to measure performance, we also know that we would not succeed unless we tackled some of the tougher structural issues that really get in the way of delivering. So that is why we are on



the bottom there tackling a lot of changes in five major areas that are listed on the bottom of that chart. They basically boil down to revamping the way that we do business.

We have a lot of good examples to work from, both in the IRS and in the private sector, so what we are trying to do is to take advantage of best practices that we have learned about in good organizations everywhere, and we think that if we can take advantage of these best practices, we will succeed in meeting our strategic goals. Some of these, though, do require major changes and investments in organization, training, and technology.

We have tried to set priorities. We have 161 short-term initiatives that we are doing to try to deliver on these goals in the short term. In the long term, then, we are working on some of these major changes, such as reorganizing the agency and to customer-focused operating divisions supported by, behind the scenes, the four major divisions who will work with the outside taxpayers, and then we will have two shared services organizations that deliver such things as information systems and facilities services and other personnel services that are required in order for us to operate effectively.

I do want to mention one important point that I think this Subcommittee, and the broader Governmental Affairs Committee, helped a great deal on, which was during the restructuring, giving us the authority to provide certain flexibility with respect to personnel. One of the areas was to enable us to bring in some executive cadre from the outside that had experience with some of these best practices that we were trying to implement. We have been using that authority. We have so far recruited seven executives. Mr. Boswell is here with me today, who has come in after 31 years in the oil industry. He is one of the most recent of our hires in this category.

The other one, and I will finish up quickly, but I just want to mention one other major area, which is technology. We are embarking on one of the biggest technology modernization programs that I have ever encountered, and I have spent 28 years in the business, and that is because, unfortunately, the old technology that the IRS currently depends on is probably the biggest barrier that our employees have to being able to deliver quality service. So we are faced with almost a complete renewal and reengineering of our technology base, which we, with the help of Congress who very constructively has given us the resources, and now we are embarking with the help of the private sector to do that.

The last point I will mention is a little bit about the process that we are using. Some of those factors are summarized on that chart, which I will not run through, the one on the left. But the key point here and the reason I brought Mr. Allen and Mr. Jacobsen with me today as just two of the representatives that are working with us, is that we are not doing this in a way that has a few people locked in a back room at the top making decisions and then telling everyone else what to do. We have over 500 front-line people working from all parts of the IRS with us in a set of design teams and they are very carefully going through an analysis of what we need to do and have already come up with very effective recommendations on how we need to move forward, and we are going to continue to use

that process as we implement this change. It does not eliminate the anxiety and the risk, but I think it does help us to make sure we get the best information to make decisions and also to get the best buy-in.

So that is a short summary of a big program that we have at the IRS. Mr. Chairman, we appreciate the comments you made at the beginning and would be happy to answer any questions that you or Senator Akaka have.

Senator VOINOVICH. Thank you.

Senator Akaka, I apologize to you. I did not give you an opportunity to make an opening statement, and if you would like to do that now, I would appreciate it.

#### **OPENING STATEMENT OF SENATOR AKAKA**

Senator AKAKA. Thank you very much, Mr. Chairman. I want to compliment you and commend you for holding this hearing on this subject and for your desire to work with employees of unions and Federal agencies in this regard.

These are exciting times, as I mentioned to some of you that I said hello to, that it is going to be a busy morning. As Ranking Member of the Subcommittee on Federal Services, I am pleased that there are fresh views on how to improve Federal management and performance. In working toward improving management and performance, however, it is important that line employees, middle management, and the unions be actively involved.

So I want to join the Chairman in welcoming you to this hearing, all of you who are of the three panels as well as the GAO and union presidents who are here this morning.

I want to compliment the IRS for doing what you are doing now, following your goals, and know that this involvement has helped the IRS in achieving marked improvement. I would also like to know that as GSA moves in new directions, I hope that it will work with its employees, middle management, and their unions. This involvement and consultation should also extend to GSA's JWOD partners.

Mr. Chairman, I thank you very much for this moment to express myself, and again, I want to compliment and commend you for this hearing.

[The prepared opening statement of Senator Akaka follows:]

#### **PREPARED OPENING STATEMENT OF SENATOR AKAKA**

Thank you, Mr. Chairman for allowing me to sit with the Subcommittee this morning. I commend your keen interest in quality management and your desire to work with Federal agencies in implementing these practices. We are all aware of our Subcommittee's proud history in enacting legislation to increase performance and accountability within the Federal Government. Most recently, we have focused on managing for results—the driving force behind the Government Performance and Results Act, which requires Federal agencies to develop strategic plans, performance measures, annual performance plans, and performance reporting.

As Federal agencies work toward improving management and performance, it is important that employees be actively involved in these initiatives. Moreover, it should be obvious that without employee involvement, improvement efforts instituted solely by management will not have a lasting effect and stand little chance of becoming a part of an agency's culture. As the Ranking Member of the Subcommittee on Federal Services, I do not want this fact overlooked as agencies implement "best practice" initiatives.

I look forward to hearing from IRS Commissioner Rossotti, whose agency has one of the highest levels of interaction with the public. The IRS was long considered the lightning rod for all that was wrong with the Federal Government. However, under the Commissioner's leadership, there has been sustained improvement and accountability to the public, coupled with a strong drive to involve line employees and middle managers in achieving those goals.

I am pleased that the General Services Administration is also with us today. Although this hearing is to explore how quality management practices can be integrated into the Federal Government, the GSA, through its announcement that it was closing eight Federal Supply Service warehouses, found itself at the focal point of dissent. Although the decision to close the warehouses was just reversed, I hope that as GSA moves in new directions, it coordinate and consult with its employees, middle management, and their unions on this issue. This involvement and consultation must also extend to GSA's Javits-Wagner-O'Day (JWOD) partners, who immediately felt the unexpected consequences of the proposed warehouse closings. I am pleased that GSA is now forging a better relationship with its JWOD partners and their affiliates.

I know that Bobby Harnage, president of the American Federation of Government Employees, AFL-CIO, whose union filed the initial grievance against the GSA closings, will most likely address this matter in his testimony. I also look forward to hearing from Colleen Kelly, president of National Treasury Employees Union, whose union has worked so well with the IRS to implement the wide-ranging changes that resulted in the agency's turnaround.

I would like to touch briefly on the successes achieved by the Administration's National Partnership for Reinventing Government, formerly the National Performance Review. This initiative, begun in 1993, established customer service standards and identified programs that could be reinvented, terminated, or privatized. Most recently, NPR is working on performance partnerships with Federal and State and local governments, and I applaud this ongoing effort to make the Federal Government more responsive to those it serves and to those it employs.

These are exciting times for the Federal Government, and I am pleased that there are fresh views on how to improve management and performance within the Federal Government. However, there is much work to be done, as we will be told by representatives from the Government Accounting Office, who are also here with us today.

I again compliment the Senator from Ohio on his interest and willingness to hold hearings on this subject and for his desire to work with employees, their unions, and Federal agencies in this regard. Thank you Mr. Chairman; I look forward to this morning's hearing.

Senator VOINOVICH. Thank you. As I mentioned in my remarks, we are going to spend a lot of time on this and, hopefully, get something done.

Our next witness is Ms. Johnson. We are anxious to hear from you.

**TESTIMONY OF MARTHA N. JOHNSON,<sup>1</sup> GENERAL SERVICES  
ADMINISTRATION**

Ms. JOHNSON. Thank you. We are very glad you are holding this hearing on the issues of quality management. Dave Barram submitted a statement in writing and I ask that it be submitted for the record.

I cut my teeth professionally in manufacturing at Cummins Engine Company just as it began to embrace TQM, total quality management. I agree with Barram when he says that one of the great lessons of that time is that quality is actually free. Any costs you pay are more than offset by increased productivity and customer satisfaction. You cannot have quality without good management, and you cannot have good management without high quality. There is no point in trying.

<sup>1</sup>The prepared statement of David J. Barram submitted by Ms. Johnson appears in the Appendix on page 56.

We are proud of the GSA management story. We are at a different place than just a few years ago. The President and Vice President charged us to work better and cost less, and we have done just that.

There were many levers and gears shifting and turning to make this happen. We are much smaller. We are clearer about our mission. We are structured in significant ways so that the market can measure and discipline us. We use technology.

Good management is not a one-shot, one-pill, one-remedy answer. Instead, it is a systems answer in which the leadership juggles change on a number of fronts.

Early in our tenure at GSA, we worked on our vision for the future. We did not go offsite for a week-long conference to wordsmith a statement. Instead, we tested ideas. We tried ideas in speeches and conversation. When we heard these ideas back, we knew we had something. If this sounds a little informal or iterative, perhaps it is, but it connects us to an idea shared by Stanford Professors Collins and Porras in their book, "Built to Last." In it, they talk about something called BHAGs, big hairy audacious goals. Our visions are like that.

For example, we challenge ourselves to thrill the customer, not satisfy, not meet the needs, thrill. This is a BHAG, according to the professors, and everyone at GSA seems to sense what that means. We did not need position papers to engage and convince all of GSA. It happened first by phrase, then more discussion, then a sense of direction. That is vision at its best.

One of our top priorities and my specific job has been challenging our leadership team. They must be champions of our vision. We are delighted that GSA executives have changed jobs, the cheapest training possible, model flexibility themselves, broadened themselves through experience, tough projects, creative learning, and technology. Seeing the senior leadership changing jobs raises the bar for the entire organization.

I have already mentioned technology twice. It cannot be mentioned too often. In 1996, we made it possible for every GSA employee to have access to the Internet. While not a big deal now, it was then. It means we have, today, a full 3 years of living and working in the future under our belt, and that makes a difference. We have an online university system, a chat line, a daily electronic newspaper, and a vast array of research capabilities. All these things bind a community together and build people's skills, and skills are what it is all about.

In a knowledge society, every person has to be skilled. One way we approach this challenge is by turning an old idea on its head. The old idea is job security. Our new idea is employability. Our economy is robust and fluid. People need the security of knowing that they are desirable and competitive. Our job is to meet their curiosity and drive for skills with mechanisms to build their skill set. The Internet has helped hugely.

Mr. Barram and I agreed that if we were forced to choose one goal for GSA, it would be that all GSA employees are regularly approached with job offers because they are such highly competitive workers, but they choose to stay and work at GSA. Good manage-

ment must have a good people-centric attitude configured so that it builds the viability of the whole enterprise.

The Federal Government operates within regulations and policies about ethical and efficient procurement, about smart use of large government assets, and about sensible purchases from the large-volume agreements we negotiate for telephone service, airline tickets, etc. These frame GSA's work and remain our steady business guideposts, but our attitude is new. We wake up each day determined to serve our customers. With commitment, technology, and skill, we can thrill the customer and thrive ourself.

Mr. Chairman, the GSA of 1999 is built on a solid platform that will let us move smartly into the next century. We have achieved a lot, but we have a lot still to accomplish. Barram and I are more confident today than ever that we have been able to help with the management and leadership culture of this important organization and it is capable of continued high performance. Thank you.

Senator AKAKA [presiding]. I thank both of you for your testimony this morning. I am so glad to hear that you are extra sensitive to the people who work in your agencies. It is obvious that when people do not leave their job, even though they have other offers, that tells you something about what the job and the environment offers them.

Mr. Rossotti, again, I want to compliment you for what you are doing. It is a great turnaround and it answers many of the complaints that we, in Congress, have received in years past.

A front page headline in last Sunday's *New York Times* indicates, "IRS is allowing more delinquents to avoid tax bills." Can you explain this situation and offer us some insights as to what you are doing about this?

Mr. ROSSOTTI. Yes. Well, I think it is important to recognize, if you look at the chart, we have three goals, not just one goal, and that basically means what Congress is saying to us, as we understand it, is we need to continue to collect the taxes, as has been the case, but we also need to observe taxpayer rights and treat taxpayers properly. So that is a more complex thing to do than just to do one or the other.

With respect to the issue that is raised in the *New York Times* article, it really deals with a particular part of the tax administration process, which is collection of certain types of tax debts, particularly the older, more hard-core, we call them, kinds of tax debts. As I think was well known at the time that the Restructuring Reform Act was passed, the act did add additional taxpayer rights and additional procedures that need to be followed before the IRS can take enforcement action, such as seizing someone's home or seizing their bank account or their property. So there was a delay factor imposed, when the act passed because there is an elongated process in order to take those kinds of actions.

The second thing that happened was that, of course, additional resources were required just to implement these procedures, because they are somewhat time consuming.

And the third point, of course, and I have to be honest about this, is that the whole process of learning how to do this in this new environment, our front-line employees learning how to do this, and of the management providing the necessary support and train-

ing, has been a very challenging, very difficult one, and I have said that many times. We have not yet arrived at the point even now, after over a year, where I think we have fully been able to work out all the ways, the practical ways, to do this. So that has caused some confusion, some anxiety. There were some provisions in this bill that certainly caused anxiety among our front-line workforce.

Therefore, the net result of this is there was a decline in the number of enforcement-type cases that we were able to do in collections. Now, that is something that we are working very hard to turn around and to stabilize.

I do want to point out, because it is important to put this in perspective, that this represents a very tiny percentage of the total revenue that is actually collected in terms of our total tax collections, because our total tax collections, and even our tax collections from our own enforcement collection activities have leveled off. But this particular part of the problem is very important in the long run because, of course, as I said, our goal is to make the law apply equally and fairly to every taxpayer. So we cannot allow, even though it is a small percentage, we cannot allow a certain set of taxpayers who may be unwilling to pay to be allowed to burden the remaining taxpayers.

Senator there is one last point that I do want to make, and I actually made this on TV the other night when I was asked about this, is that I really hope that no taxpayer reads any of this and makes a mistake in thinking that any of the things that they have read about or learned about or anything that has happened in the IRS means that they do not still have to pay the tax debts that are due, because even though it may take us a little longer to get to some of these debts, they are still debts, they are still on the books, and taxpayers are going to be required to pay them. So I do not want anyone to be confused about that point.

Senator AKAKA. I do realize, and all of us do, the tough job you have. I like the word you used, challenges. There is so much under that word that you have to meet to keep your employees up with whatever changes that Congress makes. It is tough enough already.

Mr. ROSSOTTI. Yes, sir.

Senator AKAKA. But I am glad you are using all the resources you can, including technology, to try to meet the needs of the taxpayers. I like your three goals, each taxpayer and all taxpayers, and also with the quality working environment. I think those are great goals.

GAO praises their top-level leadership commitment to change, which you demonstrate as you lead IRS in implementing comprehensive reforms. However, GAO expresses concern that the IRS, "missed its opportunity" to demonstrate how important management reform initiatives are on the way to tackle longstanding management weaknesses. What is your reaction to that finding?

Mr. ROSSOTTI. I have to say, I am not sure I know which report that refers to. I am sorry.

Senator AKAKA. It was an expression of GAO that the IRS, and as I said, I was just quoting the three words, "missed its opportunity" to demonstrate how important management reform initia-

tives are that are underway to tackle longstanding management weaknesses.

Mr. ROSSOTTI. The only reason I am hesitating is there are a lot of GAO reports. I am not sure where that one—when it was or where it comes from. So I have a little bit of difficulty responding, but I will say that what we are attempting to do throughout the whole way that we are running the agency is to demonstrate in sort of clear, unmistakable terms that we are committed to change. We are attempting to take advantage of the window of opportunity, as I call it, that we have in front of us that was created by the directives of the act and the other things that went before it.

But, I guess I would be the first to acknowledge that there are many pitfalls along the way, and in some areas, we have not been able to provide, for example, the training that our employees needed in some of these collection areas as fast as we would like to. So we try to address that by being very straightforward and honest about acknowledging where we have those problems and then acting to improve them in the future.

I would be glad to get a copy of that afterwards and respond more specifically to that particular case if you would like, Senator.

Senator AKAKA. Thank you, Mr. Rossotti.

I was just informed that I have 2 minutes before they close the vote on the floor, so I am going to call a recess, but before I do that, I just want to mention that in July, GSA announced that eight warehouses were closing, and since that time, the decision has been reversed. Part of the problem was that more than 1,000 blind and disabled vendors would have lost their jobs in the closing. I am grateful that GSA decided to reverse closing those warehouses, although I think we anticipate that there might be some of that in the future. I want to thank you for that. Do you have a comment?

Ms. JOHNSON. We, just a few days ago, entered into a very exciting and innovative process with our union in which we agreed that we would, and you will have to bear with me here, our phrase is turn back the clock, so that we are going to reenter pre-decisional discussions with our union about the stock program. The administrator and the commissioner of the Federal Supply Service, along with our unions, will engage in a process of discussion and pre-decisional partnership and at the end of the month, the administrator and the commissioner will make a decision about the future of the stock program. But we are at this point in a turn-back-the-clock mode and our current stock program is an ongoing concern and we continue to be moving products through all our warehouses.

Senator AKAKA. Thank you very much, Ms. Johnson.

At this time, I would like to call a recess until the Chairman returns. Thank you.

[Recess.]

Senator VOINOVICH [presiding]. I apologize to the witnesses for having to rush out, but you learn that that is part of the game here in the Senate.

What I am interested in learning from both panelists is, how much were your people involved in formatting the mission statement, goals, guiding principles, and so on? I would be interested in hearing, if they were involved, the method you used in order to involve them.

Mr. ROSSOTTI. What we did with the mission statement, which was a key item and we got that done—it was called for, actually, in the act, interestingly, that we should reformulate our mission statement. That was in July 1998. During that period, we had already been working on it. We had a number of different inputs and solicitations from both external—we have a lot of external stakeholders, practitioner groups and other people, as well as internally, to come up with various formulations. Then we had a small group that actually formulated several alternatives, several possibilities, because you cannot wordsmith a mission statement totally in committee. So we actually formulated a number of different possibilities.

Then we had—very quickly, we did this. We had one person in the national office that was in charge of soliciting input on these different alternatives. We did a lot of it through E-mail and we put it on the Internet and Intranet, and internally alone, we got over 1,000 different comments from employees, mostly employees internally, and then a lot of different comments externally.

Senator VOINOVICH. This was in response to a mission statement that had been drafted by a group?

Mr. ROSSOTTI. Yes. It was actually not just one. We had several different formulations. We had several different possibilities with different words that we had—we had taken inputs that had been recommended. There had been previous work done by—the Vice President had a task force before I even got there, the National Performance Review had done some work, and external groups had done some things, so we took all of that and we used that to formulate a short list of possibilities.

Then what we did is we published these possibilities on the Internet for externally and on our Intranet internally and circulated them throughout the organization and asked for comments. We had one or two people that basically took all these comments and tried to put them in kind of a rational way so we could look at them, and we had over 1,000 comments from our employees internally, as I recall—this was over a year ago—and quite a few externally.

We tended to group them into what they said so that we could get them into a rational sort of smaller, manageable proportions, and eventually, we came out with this formulation and I think it has been well accepted. It deals with the twin aspects of our mission, which are then translated into the goals.

The IRS, as with many organizations, has to satisfy more than one stakeholder. We have to deal effectively with each taxpayer. If we have a transaction with a taxpayer, we have to provide good service. If that taxpayer owes money, we have to inform them of their rights and make sure they observe all their rights. But in the end, collectively, we have to protect all the taxpayers by making sure that the law is applied fairly and that we collect the debts that are due. Otherwise, people would be burdening the honest taxpayer by not paying their debts.

So those are the twin kind of key goals that we have as far as taxpayers, and then internally, we have the need to provide the right kind of a working environment for our employees.



Senator VOINOVICH. I think what a lot of people forget about is that we talk about taking care of our external customers, and it is just as important to take care of our internal customers, the people that deliver the services, in terms of their involvement, their training—

Mr. ROSSOTTI. Exactly.

Senator VOINOVICH [continuing]. And how much incentive we are providing them.

Mr. ROSSOTTI. Exactly.

Senator VOINOVICH. How about the goals and the rest of it?

Mr. ROSSOTTI. Well, the goals translate directly from the mission. I mean, the three goals are the two aspects of our mission, individually providing good service to every taxpayer we deal with and—

Senator VOINOVICH. Was the union involved in any of this in terms of being at the table?

Mr. ROSSOTTI. The union, and I will let Colleen speak for herself, she has been our partner, and Bob Tobias before that, in every one of these committees. All of these things that we run, we have what we call an executive steering committee, which is a top-level group that oversees the change process. I am, in most cases, a member of that and head of it, although some executives are heads of some of the—

Senator VOINOVICH. So the executive steering committee is the vehicle that you use to get input from a variety of people, including your unions?

Mr. ROSSOTTI. Yes, and Colleen, and before her, Bob Tobias, have been members of these executive steering committees at the top level for every one of these change initiatives we have done. But that is only at the top level. Then we have the teams, and that is why Mr. Jacobsen and Mr. Allen are here. They happen to be two members of the teams.

At the present time, I would say we have over 500 or 600 people working on various teams, and they include bargaining—usually, about half of them are bargaining unit people, people that are members of the union that actually participate, usually for a full time period, maybe 3 to 6 months on one of these teams. I am sure, if you would like to, you can speak to them on the panel and ask them how it works.

Senator VOINOVICH. I am really interested in the organizational structure.

Mr. ROSSOTTI. Right.

Senator VOINOVICH. Is it a structure that has been fruitful from everyone's point of view? If it has been a good structure, then perhaps it is a structure that could be replicated, and that is what we are looking for, things that are working in your respective shops that could be absorbed or taken under consideration by other departments.

Mr. ROSSOTTI. I do think that this way of doing things is something that I adapted from my previous life, where I was involved with different clients on change, and what it boils down to is that change, if it is anything more than a small change in a small area, involves people at different levels vertically in the organization and

also cross-functionally, across this way. So you have to somehow find a way to engage all of this at the same time.

Now, what we have is basically three ideas. One is the executive steering committee, which is the top-level leadership, which we meet regularly on a very substantive basis. We have a small program management office, which is a full-time group of people to manage the project and make sure that it is kept on track, the trains run on time. Then we have a fluid set of teams, integrated teams, that represent people from different levels of the organization and different areas of technical expertise that work together for a limited period of time to come up with proposals and recommendations. That is basically the process we use, and it is all kind of laid out there. There are other aspects to it. I also believe—

Senator VOINOVICH. The people who are on the teams are picked by you and by the union?

Mr. ROSSOTTI. That is right.

Senator VOINOVICH. Once their job is done, do they leave the team? Have you undertaken any quality management training for all of your employees to the extent that you would create teams that would be working continuously on improvement?

Mr. ROSSOTTI. Yes. I was only referring on this part of the discussion to some of these major change processes. The IRS also has a whole quality process at the local level in each of the districts and local offices. In most of them, they have quality teams and a quality coordinator that does more local kinds of constant quality improvement kinds of activities.

What we have not done yet, and I will be honest about this, what we have not done yet well is we have not yet linked these, I will call them more strategic changes, with, I will call them the more tactical kinds of changes that need to go on at the local level. That is kind of a next step that we have to do, moving forward.

Senator VOINOVICH. Would you like to comment on training? We discussed the fact that that is very important to your workforce.

Mr. ROSSOTTI. Right.

Senator VOINOVICH. Is the money in your budget? When you put your budget together, do you specify that portion of it that would be used for training?

Mr. ROSSOTTI. Yes, we do, and I think that, as I assessed it when I took into office, was a really major problem at the IRS in that I would call it a training deficit had accumulated. It is interesting, if you go back, and I was not involved with it, but I have read some things, at one time, the IRS was well known. People would come into the IRS because of the good training that they could get. Unfortunately, because of budget cuts and other reasons, that kind of fell off for a period of time. When we had some early discussions with employee groups right after I took office about what was the biggest barrier that was preventing you from being able to deliver good quality service, training was the No. 1 item.

So we really went to work and tried to come up with some improved commitment of resources as well as some improved ways of delivering training. It was not only resources that was involved, it was also the quality of the training and the meaningfulness of the training.

We have been successful in getting additional budget money allocated, and in this budget year, the Congress has actually fully funded our request, so we are very glad for that. And yes, we are going to put that aside. We actually have different categories of training. We have technical training on things like tax law. We have management training and quality training. We also have, though, some special things because of our modernization. The balanced measures, which is our whole way of implementing these set of goals, is a huge effort, because we are literally retraining our whole management cadre as well as our union partners and many front-line people in this whole balanced measure concept. That is underway.

Senator VOINOVICH. But I would be interested in knowing, when you put your budget together, in terms of percentages and overall personnel allocation and you get X number of dollars for that and then you specifically calculated what it was that you needed for training, I would be really interested to see—

Mr. ROSSOTTI. In terms of actual dollars?

Senator VOINOVICH [continuing]. What percentage of your budget is actually being used for training?

Mr. ROSSOTTI. Yes. I would have to get that number for you. I do not recall the number offhand. What we did, though, was what we allocated was what we thought we needed for training for these different categories, technical training, and the balanced measures training. We added it all up and said, this is what we need to put in, and we really have gotten in this current—we did not have it before, but in this current budget year, we have gotten pretty close to what we asked for.

It is important to know that the way the Federal budget works, at least in our agency, for training, the dollars only go for what are the out-of-pocket costs for training, like the travel costs to bring people in and the facilities. The time of the people, which is a big part of the cost of training, is not really charged to training. It is charged to whatever their normal account is. It is just the way the Federal accounting works, at least in our agency.

So, actually, the number that you see, whatever it is, and I will get it for you, is really not the full cost of what the total training commitment is, because the real cost is the time of the people being trained and that is not included.

The information referred to follows:

QUESTION AND ANSWER TO INFORMATION REFERRED TO ABOVE  
SUBMITTED BY MR. ROSSOTTI

*Question: What percentage of your budget actually is being used for training?*

Answer: The training budget line items for Fiscal Years 1998 through 2000 are as follows:

	Training	Total Budget	Percent
1997 Actuals .....	\$57,700,000	\$7,095,000,000	0.81
1998 Actuals .....	\$78,000,000	\$7,558,000,000	1.03
1999 Actuals .....	\$89,000,000	8,155,000,000	1.09
2000 Planned .....	\$106,000,000	\$8,350,000,000	1.27

Senator VOINOVICH. Right. But you can train in-house, you can bring people in, you can send people out, there are a variety of opportunities for people at work, is that right?

Mr. ROSSOTTI. Yes, that is right.

Senator VOINOVICH. Last but not least, what if somebody does a bang-up job? Let us say someone comes to a supervisor and says, I have a good idea and we can save \$1 million a year or \$2 million or whatever. What do you do to reward that individual?

Mr. ROSSOTTI. Well, there—and again, I am not an expert on all these personnel regulations and so forth, but there are some limited bonus possibilities that people can get bonuses for based on their performance, and we have various kinds of—they are called awards, and we have various kinds of agreements with NTEU for bargaining unit people on how those awards are distributed. Those are regularly administered in that way.

There are also things called special act awards, where you can give someone a specific bonus for, it is literally called a special act. It might be appropriate in the circumstance you suggested. I can get for you—I do not know what the limits are of those dollars, but they are—

Senator VOINOVICH. But is there a formalized incentive program in place that the people who work at the Internal Revenue Service understand is available to them?

The information referred to follows:

QUESTION AND ANSWER TO INFORMATION REFERRED TO ABOVE  
SUBMITTED BY MR. ROSSOTTI

*Question: Is there a formalized incentive program in place that the people who work at the IRS understand is available to them?*

Answer: Yes there is.

The IRS awards program for its General Schedule employees is administered in accordance with government-wide regulations issued by the U.S. Office of Personnel Management (OPM). These regulations give Federal Agencies wide latitude to develop awards programs suitable to their needs. Cash awards require two levels of management approval and all employees are eligible for recognition.

Suggested Awards are granted when IRS adopts employees' written suggestions to improve the efficiency, effectiveness, or economy of operations. Suggestions are evaluated by program experts on a cost/benefit basis and recommended for adoption or non-adoption to the appropriate program manager. If a suggestion is adopted, the employee (or group) receives a share (typically 10 percent) of the first-year net tangible or intangible benefits, which IRS gains from the suggestion. In recent years, IRS has granted approximately 200 suggestion awards totaling \$80,000 annually. Individual suggestion awards average about \$400.

Special Act, Special Service, and Managers Awards are lump-sum cash awards granted to recognize specific accomplishments by individual employees or groups whose accomplishments are in the public interest and have exceeded normal job requirements. In Fiscal Year (FY) 1999, IRS granted approximately \$8 million in special act or service awards. Individual award amounts are determined by management based on Servicewide award guidance and the value and scope of the contribution.

Performance Awards are lump-sum cash awards that are based on individual employees' ratings of record-performance ratings assigned at the end of the appraisal period. Employees must receive a rating of record of Fully Successful or higher to be eligible.

For bargaining unit employees, the amount of these awards is determined through local negotiations between the IRS and the National Treasury Employees Union. Generally, management and the union develop systems that distribute available performance awards funds to employees based on factors such as their overall ratings, ratings on job elements, grade, and time spent in specific position. There

are approximately 100 local performance awards agreements in the Internal Revenue Service.

Performance awards for some non-bargaining unit employees are administered in the same fashion as for bargaining unit employees in a particular locality. However, management is also free to develop different performance awards systems for non-bargaining unit employees in accordance with applicable regulations.

In FY 1999, IRS granted approximately \$47 million in performance awards to its employees.

Quality Step Increases are additional, permanent within-grade salary increases of about 3 percent of basic pay which may be granted to reward exceptional sustained performance. To be eligible, an employee must have received an Outstanding rating of record and meet other government-wide and IRS requirements.

In FY 1997, IRS granted Quality Step Increases to approximately 2.4 percent of its eligible employees.

Time-Off Awards may also be granted to employees. These are not additional awards but an alternate form of the cash awards described above. At management's discretion, a monetary award may be granted to an employee as cash only, as time-off only, or as a combination of cash and time-off. This program, which was negotiated with the National Treasury Employees Union, is designed to increase employee productivity and creativity and to enhance the quality of work life. In FY 1999, IRS granted time-off awards valued at approximately \$2 million to its employees.

Incentive Pay. Data Transcribers working in our tax processing Service Centers are eligible for additional pay based on the speed and accuracy of their work.

Honorary Awards may be granted in conjunction with, or separate from, the awards described above. They are granted to employees or groups to recognize exceptional service or contribution. These awards often take the form of certificates, plaques or medals and may be granted during special employee recognition ceremonies. The Commissioner's Award is the highest honorary award granted by IRS.

Mr. ROSSOTTI. Yes, there is. It is called the award program and it is worked out with the union, and that is the formalized process that is largely keyed to their performance ratings on the job. I was just responding to your question. There are some additional things that you can do for somebody who does a special act, where you can give them those rewards.

Senator VOINOVICH. If you have done that in any case, I would like you to describe——

Mr. ROSSOTTI. I will get that for you, yes.

Senator VOINOVICH. Under what circumstances.

Mr. ROSSOTTI. Sure. I will get that for you.

Senator VOINOVICH. Thank you. Ms. Johnson, in the General Services Administration, how much employee involvement do you have?

Ms. JOHNSON. In terms of formulating some of the——

Senator VOINOVICH. In formulating your mission statement, your goals, and objectives.

Ms. JOHNSON. It is terrific to hear another example. We are a much smaller agency, so I think we are able to have a little bit more fluidity in our culture and our process, but we are still a sizeable organization. Putting everyone on the Internet——

Senator VOINOVICH. How many people are in the GSA?

Ms. JOHNSON. Fourteen thousand, approximately.

Senator VOINOVICH. So the IRS has about 104,000, Mr. Rossotti?

Mr. ROSSOTTI. Our number is about 100,000.

Senator VOINOVICH. Yes, and you are——

Ms. JOHNSON. We see ourselves as smaller and, therefore, able to try out some innovations that——

Senator VOINOVICH. For the people in the audience here, just to get an idea of what 14,000 means, I was mayor of the City of

Cleveland and we started out with about 9,800 employees, so that gives you a comparison. It is a big agency.

Ms. JOHNSON. We started 3½ years ago at 20,000 and we have reduced substantially through major buy-outs, which was a wonderful tool for us, a fabulous tool for us, because it did not mean we had to do anything but say to people, if you choose to leave, we would be delighted to help you, and if you choose to stay, we would be delighted to have you. In the course of a couple years, well over 30 percent of our organization moved on.

I have to say, we were a little concerned that we were stripping muscle out of the organization, but I do not think that has happened. I think that it is a disservice to the people who remained and who had been in the wings or underneath or down in the organization and they have stepped up. We had maybe one or two small pockets of specialties that we needed to supplement, but the buy-out was a tremendous—

Senator VOINOVICH. You had 20,000 people—

Ms. JOHNSON. This is very approximate, 20,000, right.

Senator VOINOVICH [continuing]. Approximately, and you have gone to about 14,000.

Ms. JOHNSON. Fourteen-thousand, yes.

Senator VOINOVICH. And the major way of reducing was attrition—

Ms. JOHNSON. Entirely through buy-outs.

Senator VOINOVICH [continuing]. And one of the reasons for the buy-out was to save money. But in addition to that, perhaps you put yourself in a position where you could get some new people in with skills that maybe you did not have, or—

Ms. JOHNSON. Well, I am sorry to say, the way the buy-out legislation was created, we lost the FTE. I believe that is in the legislation. It might be in the regulations. But we offered buy-outs and part of the circumstances of them were people could take them and leave, but we could not person-for-person replace them. So this was a leap of faith that at a smaller size, we could still find the skills we needed to run our business.

Senator VOINOVICH. So it was a buy-out with no replacement?

Ms. JOHNSON. No replacement, right. That is the way it was done.

Three years ago, when we put in the Internet, made that available to everyone, I have to say, that opened a lot of channels for us to involve employees in discussing things like our visions, our direction, our performance, and our customers. We have developed in a much more iterative way, as I was saying, the four visions that we function under. One of them is to thrill our customers. That was a statement that Dave Barram used early on in his administration and people seemed to pick up on it. After they laughed, they said, I think I know what you are talking about.

When we put up our chat line on the Internet, the first question we asked every employee was, comment on the best story you have of when you, yourself, were a thrilled customer, and we had tremendous stories coming up over the chat line about—

Senator VOINOVICH. Let me ask you, Mr. Rossotti talked about the fact that he involved people through technology.

Ms. JOHNSON. Right.

Senator VOINOVICH. And what you are saying to me is the people really get into this, use the Internet and the chat rooms?

Ms. JOHNSON. Oh, yes. They use it to tell stories——

Senator VOINOVICH. With 10 or 15 percent of your people?

Ms. JOHNSON. Actually, because we do not trace who makes comments on the chat line, we cannot actually count, and we have tried very hard to overcome their anxieties that they are being watched when they type.

Senator VOINOVICH. OK. So it is——

Ms. JOHNSON. We have, though, when we put up a question for a week, we will get 800 comments, and I am sure some of them are repetition, and we try to get on and talk, too. We do not keep that up continuously, but when it is up, we get a lot of attention. So that is one way in which we have a more informal but technologically-based conversation about the things going on at GSA, and I think that is very important.

Senator VOINOVICH. Do you have an executive committee like IRS has with the unions?

Ms. JOHNSON. We have a senior management team that includes our regional administrators and our central commissioners. We are both a geographic and a service organization, kind of a matrix, and that is a senior team. We have had some measurement meetings this last year with that group plus some that certainly the unions have been involved in. And yes, that leadership team, because it is spread around the country, is not one that meets as a total group more than maybe quarterly, and that has not happened as much recently, but there is a story behind that.

Senator VOINOVICH. Do your regional teams have executive committees where they have union representation?

Ms. JOHNSON. They do not call them executive committees. I know that there are a couple of senior executives in each region and when and as they are working on matters, I understand they meet regularly with their union partners. Of course, it varies from region to region and some regions are much bigger, so it is a different kind of engagement. Sometimes it is very informal, a lot of back and forth, my impression.

Senator VOINOVICH. But you would not characterize it as being a formal process?

Ms. JOHNSON. In some regions, I characterize it as being quite formal. In other regions, my understanding is when there are only a couple hundred people, there is a fair amount of back and forth in the course of business and invitations to meetings, which I am sure formalizes some of it.

Senator VOINOVICH. Training, how do you approach that?

Ms. JOHNSON. Our training—can I talk about total quality management?

Senator VOINOVICH. Yes.

Ms. JOHNSON. When we came into the organization, there was a tremendous push on for total quality management in GSA and it had actually lived out its cycle. It had devolved to having action committees around, but I think that they were really a little passive. So we——

Senator VOINOVICH. Can I interrupt you?

Ms. JOHNSON. Of course.

Senator VOINOVICH. I want to define total quality management. I talk to people and they say they have quality management, and it is not what I understand quality management to be. And that is one of the problems around here. So I want you to understand how I define it.

Total quality management focuses on the internal and external customers, establishes an environment which facilitates team building, employee contribution, and responsibility, risk taking, and innovation, analyzes work processes and systems, and institutionalizes a goal of continuous improvement. If it is going to be successful, the elements that I think must be present are management and union partnerships, effective employee training, modern personnel policies, and an established system to measure program outcomes, which is a characteristic, of course, of the Results Act.

I keep hearing people say, we have the Results Act and we are doing our performance plans, and I ask, do you have any involvement of your employees in putting that together? This is an important question. Then the issue after that is, how are you going to achieve the results that your performance plan calls for, and that is where quality management aspect comes in.

So I am interested: How are you implementing quality management?

Ms. JOHNSON. I appreciate that. When I was in manufacturing, TQM had a very term-of-art form to it, and in GSA, we, I think, can appreciate your definition and embrace it.

Senator VOINOVICH. I want to point out one other thing. We did not call our program in Ohio quality management. My unions did not like it. When we got this process started, they were unhappy because they were not involved, and thank God, I had a good relationship with the union president and he said, "George, this is not working out." I said, "Well, let us stop it."

We went up to Xerox and spent a day up there with their folks to try to get back on track. On the way up, it was total quality management. On the way back, we changed it to quality services through partnership and eliminated the management, but fundamentally, it is quality management. But they felt more comfortable with those words rather than TQM. I am sorry. Go ahead.

Ms. JOHNSON. I always enjoy hearing all these stories. They are very helpful to share.

Our four visions do not include the word "quality", either. They are change, excellence, honest conversation, and thrilling the customer. So they are customer focused and they are about changing and they are about having honest conversations internally so that we can understand performance measurement, talk to each other about that, share real numbers, and so on.

There are many vectors here. Training is—I also do not have the numbers in front of me of the actual resources we dedicate to training, but we also have pushed hard to widen the idea of what training is.

Senator VOINOVICH. Here is what I am interested in. Every year, you have to put a budget together.

Ms. JOHNSON. Right, and how much of that is devoted to training.



Senator VOINOVICH. And you submit that to the Office of Management and Budget. I would be interested in learning the discipline you use in determining the money that you are going to spend on training. Or do you just have a personnel item and then try to squeeze the training out of that?

Ms. JOHNSON. There is a direct line in the personnel resources account. However, we also look to our CIO or IT organization because that is where we bought and brought in our online university, for example. That is not in the personnel budget. It would be a couple of different places that we could pull those numbers from.

That has been a significant project, because we felt that we needed to expand what people looked at training as a delivered course that I must attend to, or a sense that my job and my customers and my results require me to get better at something, so I need to get out and push on that.

So we are trying to pull people towards training rather than push training at them, and we do that, I think, obviously, by focusing on the customer, but also by focusing on measurements, and we have a good story about measurements to tell. I will summarize it quickly by saying it started with getting the data better and then getting the data out to everyone on the Internet and then having a very rigorous process of reviews that we go through regularly in which we do not yell, we talk about measurements, and people begin to see what is happening with respect to their particular arena.

In our Public Building Service, we have been particularly aggressive in tying this to a compensation process, where certain monies have been set aside so that the regions who perform best on the measurements then get some money in response to that.

Senator VOINOVICH. I am familiar with that fact, and it gets into the incentives. You have bonuses. You have set, what, eight standards that you measure your regional people on, and then if—

Ms. JOHNSON. And that is in the Public Building Service, yes.

Senator VOINOVICH. And regions compete with each other in terms of those eight goals?

Ms. JOHNSON. Right. Yes.

Senator VOINOVICH. And then if somebody does better, there are bonuses that are available to the people that are the most successful.

Ms. JOHNSON. And it is a new program and so far, it has gotten a lot of people's attention, especially when the first checks went out. Suddenly, that got everybody livened up.

We also have changed our performance award process away from a year-end calculation for everyone and have moved towards just a mechanism called fast track, in which we allow managers, based on their budgets, to make decisions about how they want money to be—how much money they want reserved for awards, and then people give fast tracks, which means if someone does something or performs something, you can apply for that award overnight and hand them a check the next day.

The first year of doing this, there was a lot of learning about this process because it was pushing the responsibility for saying thank you and rewarding out. The second year, what was interesting about the data is that a lot more of the money began to flow across

organizations. People were saying thank you to customers and to clients internally and just acknowledging help from central staffs and so on. So I think that has helped us force people to honestly recognize when a good job is done and to say thank you. It has been a very nice mechanism for us.

Senator VOINOVICH. I would be interested in how you did that—does the regular law allow you to do that, the bonuses, within—

Ms. JOHNSON. Very much so.

Senator VOINOVICH. You have the discretion?

Ms. JOHNSON. Yes.

Senator VOINOVICH. Mr. Rossotti, do you have the ability to give people bonuses?

Mr. ROSSOTTI. Yes, we do.

Senator VOINOVICH. You do?

Mr. ROSSOTTI. There are various programs that will give people bonuses. They generally call them awards, but that is what they amount to.

Senator VOINOVICH. I think the idea of rewarding people is a good one. In Ohio, we usually did it two or three times a year. We would recognize people and they would get financial incentives. We would give them a catalog where they could get a TV set, or they would decide whether they wanted the money or they wanted—

Ms. JOHNSON. Off the GSA schedules. [Laughter.]

I will say, though, that we have not relied only on monetary awards and recognition. We have tried a number of different things, and the nicest one is our Deputy Administrator, Thurm Davis, has something called the Giraffe Award, and he gives these beautiful little wooden giraffes out to people for sticking their necks out.

Senator VOINOVICH. That is great.

Ms. JOHNSON. It is a risk recognition. So it is not that you have changed something dramatically, but you have tried something.

Senator VOINOVICH. I want to thank you very much for coming here this morning. We enjoyed your testimony and I look forward to working with you.

Ms. JOHNSON. Thank you.

Senator VOINOVICH. I would like to welcome Colleen Kelley, the new President of the National Treasury Employees Union, and Bobby Harnage, who is the National President of the American Federation of Government Employees. Thank you for being here and thank you for your patience. I know you are both busy people. Bobby, I saw you looking at your watch and you probably have something to do, but thanks for being here.

Mr. HARNAGE. We are doing good.

Senator VOINOVICH. Ms. Kelley.

**TESTIMONY OF COLLEEN M. KELLEY,<sup>1</sup> NATIONAL PRESIDENT,  
NATIONAL TREASURY EMPLOYEES UNION**

Ms. KELLEY. Thank you, Mr. Chairman. As the President of the National Treasury Employees Union, representing over 155,000

<sup>1</sup>The prepared statement of Ms. Kelley with an attachment appears in the Appendix on page 65.

Federal employees across the Federal Government, I am very pleased to be here today.

I believe we are in agreement, Mr. Chairman, that the most important resource the Federal Government has is its employees. It has been shown time and time again that when Federal agencies involve employees, front-line employees, in the decision making process, that everyone wins, the agency, the employees, and most of all, the agencies' customers, the taxpayers. Pre-decisional involvement for employees is the key. It should come as no surprise that when employees are involved in work process decisions before they are made, productivity increases and cost savings result.

Perhaps nowhere is this more important today than at the Internal Revenue Service. The IRS interacts with more citizens than any other government agency or private sector business. Twice as many people pay taxes as vote. NTEU takes great pride in the fact that we have had a cooperative relationship with the IRS dating back more than a decade. Over those years, we have built on ideas that have worked and we have tossed out those that have not worked. We have learned from each other and we continue to build on that relationship as new situations and challenges arise.

Our partnership efforts are constantly being tested. They are being reworked and they are being revised in the face of funding restrictions and changes in the tax laws. There is often a temptation to blame IRS employees for the complexity of the tax laws. This fact makes it even more important that the IRS and NTEU work together to make sure that employees have the tools that they need to perform their jobs. IRS employees are competent, hard working, and motivated individuals who want to deliver a high-quality product to the American taxpayer.

Commissioner Rossotti knows this, and his efforts to empower employees have reaped rewards for the agency, as well. Following enactment of the IRS Restructuring and Reform Act, Commissioner Rossotti set in motion a process to restore the public's confidence in the IRS. The Commissioner recognized that any meaningful reform had to include the active participation of the front-line employees, and his employees, he has repeatedly acknowledged, are the cornerstone of what will make the IRS successful in the future.

NTEU has long argued for meaningful input for employees, not only at the IRS but in every Federal agency. At the IRS, communication between management and the employees who make the IRS work has been crucial to efforts to restore the public's confidence in the IRS.

One particular focus of our partnership with the IRS has been improving customer service. This has included providing not just longer office hours, but hours that meet the taxpayers' needs, such as taking our services to more customer-friendly environments like libraries and shopping malls, employing the latest technology to do this, and also providing the critical training that employees need to do the job that they want to do.

Another excellent example of our partnership with the IRS was the establishment of nationwide problem solving days. These were set up to provide taxpayers with one-on-one assistance with tax questions and problems. Surveys following these problem solving days have shown that both taxpayers and employees believed that

these efforts were successful beyond their expectations. Given a clear goal and adequate time and resources, IRS employees can deliver a level of service that in many cases actually exceeds that expected by taxpayers.

The IRS modernization plan also called for the establishment of 11 different design teams to examine specific aspects of the work of the IRS. Hundreds of front-line IRS employees who are represented by NTEU are working on these teams today, including Glen Jacobsen and David Allen, who you met earlier, who Commissioner Rossotti introduced.

However, more than 2,300 NTEU members responded to the initial possibility of involvement in the modernization of the IRS, even though their involvement on these teams meant many months away from home and from their families. I think Commissioner Rossotti would agree with me that employee input has been instrumental in the design improvements that have been made to date.

I am also very pleased to report that just last month, the National Treasury Employees Union received three National Partnership Council awards for our work with the IRS, with the U.S. Customs Service, and with the Food and Nutrition Service. Awards were given to teams that have successfully embraced labor-management cooperation that has resulted in better and more economical service to the taxpaying public. We were pleased to share in these awards, which are excellent examples of what can be accomplished by providing a voice to front-line employees.

NTEU and the IRS, acting as partners, have taken major strides toward modernizing the service. The challenge for our union and for our members is to continue to make sure that our voices are heard and that the knowledge and the expertise that we have gained on the front lines over the years is used to the agency's advantage.

Like IRS employees with their dedication and their abilities, all Federal employees want to deliver first-rate programs and services. NTEU has long argued for meaningful input for employees in every Federal agency. Partnership is an avenue that permits us to work together towards our shared goal, and for that reason, we have embraced it. Thank you, Mr. Chairman.

Senator VOINOVICH. Thank you very much. Mr. Harnage.

**TESTIMONY OF BOBBY L. HARNAGE, SR.,<sup>1</sup> NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES**

Mr. HARNAGE. Mr. Chairman, on behalf of the more than 600,000 Federal and D.C. Government employees represented by AFGE, I thank you for inviting me to testify today. Our union is deeply committed to working with Federal managers, the administration, and Congress to ensure that the Federal Government carries out its responsibilities with quality as the top priority.

In 1993, AFGE and other Federal sector unions published a report called "Total Quality Partnership," which we presented to the Clinton Administration. This led to discussions that resulted in Executive Order 12871, directing agencies to develop labor-manage-

<sup>1</sup>The prepared statement of Mr. Harnage appears in the Appendix on page 77.

ment partnerships to reinvent government. In our report we wrote, "No one feels stronger about the meaningful transformation of the Federal workforce than Federal employees. Our members have much at stake in the outcome of the reinventing government process. We simply cannot fathom a continuation of the outmoded ideas, processes, and attitudes which currently prevail in Federal service. The quality of our lives and those of the public that we choose to serve are in the balance."

We did not call our proposal total quality management, or TQM. In those days, TQM was much talked about and tried, but agencies tended to involve unions as an afterthought, if at all, and rarely engaged the energy and expertise of front-line workers.

Mr. Chairman, I know that TQM is an important issue to you, but the phrase may not carry some meanings that you intend because of the way it was used in the Federal Government some years ago. For many Federal employees, it just does not convey the collaboration and the participation that we expect. That is why we called our proposal total quality partnership and envisioned something very much like the total services through partnership you developed with the State Employees Union when you were the Governor of Ohio.

My testimony covers three examples of AFGE's efforts to make our commitment to quality into reality. Two are longstanding successful labor-management partnerships, which have improved operations for the benefit of taxpayers, Federal workers, and managers. The third partnership, between AFGE and the General Services Administration, is currently at a crossroads. In fact, there has been dramatic change in the AFGE-GSA situation in just the 3 weeks since I submitted my written testimony to this Subcommittee.

In July, GSA announced its intention to close its four distribution centers as well as its four forward supply centers. This followed an abrupt end to what our union considered promising partnership discussions about how to respond to GSA's declining sales. In September, GSA was ordered to cancel the facility shutdowns and its associated reductions in force and begin bargaining with AFGE on the matter. Our prospects looked grim when GSA said it would continue with its plan to close the facilities, despite the arbitrator's order.

But just this week, we reached an agreement that will keep the operation going while we attempt to revitalize the partnership and put it to work to find a better solution for the Federal Supply Service. It has been a bit of a roller coaster ride, but I remain optimistic that we will succeed in our efforts to build a successful partnership that serves the needs of the public, GSA, and its employees.

I would like to turn now to two AFGE labor-management partnerships that have stood the test of time. Our local at the Crane Naval Surface Warfare Center in Crane, Indiana, has been in a partnership management since before the President's Executive Order. As the partners began to realize that their very future of their facility was under threat, they joined together to turn things around. They saw that under the Federal contracting out processes, they had little control and watched helplessly while vendors picked off lucrative pieces of their business, leaving the rest bleeding and weakening. They described this as being killed by 1,000 cuts.

Crane operates with a \$500 to \$600 million annual business base and is the second largest naval installation in the continental United States. The union and management are putting into place an ambitious and courageous business and processes reengineering. They have identified millions of dollars in projected savings and are making decisions based on data about what kind of work they should be doing and how they should be doing it. In addition to saving millions of dollars, they possibly are also saving lives.

The U.S. Mint is another agency whose labor-management partnership is a source of pride to us. AFGE and the U.S. Mint signed the first partnership agreement in the Department of Treasury in 1994. Prior to that, we had a long history of adversarial relationships and spent far more time trying to win cases against each other rather than trying to improve the way we did our jobs. The key to success at the Mint, as it is at Crane, is the willingness of the agencies to engage the union as a full partner in the most important, fundamental issues of the workplace.

The Mint asked AFGE to join in developing the agency's strategic plan. Since the first joint strategic planning meeting in 1994, AFGE and the Mint have worked together to reach the goals they set and redefine them each year. They documented \$1.4 million in cost savings, cost avoidance, and improved resource allocations in 1997. In 1998, the Mint-AFGE partnership was on track to reduce annual expenses by an additional \$4.7 million. In addition, the profits from producing and selling circulating coins have increased from \$428 million to \$594 million. That is a \$166 million improvement.

The amount of money the Mint has sent back to the American people through the general fund has increased from \$465 million to \$562 million, and that is a \$97 million increase. The Mint estimates that 25 percent of this increase was attributable to cost reduction measures that the partnership had put in place. Improving customer service was also a prime focus of the partnership, with dramatic results.

Mr. Chairman, I admire the partnership that you developed with your employees' union when you were Governor of Ohio and I believe that our experience at the Mint and at Crane comes close to approximating Ohio's quality service through partnership. Our experiences have clearly shown that partnership works when the parties truly are committed to them and they are allowed to work on important matters.

Please use our models of these agencies to wisely involve the unions as dual partners, such as Crane and such as the U.S. Mint. We sincerely hope that we are embarking on a joint effort that will add GSA to the list of model labor-management partnerships. With these type of successes, it should not be optional today. It should be required.

That concludes my testimony, Mr. Chairman.

Senator VOINOVICH. Thank you very much.

Based upon the testimony from the GSA, it did not appear that the process of involving employees was formalized. Could you contrast the kind of organizational structure that you have at Crane versus what you have with GSA and why is one more successful than the other?

Mr. HARNAGE. Well, it is sort of like real estate and being in the restaurant business. It is all in location, location, location. In this, it is all in attitude, attitude, and attitude.

I think the IRS showed a prime example of the difference. The fourth item listed on that chart was the engagement of the employees and managers at all levels of the operation. I noticed that the GSA representative evaded your questions when you tried to find out the participation of the union at different levels of their program, and the answer was—they did not say yes, they are at all levels. The answer was, we do contact them. We do get in touch with them. So they are not sitting at the table, and that is a significant difference.

At Crane, Indiana, we are at all levels. At the U.S. Mint, we are at all levels. Where we had employees there, they retired at the same grade and in the same job as when they went to work working for the U.S. Mint. They had absolutely no career development, no career advancement. Today, they have a career ladder, they have a career advancement, and we are still saving money and doing a much better job and are much productive because the employees were allowed to participate in deciding how the job ought to be done. I think you recognized early on when you were governor that the people who really know how to do the job are the ones that are doing it.

Senator VOINOVICH. I would be interested in having your perspective on the organization at the Mint and Crane, and then compare it with the General Services Administration.

Mr. HARNAGE. I will give you two very quick examples. When Crane started to initiate their proposal—

Senator VOINOVICH. At Crane, you are working with the Defense Department and the Navy, is that it?

Mr. HARNAGE. Right.

Senator VOINOVICH. So it is military people that are your interface, then.

Mr. HARNAGE. Right. Exactly. At Crane, Indiana, when they started to implement their program, they came to AFGC at the headquarters and we sat down and talked about the program and we bought into it. We said, it is risky, it is innovative, let us try, and it worked.

At GSA, when they announced that they were going to close these facilities and have this reduction of force of somewhere between 1,500 and 2,000 Federal employees, I was advised at an interrupted lunch, one hour before the announcement to the public, of what they were going to do. That is the difference.

Senator VOINOVICH. So the point is, specifically, that it would have been great if you had a formal process where they had sat down and said, we have got problems out here. Here is what they are. Can we sit down and figure out how we can work together to try to improve them, so there would be participation in that decision making rather than having you react to it after it was a done deal.

Mr. HARNAGE. That is true, and I have to give them some credit. There was some participation at different subcommittee levels leading up to that. But the problem was, the trust was not there, and willingness to take the risk was not there. Even though they have

a lot of testimony about risk, management risk, they were not willing to take any at the top level, because at one point, they finally said, this is not going where we want it to go. This is the end of it. Then they made the decision to close the facilities, which is not, incidentally, saving the money that they indicated it would save. In fact, it is going to wind up costing the taxpayers money, not actually saving them.

Senator VOINOVICH. Ms. Kelley, it appears that you have a pretty good formalized process with the Internal Revenue Service.

Ms. KELLEY. We do, Mr. Chairman. At all levels of the organization, there is a formal structure in place that includes NTEU. I would say the IRS and NTEU work very hard at helping each other to make that system work because it is very easy, and with everything happening every day, for something to get missed, not intentionally, but just with the speed at which things happen. So we work very well, I think, and very hard to help each other to keep us in the process.

Senator VOINOVICH. I would like the staff to look at what is going on at IRS and then look at Crane and the Mint and see how that is working out and how that was put together. It could serve as a model that we could apply to other agencies.

The other thing I would be interested in is your objective appraisal of that kind of partnership in some of the other Federal agencies where you represent workers and at what stage you think they are, in terms of this formalized employee involvement procedure.

One of the things that I talked to Mr. Rossotti about yesterday is that when Congress passes changes in the Internal Revenue Code, they probably think about how long it will take for the "professionals" to deal with the system, but I suspect that none of them think about how much help the people who have to run it internally need to have. Let us say this session there are going to be some extenders or some new changes in the code. How much time do you get to implement those? Are they usually effective the year later? How fast do you have to respond?

Ms. KELLEY. It depends on what the law requires. It is not unusual that things that are passed in October or November are put in place for taxpayers the next January 1, literally 6 or 8 weeks after being passed, and that creates all of the obvious problems for the front-line employees who are specifically answering the toll-free telephone lines where taxpayers call and expect to have the answers to their questions.

It is complicated by the fact that it is not—once the law is passed, that is not the end of defining what the real change is for the taxpayer. Behind that has to come a lot of technical work on regulations to implement the law, and oftentimes those are not even in place until after the effective date. So it is very difficult. It puts employees in a position where they do not have the tools that they need and cannot provide the information taxpayers want. So it is a very difficult situation.

Senator VOINOVICH. That is one of the things that ought to be considered when these changes are made. If they are minor changes, it is one thing. But for major changes, consideration should be given to delaying them for a year so that your people can



get ready for it, get the training and the things that are necessary so that you can actually get the job done for people.

Ms. KELLEY. I think that is a very fair request, and I will tell you that we do at every opportunity. We would appreciate your assistance in helping to make that happen, because often what happens is the tax changes are caught up in the heat of a lot of other things in a specific bill and, candidly, the last thing anybody who is voting is thinking about is, what happens next. We work hard in that education process and look forward to working with you to help us with that.

Senator VOINOVICH. How about training? It appears that you have training money that is part of the budget, and Mr. Rossotti said they have made some real progress in this budget to get more money. How do you feel about that, and then I would be interested, Mr. Harnage, in your comment in terms of the money that is being provided for training for your folks.

Ms. KELLEY. The IRS has definitely made inroads in the past few years concerning training. Training is one of those areas that I do not know that there can ever be enough of. While the money is there from a funding standpoint for external develop of courses or travel or sending people to training, the problem becomes the FTEs, the staff years. Using customer service as the perfect example, these are the employees who are on the 800 toll-free lines year-round and in order for them to be at training, they have to be off the phones. There are times when that cannot happen, and depending on the volume of calls and the needs of taxpayers, it is not possible for the IRS to release them to do the training that they require.

Now, we have worked very closely the last 2 years with developing a training plan that would prioritize the training that was needed by each employee to give them the skills they need to do their job, and that program is well on its way. But in my opinion, it is tied more directly to the total agency budget for FTEs, for funding of staff years, than it is to what you see in a dollar line item for training. It is much more about the staff years and the ability to—

Senator VOINOVICH. So, basically, you get money and then you have to carve out a portion of it for training. Would you be better off if, when putting the budget together, there was some real thought being given to the percentage of the budget that would be used for training, so it is understood that is what it is to be used for?

Ms. KELLEY. That would be one way to do it, but the problem that creates is then the employees are not available to do the work that the taxpayers need and expect them to do. So I think that the real answer is, increased funding for the agency so that it can staff with the employees it needs to not only do the job but make sure that they have all the skills they need and all the training they need. So it is really about increased appropriations.

One of the things that we are very worried about in the upcoming budget cycle is the discussion about across-the-board cuts. If that happens in any of the agencies, history tells us the first place we will see the impact will be in training. There will not be time to do the training and there surely will not be money, and then all

the levels of customer satisfaction, employee satisfaction, it will all just roll downhill and we run the risk of being further behind next year than we were 2 years ago. So I am hoping that we will be able to work through this and that will not happen.

Senator VOINOVICH. I have been through that, and so have our employees. It is not easy. I would be interested in your recommendations on how you would handle the training budget and how it becomes formalized. Ideally, you have the money for training and then you have the money for your full-time employees—do you get what I am saying?

Ms. KELLEY. I do.

Senator VOINOVICH. You are squeezing your training money, but at least it is in a separate pot. It is not part of the FTEs. So I would really be interested in your thoughts in that regard, both of you.

Do you want to comment on training?

Mr. HARNAGE. Well, I will just say that one of the significant differences in the Crane situation as well as the U.S. Mint than most other situations is that their training was designed to prevent a crisis rather than react to a crisis. It was a strategic plan where they knew where they wanted to be and they planned to get there through the training of the employees.

So at Crane, Indiana, where we did reduce the workforce probably 20 percent or a little bit better, the reduction in force was the last resort listed on their items. That would be the last possible resort. And as a result, through attrition and through training, they have been able to keep that promise. There have not been any reductions in force at Crane. Even though they are operating much more efficiently, much more effectively, and saving millions of dollars with less people, there has not been a reduction, and they refer to it as the University of Crane. They provide training, so that when they know they are going to lose somebody, they have somebody being trained that is going to remain and be able to pick up that job and carry on.

The same thing with the Mint. As I said, they now have a career ladder where people can get promoted and move up, and that has increased their productivity and has allowed them to work with less employees than what they had before.

Senator VOINOVICH. Sure. People are inspired. They know they have a chance to get going. But is there a specific line item at both of those places for training or not?

Mr. HARNAGE. There is at Crane, and I am not too sure there is at GSA. There is some training in GSA, but unlike Crane and all, there is not a strategic plan to prevent a crisis. It is more or less to get the job done today and react to a crisis.

Senator VOINOVICH. The last thing I would ask both of you is are you satisfied with the formalized incentive package that is available? Is it adequate? I would like your comments on it.

Mr. HARNAGE. The incentive package—

Senator VOINOVICH. Incentives for people coming up with new ideas, saving money, and—

Mr. HARNAGE. I am not too sure that it is satisfactory in that in too many circumstances, the employees do not participate in how that incentive will be distributed, how much it will be and how it

will be distributed. So it is not looked at as a real reward, but something that somebody got, that maybe all of them were entitled to but one or two got it. So I do not know that in my environment that the incentives are all too great.

Senator VOINOVICH. Is it an across-the-board incentive package for all Federal employees, or does it differ from one department to another?

Mr. HARNAGE. It differs from department to department.

Senator VOINOVICH. I would be interested in your comments on that.

Ms. KELLEY. For our part, the negotiated award system is for annual performance rather than for incentives or for savings, which is what you had asked earlier, Mr. Chairman. It occurred to me in your prior question that from years ago when I worked at the IRS through today, it is very seldom that you hear about an employee making a suggestion that saved X number of dollars and that resulted in an incentive payment of Y to an employee. I have made myself a note to actually go back and see if I can get a better handle on how often that happens, because my sense is, other than the negotiated awards system for the bargaining unit employees that NTEU negotiates, I do not know that there is much in the way of a suggestion that saves X and results in a reward of Y, and that is something I need to get more information on and I will be glad to share with you when I get it.

Senator VOINOVICH. I would like to know what it is. To me, it is not an incentive system just because the employees understand that it is there.

Ms. KELLEY. That is right.

Senator VOINOVICH. Thank you so much for being here, and again, I look forward to working with you. Yes, Mr. Harnage?

Mr. HARNAGE. If I could just make one final comment on Mr. Akaka's question when you were out of the room, or his statement that he was glad to see that GSA had decided not to go through with their closures, which was going to cost a lot of jobs in the blind community, I am not too sure that they have made that decision. As a result of the arbitrator's award, they had to go back and begin negotiations with AFGE. In the agreement that we reached this week is we have agreed to set that arbitrator's award aside if they will turn back the calendar and go back to May.

But I continue to have the impression that this may be them just going through the motions, that they do not intend to change the end results, just change how they get there. If that is true, it is going to be very unfortunate. But being the optimist that I am, I have been willing to take the gamble and set that arbitrator's award aside and say, OK, let us get back to the table. I am sure if the attitude is right, we will reach what is best, in the best interest of government and the best interest of the taxpayers. But that is going to take constant vigilance to make sure that they are just not going through the motion.

Senator VOINOVICH. The attitude of individuals is important and the trust level is very, very important. It is amazing what you can do when you have trust. I have seen that in this country on a lot of issues.

Mr. HARNAGE. That is very true.

Senator VOINOVICH. It would be a whole lot different if there were more trust. Thank you very much.

Ms. KELLEY. Thank you, Mr. Chairman. I look forward to working with you.

Mr. HARNAGE. Thank you.

Senator VOINOVICH. Thank you.

Our next witness is Christopher Mihm, and again, Mr. Mihm, I want to thank you for your patience. He is the Associate Director of Federal Management and Workforce Issues of the General Government Division at the U.S. General Accounting Office.

I really appreciate the cooperation that we receive from GAO. GAO is working right now to help us evaluate the 560 education programs that we have to decide whether they are really getting the job done. One of the things about this place is that they just keep adding. I do not ever see anybody subtract. For example, in the education area, there are a lot of new ideas. I said, why do we not go back and look at what we are already doing, see if there is some stuff that we are doing that we ought not to be doing, maybe put the money in something that is better, or just plain save the money?

So your services are very, very important. I hope that your team understands that. A lot of us look to you for help, because we really cannot do our oversight work without your help.

Mr. Mihm is accompanied by Jim White, who is the Director of Tax Policy and Administration Issues, and Bernard Ungar, Director of Government Business Operations.

Mr. Mihm, we will start off with you.

**TESTIMONY OF J. CHRISTOPHER MIHM,<sup>1</sup> ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY JAMES R. WHITE, DIRECTOR, TAX POLICY AND ADMINISTRATION ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; AND BERNARD UNGAR, DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE**

Mr. MIHM. Thank you, Mr. Chairman. The point that you are making about the overlap and duplication of education programs is something, as you know, that we see in program area after program area across the Federal Government. There is a natural tendency to add new programs on top of existing ones, rather than going back and asking about what are we getting cumulatively from the effort we already have underway and what are we getting individually from various programs and strategies that are in place. So we are pleased that we are able to support your efforts in this area.

Jim White, Bernie Ungar, and I are pleased to be here today to contribute to your ongoing efforts to identify ways to improve the management and performance of the Federal Government. As you pointed out, Mr. Chairman, successful management change often takes years. I believe you mentioned, in the case of Ohio, it took

<sup>1</sup>The prepared statement of Mr. Mihm appears in the Appendix on page 94.

8 years to really get the TQM effort that you had there instilled across the State Government.

Our work suggests that six elements are particularly important in implementing and sustaining management improvement efforts so that they take root and genuinely address the problems they are intended to fix. These elements, most of which we have discussed at least in passing this morning, are, first, a demonstrated leadership commitment and accountability for change; second, the integration of management improvement initiatives into programmatic decision making, that is, not having it be seen as a stand-alone function separate from the program work; third, rigorous planning to guide decisions; fourth, employee involvement both to elicit ideas and build commitment; fifth, organizational alignment to streamline operations and, importantly, clarify accountability; and finally, sixth, strong and continuing Congressional oversight.

Our written statement discusses each of these in some detail, so in the interest of brevity, I am going to focus on the three of those that are most directly related to the people aspect of management improvement, that is, leadership, employee involvement, and organizational alignment.

First, in regards to leadership, perhaps the single most important element of successful management change initiatives is the sustained commitment of top leaders to change. This commitment is most prominently shown through the personal involvement of top leaders in developing and directing the reform efforts, and I think we have heard two very good examples of that in the first panel this morning. Top leadership involvement and clear lines of accountability for making management improvements are critical to overcoming organizations' natural resistance to change, marshaling the resources needed in many cases to improve management, and building and maintaining the organization-wide commitment to new ways of doing business.

Second, successful management improvement initiatives often require the active involvement of managers and staff throughout the organization. This was clearly the point that you and Senator Akaka underscored in your opening statement and in the questions that you asked. Our written statement provides a number of tools and strategies that high-performing organizations have used. I am just going to touch on a couple of those.

First, working with employees at all levels and employee organizations, including unions. We heard some good stories of that earlier today, of how that is working. Too often, however, the opposite is the case at the Federal level. That is, that unions and their management are not working well together.

For example, the U.S. Postal Service's longstanding challenges in labor-management relations illustrate for us the importance of having shared and agreed upon long-term strategies that managers, employees, and unions are all working towards. Labor-management relations at the Postal Service have been characterized by disagreements that have hampered efforts to automate some postal systems that could have resulted in savings and helped improve Postal Service performance. Although there has been some recent progress, labor-management problems persist and continue to contribute to higher mail processing and delivery costs than is nec-

essary. So if we could make progress on labor-management relationships at the Postal Service, we could cut costs and improve mail processing.

The second key element is training. Simply stated, serious management improvement efforts often require a serious commitment to employee training and skill building. Commissioner Rossotti and Ms. Johnson spoke of the importance of training to the reinvention efforts that are underway at their respective agencies.

We did a survey of managers across government in 1996 and 1997—these are GS-13s and above, through the SES—and found overall that the picture was quite gloomy. We found that about 60 percent or more of supervisors and managers reported that their agencies had not provided them with the training necessary to accomplish critical results-oriented management tasks, things like setting goals, setting performance measures, gathering performance information, using performance information to improve their operations.

At the request of the Subcommittee, we are going back into the field and doing this survey again to see if there has been any improvement over the last 3 years, but nevertheless, when you have the key employees and managers in the Federal Government telling you that they have not received the training to do the key management tasks that they need to do, that is a very disturbing picture.

Senator VOINOVICH. You are saying 60 percent?

Mr. MIHM. Sixty percent or more in each of various categories that we looked at said that they had not received the training that they needed.

The third key area of employee involvement is devolving authority. Employees are more likely to support changes when they have the necessary authority and flexibility to advance agencies' goals and improve performance, but we have found that much work appears to be needed across the Federal Government in this regard. Let us go back to the survey.

We found that less than one-third of non-SES managers—this is at the GS-13s, 14s, and 15s levels—felt that to a great or very great extent they had the decision making authority they needed in order to accomplish their goals. Only about half of the managers said that they were being held accountable for results, that is, rather than just adherence to the requirements of a position description. And again, this is part of what we are resurveying managers at the request of this Subcommittee.

My final point this morning concerns the need for organizational alignments to streamline operations and clarify accountability. We have heard from earlier panels some of the changes underway in terms of organizational alignment at GSA and IRS. Equally interesting, in our view, are some of the actions that have taken place at the Office of Student Financial Assistance.

Last year, Congress created a new organizational structure, and this gets, I think, directly to the questions that you were raising, Mr. Chairman, about creating incentives and really being very clear about creating the right incentive structures that we want. The new structure exemplifies, in our view, new directions and accountability for the Federal Government by appointing a Chief Op-

erating Officer who reports directly to the Secretary of Education. That Chief Operating Officer for Student Financial Assistance is held directly and personally accountable through an employee contract for achieving measurable organizational and individual goals. The Chief Operating Officer may receive a bonus for meeting performance goals or may be removed for not meeting them, which, as you well know, is not common in the public sector. Likewise, the Chief Operating Officer is to enter into annual performance agreements with his or her senior managers, and they are also eligible for substantial bonuses when their contract requirements are met and removal in the cases where they are not.

In summary, Mr. Chairman, we have found that successful management improvement efforts often contain a variety of critical elements that I mentioned at the outset of my statement. Experience has shown that when these elements are in place, lasting management reforms are more likely to be implemented that ultimately lead to improvements in the performance and the efficiency of government.

This concludes our statement. Jim, Bernie, and I would be happy to answer any questions that you may have.

Senator VOINOVICH. You have had an opportunity to hear the presentations of the people from GSA and from IRS, and then from the respective union presidents. I would be interested in your observations on the extent to which there is quality management as I have defined it across the Federal system. It seems to me, and this is why we had the IRS in, that they have a handle on something there, and from what Bobby Harnage said, he at least seems to be satisfied with what they have at the Mint and at Crane.

Mr. MIHM. I am not familiar with that.

Mr. UNGAR. It sounds familiar, but I am not sure.

Senator VOINOVICH. I am just saying that at least they seem to be happy with it. But what is your general observation, across the board, of the extent to which what I would define as quality management or quality partnership, as distinguished from the Results Act and performance plans is in place?

Mr. MIHM. I think that, and this is sensitive to me because I have responsibility for the Results Act back at GAO, I think if you are looking across the Federal Government for the elements that, as you have defined as quality management, you will find many of those elements in place, but there is a long way to go in virtually all of the agencies. In regard to what implementation of the Results Act has taught us and especially what the gaps are and why it suggests we need more efforts of the type that you are suggesting, Mr. Chairman: When we looked at the annual performance plans that agencies have issued for fiscal years 1999 and 2000, one of the key weaknesses that we saw is that agencies were not able to articulate how what they did on a day-to-day basis, leads to broader programmatic results. This gap in agency performance planning—this gap in agency understanding about what they do—is to us indicative of a lack of understanding in agencies of how we can go about improving performance when our performance goals are not being met. You will recall that under the Results Act, the reports on performance are due this coming March.

In other words, when we look at implementation of the Results Act, we see in many cases some very good goals. However, we are not seeing the infrastructure underneath, either in the programs or the management systems in place that lead us to have a great deal of confidence that agencies are going to be able to tell you, "We did not meet the goal but here is what we are going to do in order to improve performance."

I do not know if Jim or Bernie have specific comments on GSA or IRS in that regard.

Mr. WHITE. I will respond, Mr. Chairman, in terms of IRS. I am responsible for the work we do on IRS at GAO. Your definition of total quality management started out by mentioning the focus on external and internal customers, and that is the approach that IRS has taken. The three goals they have established for IRS now to support their mission statement are service to all taxpayers, service to each taxpayer, and they also have a focus on employees and developing employee productivity.

But you also mentioned in discussing quality management implementation. IRS at this point has a plan. The hard part of what IRS is trying to do is going to be in the implementation phase, and that is where things like training come into play.

There has been a lot of discussion about training here. I would just like to point out that I think training needs to be complimented by things such as the employee evaluation system, that training alone will not change the culture at an agency. Training alone will not dramatically change the way IRS employees interact with taxpayers. Training needs to be supported by other changes at the agency, such as with the employee evaluation system.

Our work on their evaluation system shows that it does not currently support the new mission statement. The IRS recognizes that. It is going to take several years before they get a new evaluation system into place. They have begun work on that. But it has to be an approach that focuses on all of these areas simultaneously.

Senator VOINOVICH. Does everyone at the IRS have a performance evaluation every year, that they sit down with their supervisor and go over?

Mr. WHITE. Yes. What we found when we reviewed, and this is the existing old employee evaluation system, all employees get evaluated. The evaluation right now often focuses on enforcement of tax laws. There is very little focus on service to taxpayers.

Senator VOINOVICH. Have they revised it? I have seen all kinds of performance forms—we have one in my office—that have been put together. Have they revised the evaluation forms that they use to reflect that, or are they still using the old ones?

Mr. WHITE. They are still using the old ones right now. They have recognized the need to do this. It is going to take several years to get a new process in place. In the meantime, we have given them some suggestions in a report we recently issued on how they could better use the existing system. For example, in the narrative portion of the employee evaluations, managers could put more of an emphasis there on customer service than they are right now.

Senator VOINOVICH. If somebody became the new secretary of X and they reviewed the management of their department, if they



called your office, could they get what you consider to be the best examples of performance evaluation forms?

Mr. MIHM. Yes, sir. We would be happy to work with them on showing them the best practice to the extent that we have seen it. We would be pleased to.

Senator VOINOVICH. That is nice to know that it is available. Mr. Unger.

Mr. UNGAR. Mr. Chairman, I can comment just briefly on GSA and the Postal Service in relation to your initial question. I would say that both had a common experience back in the early 1990's, and that was that both GSA and the Postal Service were in crisis situations. In the GSA's case, we did a study in mid-1995, we call them management review studies, of several agencies, and at GSA, if you will go back a few years, I think that no customer was happy with GSA. I think they were calling for GSA's demise and you had a number of things coming together, the National Performance Review and so forth, at the same time. GSA did go through quite a transformation.

In terms of your definition of TQM, I think the biggest change that I have seen in GSA that has turned it around is its customer focus. It went from an organization that did not care about its customers to an organization that really does care. It went from an organization that provided mandatory compliance and participation with almost all voluntary participation now, and that really did require a complete change at GSA. Now, I do not think they are where they need to be yet in the areas you have talked about, but they are certainly a lot different today than they were 7 or 8 years ago.

Similarly, at the Postal Service, they were not making very much—in fact, they were losing money for a string of years and they finally realized that something had to change and it did change at the Postal Service. They actually adopted the Malcolm Baldrige quality criteria as the whole framework for their management approach to doing business. Of course, it is a business, like GSA is. They have made a lot of progress over at the Postal Service. As Chris had mentioned, they still have a long way to go with employee involvement and working with their employees, but it is a problem that they have had for many, many years. As you said in the State of Ohio, it is not going to be solved overnight.

Senator VOINOVICH. Right. Again, we have had some examples, and it would be interesting from my perspective if you apply my definition of what quality is, I would be interested in your looking at the two examples that Mr. Harnage gave, and then the IRS, to see how they compare.

I am looking for an agency where this is working to observe the organizational structure that has been put in place, understanding that for it to be successful, the leader has to be involved. I think one thing people have to understand is that if this is going to work, if you take Federal agencies, the secretary has to get involved. I am not patting myself on the back, but our program in Ohio worked because I was committed to it. In fact, when I got my 3-day training, five union presidents got their training at the same time, so they knew I was committed to it. I showed up.

It would be interesting to define what it takes to get it done, find some really good examples, then see if we can share that information, best practices, with some of these other agencies, and see if we cannot help those agencies that are trying to change.

My thought is, and I will be candid with you, is that I do not expect to get a whole lot done next year, because it is the last year of the administration and you have agencies that are wrapping up. In Ohio, I think we spent the last 6 months trying to get things ready so that we could pass the baton to the next administration. You are really not doing new stuff, you are just trying to make sure that whoever comes in will be able to continue without any real hitches.

Who knows how the presidential election is going to work out, but the fact is that I would like to use this next year to keep working this thing to get it into a position where if this administration is succeeded with another Democratic administration, that we can go to that administration and talk to them about it, or if there is a Republican administration, that we could sit down with them in the beginning and talk about some of these things, because I suspect that even if Vice President Gore ends up being the next President, he is going to have new secretaries, and certainly if a Republican is elected, they will have new folks in there.

I think the ideal would be to try to get to them right at the gate and share with them what they could be doing that would really make a difference in terms of the performance of their respective agencies.

I have this feeling, and maybe I am being disrespectful, but I have been watching and lobbying the Federal Government for 18 years. I was President of the National League of Cities, and then Chairman of the National Governors Association, and I have seen administrations come and go. So often, it looks like the new secretaries come in and they get assistant secretaries, deputy assistants, and so forth, and they get all involved and very little attention is paid to the rank and file middle managers and folks that have been around for a while.

I will never forget, this is a long time ago, Bill Saxby from Ohio became the Attorney General of the United States and I was one of his assistant attorney generals and I came down to see him sworn in. It was in the Great Hall at Justice. I looked at the expressions on the faces of the people that were there, I really studied them, and all I read was, "We were here before you and we will be here after you."

Mr. MIHM. And they were.

Senator VOINOVICH. Yes, they were. That is the group of people that we need to reach, I think, if we are going to really see some changes made in the delivery of services to the people of this country.

Mr. MIHM. The issue that you are raising, Mr. Chairman, is a substantial one and we have found that the lack of political attention to management improvements can kill a management improvement effort. Obviously, the vast majority of people that come to Washington for political positions do not intend that their legacy would be "a sound management infrastructure." They come for policy reasons. Often, turnover is very high in these political positions

and certainly does not last the 8 years or so that would be needed to sustain a management reform effort.

One of the things that we have been urging Congress to do is to use the confirmation process, to ask questions (and I say this obviously knowing about the recent one for the Deputy Director for Management) to use the confirmation process to make clear to political appointees that Congress is putting a great deal of interest and emphasis in sound management and improvements within agencies, that it is not something that is just other duties as assigned or something that they should staff out. It is something that they will be held personally responsible for and be asked about when they are up for oversight and appropriations hearings. That sends very, very powerful messages.

Mr. WHITE. Mr. Chairman, if I might, the point you are making about middle-level management is a point that we made in July in testimony before the Ways and Means Committee in the case of IRS, that IRS has very strong leadership now at the top, leadership trying to manage this massive change effort, but the IRS is so big and the amount of change required is so large that top management alone cannot do it. Change is only going to be implemented if middle-level management gets involved in planning the details of it and then in actually carrying out the change.

Senator VOINOVICH. Yes. That raises another point that hit me when you were talking about the Results Act and the performance plans to comply with the Results Act. It would be interesting when you are going through these plans, and you are doing that now, it would be interesting to find out just how much involvement there has been in some of those agencies with the folks that are down the line. The really great plans are the ones where somebody has realized that if they are really going to put something together, that the effort has to involve a lot of folks.

Mr. MIHM. We have actually touched on that as part of the survey that we did of managers and they are surveying again. This is non-SESers, but it is still managers within the Federal Government. Less than half of them said that they had been involved in developing performance measures. Less than half said that they had been involved in analyzing data on the performance of their programs. Less than half said that they had been involved in using performance data to determine whether or not performance goals were being met. In fact, only about a third of the non-SESers said that, and when you look at the SESers, it only climbed to a little bit over 50 percent.

So, basically you have, of the executive cadre of the Federal Government, only a little over half are reporting involvement in using performance data to determine whether or not the goals at their agency were being met. That is a depressing picture, in our view.

Senator VOINOVICH. There is a lot of work to do. I look forward to working with you and putting something together that we can share with the next group, not taking anything away from the people that are there, but as I said, I have been around this business a long time and I know next year is not going to be the greatest year to come in with a lot of innovation.

I was interested, and I thought Congress was smart, that Mr. Rossotti has a 5-year contract, which I think is terrific because he

has some time, not enough to complete it, but at least to get started with it. I thought that was a really good move on the part of Congress.

Mr. Ungar.

Mr. UNGAR. Mr. Chairman, I just wanted to reemphasize, I think, the importance of your point, that regardless of who the individual is who is going to be the head or the top person in an organization, without that person's personal involvement, I do not think you are going to get down to the middle management level. I have responsibility not only for GSA and the Postal Service, but also the Mint, and I think the common thread through those three, plus my personal experience in GAO where I headed up our quality program for a few years, is that without that personal commitment and active involvement of the top person, it is probably not going to succeed. So the more that the Subcommittee can get at that or the full Committee during confirmation process, if they get a commitment from whoever the top person is for implementation, it would be very important.

Senator VOINOVICH. For the new folks that are coming in, it would be interesting to have a management primer for them, and basically ask them to come in and talk about what they would be doing, what do they think about this, does it make any sense to them, is it foreign to them, if they are supportive, and if they are supportive, what they are going to do, so you get a sense right off the bat about how committed they are to the management of an agency.

We have some good folks in the Federal Government, some good folks, and I respect them. But I think too many times, people get the job and they think of it as, well, I am the secretary and my job is just to go out and give speeches and they forget about how important it is for them to pay attention to management. If they are not involved in it personally, then they ought to have somebody who is right next to them that every morning gets up and worries about management.

Thanks very much, and as I said, I look forward to working with you. Thank you.

Mr. MIHM. Thank you, sir.

Senator VOINOVICH. The Subcommittee is adjourned.

[Whereupon, at 11:10 a.m., the Subcommittee was adjourned.]



# A P P E N D I X

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**PREPARED TESTIMONY OF  
COMMISSIONER OF INTERNAL REVENUE  
CHARLES O. ROSSOTTI  
BEFORE  
THE SENATE GOVERNMENT AFFAIRS SUBCOMMITTEE ON  
GOVERNMENT MANAGEMENT, RESTRUCTURING,  
AND THE DISTRICT OF COLUMBIA  
WASHINGTON, DC  
OCTOBER 15, 1999**

## **Introduction**

Thank you Mr. Chairman for this opportunity to appear before the Subcommittee to discuss our efforts to restructure the Internal Revenue Service to provide better service to America's taxpayers.

I want to stress that this has not been a solo effort. Our progress to date is the result of a strong partnership forged between the IRS, Congress, the Administration, the Department of Treasury, in particular Secretary Summers, and the National Treasury Employees Union, as well as the various associations that represent senior executives in the Service, such as PMA, FMA and SEA. Former NTEU President Robert Tobias, current President Colleen Kelley, the union leadership and its members have been full partners in our modernization effort and I would like to thank them for their continued vision, courage, dedication and hard work.

I particularly want to pay tribute to our front-line employees and managers who have been involved in the restructuring of the Agency from the very beginning and whose work on our various modernization design teams has proved to be of enormous value. Their contribution to the report, "Reinventing Service at the IRS," jointly sponsored by former Treasury Secretary Rubin and Vice President Gore's National Partnership for Reinventing Government was also critical to the Task Force's success.

Mr. Chairman, even before I was sworn in as IRS Commissioner almost two years ago, a critical mass for changing the IRS was being reached. The IRS went through a period of intense criticism and scrutiny, unrivaled since 1952 when the last fundamental reform of the Agency took place to combat problems of bribery and political corruption. Over the past three years, we have had a presidential commission, studies by the administration, audit reports, press stories, and congressional hearings. They focused on a diverse series of problems at the IRS: inadequate technology and failure of technology projects, poor customer service, unauthorized access of taxpayers' records, mistreatment of taxpayers and violation of taxpayer and employee rights.

Unlike 1952, this long list of problems concentrated on how the IRS affected the people who pay the taxes - America's taxpayer. We were being told that the IRS had to see our operations, and their impact, from the taxpayers' point of view. Just as most companies today understand that the route to financial success is to provide a competitive product or service for

their customers, so the IRS must succeed at generating revenue for the Treasury by providing good quality service and proper treatment for taxpayers.

Today, taxpayers make a phone transaction or click a computer mouse to pay a bill, and ask, "Why can't I get the same quality service and treatment from the IRS?"

The need to change, and the general direction of change was clear. The hard part was how to do it. Last summer, we were given a new map and vehicle that will help us reach our destination. The bipartisan IRS Restructuring and Reform Act (Restructuring Act or RRA 98) also provided us with some important tools, such as personnel and pay flexibilities that are helping us to recruit some key members of our senior leadership team.

Just as importantly, RRA 98 laid out a fundamentally new direction and challenge for the agency – namely to measure its success or failure, in terms of its effect on the people it serves as well as the taxes it collects. We were told that we must always respect taxpayer rights and we must provide a high quality of service to every taxpayer. We are also expected to see that the taxes that are due are paid, and in an era of tight budget caps, we are also supposed to do this very efficiently.

Collectively, these expectations define what we mean by a modernized IRS, and we have now established them clearly as our goals. However, the big question is simply this: will we succeed or fail in building a new IRS to better serve America's taxpayers?

I'll put myself in the optimists' camp. After 22 months in office, I am more convinced than ever that we can succeed. We can build an IRS that scrupulously respects taxpayer rights, provides high-quality service and collects taxes efficiently and fairly. But saying we can succeed is not the same as saying we will succeed. In fact most of the work in implementing the changes we need to succeed, and therefore most of the risk, remains ahead of us.

At this point, let me briefly summarize what has been accomplished since the passage of the Restructuring Act and what challenges lie ahead.

#### **New Directions**

First, we established and communicated a clear direction and statement of what we are trying to achieve. This is totally consistent with quality management principles to which we are firmly committed. It is also fundamental because you cannot accomplish something if you cannot even articulate what it is. We have a new mission statement and strategic goals that together define what we're expected to achieve.

As called for by the Restructuring Act, we rewrote our new mission statement to not only change the focus but to set a broader and higher standard of performance for the entire IRS. Our new mission statement is: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and

fairness to all.”

To carry out our new mission statement, we proposed three strategic goals to guide us. The first is to provide top quality service to *each* taxpayer, one at a time. The IRS has millions of interactions with taxpayers each year – from the very simple to the very complex. Whether it’s providing a form, answering a question, or performing an audit, the taxpayer should receive top quality service based on that taxpayer’s specific situation and needs. That also means that taxpayers should always be treated professionally and with full consideration of their rights.

Our second strategic goal is service to *all* taxpayers collectively – seeing to it that the law is applied with integrity and fairness to all so that taxpayers who do not pay their taxes are not allowed to place a burden on those who do.

Our third strategic goal is to increase productivity by providing a quality work environment for our employees. Good service to taxpayers will be accomplished by providing employees at all levels with high quality technology tools, adequate training, effective management and active engagement in the goals of the organization.

#### **Achieving Our Mission**

We will not achieve our mission unless we achieve all three of these strategic goals. This was a central recommendation of Secretary Rubin’s and Vice President Gore’s Task Force. And I think it is clear that if we achieve all three goals we will by definition collect taxes efficiently, as well as fairly. Obviously, this is a difficult task that requires balancing multiple objectives, but it is not an impossible one, nor is it fundamentally different from the task faced by almost every business organization.

In my previous company, we helped large clients design and build computer systems. To succeed over time, we had to try to make each client satisfied so they would give us repeat business and good references. But we also were a public company and we had to be profitable to keep our shareholders satisfied. This meant that we had to charge our customers adequate prices for our services and collect our bills on time. Not uncommonly this meant asking our customers to pay more and faster than they would have liked. In addition, we totally depended on retaining good employees and making them productive so they could serve clients. In other words, to succeed we had to achieve and reconcile multiple objectives, just as we must do here at the IRS.

So, one of the most important steps we have taken is to clarify our mission and goals and make it clear that we do have to achieve multiple objectives. One of the most powerful methods of communicating this to every employee is through the new system of balanced performance measurements we are beginning to implement this year.

This system translates our mission and goals into operational terms in customer service, collections, examination and other functions. In this fiscal year, we are conducting extensive training for every executive and nearly every manager on this balanced measurement system. We



are also revising our job descriptions and appraisal system for most employees, aligning it with the mission and goals. These are major tasks that require significant changes in the way people at the IRS deal with each taxpayer and with all taxpayers.

#### **Improved Business Practices**

As important as the changes in mission, goals and measurements are, we will not succeed in achieving all three strategic goals without revamping the way we actually go about doing business to take advantage of modern and well-established business practices and strategies to improve service to taxpayers.

Within the IRS itself and in other private and public sector organizations, there are innumerable successful examples of how we can improve our way of doing business. These improvements hold out the prospect of advancing all three of our strategic goals to a great degree. However, these kinds of advancements often depend on making investments in organization, training and technology.

The chart entitled "Improved Business Practices Advance All Three Strategic Goals" lists some of the areas for improvement in IRS business practices. This is not a complete list; yet, each one of these broad areas implies hundreds or even thousands of more specific changes in the way business is done at the IRS. We have a process in place to set priorities for improvements to be made over the next 12-18 months and have settled on 161 near-term actions. These are but a small beginning on what we can do over the longer term.

Let me illustrate with just a few examples how these kinds of improvements can advance all three strategic goals.

As Congress noted in RRA 98, increased electronic filing of returns indeed holds promise for improving that administration by speeding refunds to taxpayers, providing positive acknowledgment that a return has been received and reducing the need to correct errors. However, the opportunities for electronic exchange of information are not limited to filing of returns. Linking practitioners and eventually taxpayers to the IRS in a secure way over the Internet will allow account issues to be resolved faster and more efficiently.

In addition, improved electronic exchange of information within the IRS will provide employees with information and expertise they need to resolve taxpayers' problems. These kinds of improvements advance all three strategic goals: reducing time spent by taxpayers dealing with the IRS, reducing the number of phone calls we have to answer, and freeing up our compliance employees to focus on real compliance issues, rather than just retrieving or correcting information.

One of the most efficient actions the IRS can take is to head off taxpayer errors before they occur. "Getting it right the first time" is a fundamental quality management principle. As an example of how to accomplish this, we are working with the Small Business Administration to

develop specialized service for small businesses, especially start-up businesses, to help entrepreneurs obtain everything they need to meet filing requirements. This comes in the form of a CD-ROM or an Internet site, and also staffing the SBA business information centers with people to answer tax questions.

Since it is very costly for both the taxpayer and the IRS to resolve an issue after a small business taxpayer has filed incorrectly, every such problem prevented not only increases compliance directly but frees up resources to deal with more serious compliance issues. This also illustrates how we can leverage our limited IRS resources by working with partners such as other government agencies, practitioners and industry groups.

Most of the tax issues with large businesses, where many dollars are at stake, revolve around interpretation of the tax law when applied to a specific set of business circumstances. The rapid increase in international business, for example, increases the importance of ensuring that income is accurately reported among many corporate entities in many countries. Determining the accuracy of such accounting in audits that take place many years after the business transactions have occurred is extremely difficult and inefficient for both taxpayers and the IRS.

By addressing such issues before the fact through such programs as advanced pricing agreements, or by examining existing analyses presented by the taxpayers, as is now required by regulation, the likelihood of correct interpretation can be increased and the cost of compliance to the taxpayer and the IRS can be reduced. Similarly, by organizing and training our employees to familiarize them with the specialized business circumstances of industries such as financial services, technology, natural resources and many others, we increase their effectiveness and reduce time to resolve issues.

All businesses must collect money due from customers. A vast amount of experience and technology has been developed in business and government to make this process efficient and effective. The essential elements of all these proven practices are to identify collection risks as quickly as possible and to intervene, through phone calls or visits, to resolve the issues as early as possible in a way that is suited to the financial circumstances of the customer. In applying these essential elements, the customer not only benefits in reduced interest charges and penalties, but also the likelihood of payment is much greater. Also, less time is spent on taxpayers who do not really pose a risk of non-payment. This method of collection offers major opportunities for improvement for the IRS and for taxpayers, since today's methods are extremely slow and do not take advantage of available technology which can tailor collection activities more effectively.

These are but a small sampling of the many improvements that our modernization program will support in order to make progress on all three strategic goals. Furthermore, this is a continuous, not a one-time, process. As we implement changes, we find even more opportunities. For example, we are only beginning to discover the potential of the Internet to transact business, and there are many opportunities to improve the targeting of our enforcement activities, as Judge William Webster indicated in his report on our Criminal Investigation

Division. These kinds of improvements do, however, require investments to fund changes in organization, training, and especially technology. This process of continuous change and investment to improve performance is no different from that which every business in America must do to remain competitive. The major difference at the IRS is that we have more catching up to do.

#### **Customer Service Improvements**

Over the past two years, we made some much-needed improvements in service. Building upon the Reinvention Joint Task Force recommendations, we provided longer hours of operations and at convenient locations for taxpayers, such as libraries and storefronts in malls. Our 1-800-customer service phone lines were kept open around the clock. We are exploiting new technology to provide better service. We increased options for filing and paying electronically. Our web site at [www.irs.gov](http://www.irs.gov) allowed taxpayers to download forms and information, seven days-a-week, 24-hours-a-day from anywhere in the world. We improved access to the taxpayer advocate and problem solving days to resolve particularly difficult cases.

I am very happy to report that our front-line employees and managers understood and acted where they could on this new direction, even without new tools or training. For this important change in attitude and commitment we owe much to the personal initiative of our managers and employees throughout the organization.

I would add that our employees' response to the new direction probably had a more direct and immediate effect on taxpayers than anything else so far. I have received many comments from taxpayers, practitioners and Members of Congress saying that they saw a new and more positive attitude in dealing with the IRS.

We also began to establish an effective management process for our technology which is key to our restructuring effort and improving customer service. We are near to developing a practical program for the enormously difficult and risky job of replacing our antiquated computer systems – some of which date back to the 1960s. We also began to put in place teams of experienced and highly qualified executives, from inside and outside the IRS, to lead the new organization.

However, while we have made some important short-term improvements in our service, they barely scratch the surface of what we need to do. Taxpayers need and deserve service that's tailored to their special needs, and that service must be managed by people who understand their problems and work every day to reduce their tax administration burden.

So as part of our overall modernization effort, we developed a comprehensive plan for a newly organized IRS structured around taxpayers' needs, rather than our own internal territories. We are in the process of organizing the IRS into four customer-focused operating divisions: (1) Wage and Income; (2) Small Business/Self Employed; (3) Large and Mid-size Business; and (4) Tax Exempt and Government Entities.

Each of these units would be dedicated to providing end-to-end service to a particular group or groups of taxpayers. This concept gives us the opportunity to make the biggest improvements in the way we serve taxpayers that we've seen in decades.

I want to stress that this organizational change is not just moving around the organizational boxes. It is designed to put in place a structure with a management team at its core that lives and breathes these taxpayer issues every day. And that team has the authority and responsibility to improve the way the whole tax system works for these taxpayers.

Let me explain how just one of these operating divisions will work – the Small Business/Self-Employed. It will have three major components. The first is taxpayer education and assistance. It will work on the kind of programs to help small businesses understand taxes and reduce their burdens. The second component is a dedicated processing, customer service and accounting organization for small businesses and self-employed taxpayers. The third component will be compliance operations. However, it will be dedicated not only to performing the traditional exam and collection work, but will strive to improve voluntary compliance which is our main goal.

We are also leaving no bases uncovered in the new organization. We will have a special taxpayer advocate for our Small Business/Self-Employed and Large and Mid-size business units.

This individual will be dedicated solely to these critical sectors. The advocate will report to the National Taxpayer Advocate and will identify and address problems of special interest to small business and recommend improvements in IRS procedures, regulations and legislation through the Taxpayer Advocate's annual report to Congress.

#### **Front-Line Employee Involvement**

As I stated in the introduction of my testimony, we would not be where we are today in the IRS modernization/restructuring effort without the active involvement of our partners at the National Treasury Employees Union and our front-line employees and managers.

Fortunately, there has been a long and productive history of partnership agreements between IRS and NTEU and we have learned to work together over the years. I seriously doubt if we could have even taken on a venture of this magnitude without this type of working relationship and the mutual desire to create a modernized IRS that will enhance customer service and increase employee satisfaction.

Even before I became Commissioner, 30 front-line IRS employees and managers took part in the Vice President's IRS Customer Service Task Force that produced the excellent report, "Reinventing Service at the IRS" which I previously mentioned. It contained a number of valuable recommendations that we have implemented and helped provide the framework for the new customer service at the Agency.

Mr. Chairman, at the risk of stating the obvious, instituting such massive and

comprehensive change in an organization as large as the IRS requires a buy-in from employees and managers at all levels. It requires leadership at all levels. It is vital to engage our employees and managers in raising and resolving problems and to have good two-way communications.

A major part of this change and involvement is guided by proven private and public sector best practices. We have looked to the core values and operating standards found in the Presidential Quality and Malcolm Baldrige Awards. Almost two years ago, through the IRS/National Treasury Employees Union National Partnership Council, the IRS adopted the PQA criteria to gauge our movement towards becoming a top-quality service organization.

One of the first and most important things we did was write the new mission statement, and it was not written in a vacuum. We had input from across the IRS and from all levels — executives, managers and front-line employees. Our mission statement had to reflect not only the IRS' change in focus — it had to reflect the entire work force who would have to get behind the mission statement in their day-to-day work.

The way we approached the mission statement was carried over to how we built our design teams that are creating and implementing the blueprint for the new IRS. The design teams are purposely made up of employees from all levels of the IRS, with NTEU selecting bargaining unit participation. We deliberately promoted a policy of inclusion and the fair distribution of membership on the teams, as well as the good mix of skills and experience, proved to be extremely beneficial.

From their experience in the design teams — whether it is team building, thinking outside of the box, or breaking down the traditional hierarchical IRS structure — these individuals will go back to their posts of duty and become leaders of change — no matter what their job title may be.

That is a very big part of our overall game plan. At the IRS, we have to make sure that we think about our jobs at all levels, so that they are aligned and re-enforce our new mission and three strategic goals. We are not alone in that view. Most successful companies have shown that you can succeed in providing quality service to customers and high productivity by providing employees at all levels with the quality technological tools, adequate training, effective management, recognition of employee accomplishments and active engagement in the goals of the organization.

We are trying to create a team environment where everyone is focused and working on one common set of goals. Leadership is certainly critical to success, but just as important, is creating an environment where everyone throughout the organization wants to and can succeed.

#### **Many Challenges Still Lie Ahead**

If I were to summarize what has been accomplished in the past twelve months, it amounts to: a clarified direction; a new attitude; some concrete and exciting plans; and some first steps towards achieving our goals.

However, in spite of some real progress, we still have major problems. Frankly, we have not yet succeeded in building an IRS that accomplishes, or is capable of accomplishing, our goals at an acceptable level.

We are still sending over 100 million notices per year to taxpayers that often only a tax lawyer could decipher. When taxpayers call us to get information, or to respond to one of these notices, the chances of getting through are only about 50 percent. And because of our antiquated computer systems, even when a taxpayer gets through, he or she may not be able to get accurate information about the problem, or get the problem resolved quickly.

These are but a few indicators of a basic fact. In spite of the best efforts of our dedicated employees, we are not yet able to deliver consistently an acceptable level of service to taxpayers.

There is also another side to this problem. As has been reported in the press, the number of audits and collections, already declining before the passage of the Restructuring Act, will fall even further this fiscal year. They will drop on the order of 30-40 percent over what they were two years ago. This trend reflects a number of the stresses placed on the IRS: (1) the continued decline in available staff resources; (2) the additional time and staff demands for implementing the Act's provisions without any new technology support; and (3) confusion and anxiety among employees over carrying out these new provisions before receiving adequate training. Together, this poses the risk of increased unfairness in administration of the law, and ultimately, undermining our entire system of voluntary tax compliance.

And while we have plans for new business practices and new technology that could turn around our service and compliance effectiveness and efficiency, we have not yet implemented most of them.

Finally, as GAO has repeatedly reported, we have serious weaknesses in our basic tax administration financial systems and these deficiencies will persist until these systems are redesigned and replaced.

So, if I were to summarize what lies ahead of us it would be this: We still have to fix the IRS, and it will not be fast or risk-free. I do not consider this assessment to be in any way surprising or pessimistic. It is certainly no reflection on our employees who are doing the best they can with the tools they have. Before even taking office, it was clear to me that building an IRS that met the new expectations of the public and the Congress would require years of sustained effort and would involve many risks. One prediction I made at my confirmation hearing was that it would take the better part of decade to do what needed to be done and this is one prediction that I stand by. I believe that we can succeed in reaching our goals, but success is by no means assured.

The next 18-24 months are critical. During this time, we still will not have completed implementation of many of the changes we plan, but nevertheless it is likely that a consensus will

form as to whether our modernization program is working or not.

And, if we do not succeed this time, I am not sure we will get another try. If we fail, it is more likely people will say, "See, you can't fix the IRS. You can't have taxpayer rights, provide good service and still collect the taxes with any degree of efficiency." If that happens, the consequences are unpredictable. But it certainly demonstrates the stakes are high.

So what do we need to succeed? Essentially three important commodities.

First, continued interest and support for the modernization program from our key stakeholders. To date, this commodity has been in abundant supply. The Treasury, under the leadership of now Secretary Summers and Assistant Secretary for Management and CFO Nancy Killefer, has been an incredibly supportive and effective partner. All of the key congressional committees, especially the chairs and ranking members, have gone out of their way to offer help and support at every turn.

As I mentioned at the beginning of testimony, the National Treasury Employees Union and our managers associations have been very constructively engaged with us, and our practitioner and industry groups have also been marvelously supportive.

Second commodity, time. I have already commented on how long we need to succeed. And in all fairness, our stakeholders' tolerance belies the conventional wisdom of Washington that instant gratification is required. To date, I have found little of such an unrealistic demand, although that does not mean I do not still worry about it. Eventually, patience will run thin.

Third commodity, resources. Interestingly, we do not need a great deal more in the way of resources for the IRS to succeed. That is because our basic program relies mainly on improved management, business practices and technology. However, we must have some additional resources, especially for the transition period in the next few years.

Our most important resource, which consumes most of the budget, is people, and this continues to decline. Notwithstanding the increased demands of the Restructuring Act, the other new tax laws and a rapidly growing economy, the IRS this year has 1,600 fewer full time people than it did last year, and 13,000 fewer than four years ago.

Our other critical resource is technology. In recent years, we have not implemented any new systems, as we consumed most of our technology resources fixing the Y2K problem. In fact, because of some of the new taxpayer right provisions cannot be accommodated by our old technology, we are having to implement them in very labor intensive and error prone ways.

So in the next few years, we will need funds to continue operations at an acceptable level and to implement the modernization program. Without these resources, our chances of success will not be good.

Mr. Chairman, let me conclude by saying that I am more optimistic about our chances of success than on the day I took office. Granted, many of the changes needed to carry out our new mission statement, such as reorganizing our outdated structure and replacing our archaic technology, will take years. However, we are convinced of the necessity and value to America's taxpayers of reaching this higher level of performance. With the continued support of the Congress and the American people, we are confident we can succeed. Thank you.



### SOME KEY FACTORS IN IRS MODERNIZATION

- ✓ Clear sense of direction
- ✓ Constant communication
- ✓ Open process
- ✓ Engagement of employees and managers at all levels
- ✓ Engagement of outside stakeholders
- ✓ Fact-based analysis for decision making
- ✓ Identification of best practices from both inside and outside
- ✓ Active risk management
- ✓ Rigorous, top-level governance and program management process





## Improved Business Practices Advance All Three Strategic Goals

- ◆ Increase electronic information exchange.
- ◆ Educate and assist taxpayers to avoid common errors.
- ◆ Leverage IRS resources with partnerships.
- ◆ Increase use of technology to identify and correct taxpayer errors.
- ◆ Provide IRS employees with accurate, up-to-date information on taxpayer accounts and applicable tax laws.
- ◆ Increase knowledge and understanding of taxpayer's business by IRS employees and managers.
- ◆ Develop voluntary agreements with taxpayers to address specialized issues.
- ◆ Make greater and faster use of knowledge gained in taxpayer cases to clarify tax law interpretation and requirements.
- ◆ Identify and resolve collection risks much faster.
- ◆ Carefully target enforcement actions to cases where risk of non-compliance is greatest.
- ◆ Develop integrated strategies for areas of high non-compliance.

Modernizing America's Tax Agency

**Internal Revenue Service**

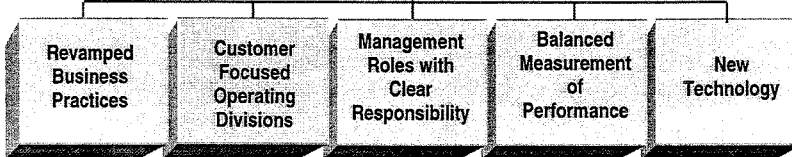
Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

**GUIDING PRINCIPLES**

- Understand and solve problems from taxpayer's point of view - *responsibility, authority, action*
- Enable managers to be accountable - *knowledge, responsibility, authority, action*
- Align measures of performance to all organizational levels
- Foster open, honest communication
- Insist on total integrity

**GOALS**

- Service to Each Taxpayer
- Service to All Taxpayers
- Productivity Through a Quality Work Environment



STATEMENT OF  
DAVID J. BARRAM  
ADMINISTRATOR  
OF  
GENERAL SERVICES  
BEFORE THE  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,  
RESTRUCTURING, AND THE DISTRICT OF COLUMBIA  
U.S. SENATE  
September 23, 1999



**Testimony****David J. Barram**

American business hit a rough spot in the road in the 1970's. International competition and expensive fuel oil were putting sharp pressures on performance and productivity. Total Quality Management emerged to help. It was a systematic and highly disciplined method by which quality of products could be improved without concurrent increases in cost. Actually, costs dropped. In fact, as I learned in the private sector, quality is actually free because the bump that is gained in employee performance and productivity virtually cancels out any financial investment for the program.

Ford, where "Quality is Job 1", was one of the most visible success stories of the TQM effort. The Baldrige Awards have highlighted other terrific successes. And when I met the Baldrige winners during my tenure at the Department of Commerce I heard again the big lesson: quality is one proven path into good management. And good management is what it is all about.

Good management is what we are about at GSA. I am here today to give you a very cursory overview of what that means for us.

Good management is not a one shot, one pill, one remedy answer. Instead it is a "systems" answer in which the leadership juggles change on a number of fronts. To judge if an organization is successful requires a look at each of those fronts.

**1. Context**

The Clinton Administration has championed good government. GSA jumped on opportunities to try different management techniques in our many NPR labs, and given the number of Hammer Awards received, I believe we learned and contributed much.

GSA also moved its mission away from mandatory, monopoly delivery of services and product. This changed the fundamental terms of business for us in a good management direction.

The pressure to reduce our size along with being able to offer buyouts allowed us to cut from over 20,000 people to 14,000 people, thereby freeing up all kinds of talent that had been buried in the organization. At the time, some worried we were "cutting muscle with the fat". We can confidently say that people have stepped up to the challenge. We have added helpful technology, and we have added procurement and project management skills, which are our core competencies. We rely on outside expertise where cost effective. And, our own

people are shedding work processes wherever possible as they focus more on results and less on getting six signatures for each form.

Finally, the Administration's keen interest in labor-management partnerships has been important to GSA. We believe strongly that reinvention applies to us, to our union partners, and to our relationships. In that spirit, we have been aggressive in moving to a new goal, which fits with the extraordinary changes in our economy. The old goal was "job security". The new goal is "employability." We believe and have worked hard to focus on skills, to give all employees technology experience, to expect excellence and results so that employees are working on important and valued tasks, to communicate daily and so on. Much of this tale is simply good management but it gives all employees a leg up in the economy and for that we are proud.

In addition, we have a whole new set of management tools available to us under the GPRA legislation. GPRA emphasizes strategies, measurements, and results, three of the key elements that I am talking about today. As we have pushed for these inside GSA, GPRA has given us reinforcement and encouragement from the outside.

All that set the larger stage for us to change and focus on good management, rather than protective or territorial issues.

## 2. Strategic direction

Employees need to know where an organization is going. GSA people are no different. It is also critical – and only human – for people to feel part of something important. When I became the Administrator in 1996 the first task I took on myself was to "test", if you will, various visions for GSA. I believe – and our story confirms – that vision must be shared and evergreen. It must be something the whole organization can agree upon and respond to. It must be real. It must be something you can remember. But you can't ask for votes. It cannot be a wordsmithed statement hung in the lobby. The leaders need to listen hard for visions, which resonate, which come back to them in the language, in the presentations, in the focus of the organization.

So, we quickly "tested" visions. Three stuck. A fourth emerged a year later. We keep practicing a couple others.

**The first was "thrill your customer"**. Greeted first with chuckles, the phrase soon became part of the lexicon. The point is that everyone knew what it meant. They knew enough to start checking themselves for whether they were in tune. Were they connecting to customers? Were they thrilling them?

**The second was excellence.** We quickly realized we needed to be the best in order to survive in a non-mandatory world. Like Hertz who championed the “We’re number One” theme as much for its own employees as for its advertising jingle, GSA quickly adopted “Can’t Beat GSA”. This became a mantra of excellence.

**Change was third.** I gave an early speech in which I remarked “This is Not Your Father’s GSA.” I shamelessly stole the phrase so I could quickly to tell the story of change. People laughed. Then when I was introduced at another event, I was introduced as the Administrator who says, “This is Not your Father’s GSA”. Lo and behold, a third vision, one about change. I was just in St Louis responding to a request that I deliver a speech about “What My Daughter’s GSA will Look Like.” The vision of change deepens within our people.

**The fourth vision** took a little longer to catch hold. We talked about the idea of “**honest conversations**” being a norm for our whole organization. It seemed simple and something that ought to be there anyway. But in a highly political environment, it wasn’t always. I tried again in my State of the Agency address. I talked about our need for customer partnerships, for clarity among ourselves, in short, our need to practice honest conversation. And it stuck. We created a chat line immediately thereafter, which I am proud to say is still a part of our culture. The honest conversation on it is almost raw at times but fundamentally healthy. It is a vigorous and an important method for people to push each other, ask questions, and air their anxieties.

### 3. Leadership.

Vision is nice but it is not enough. The leadership team needs to be its champions.

One of my top priorities has been developing, challenging, and tapping the creativity and energy of our leadership team. My Chief of Staff would tell you this is her Job One.

How did we do this? First, the buyouts created great turnover. Approximately 25% of our executives have mustered out of the agency in the last four years. Some were top notch. Some were marking time. But the sheer turnover gave us lots more flexibility.

Second, we have pushed, prodded, demanded and enticed executives into changing jobs. We no longer keep track of the numbers but I would venture that less than 20% of the executive team is in the same job it held three years ago. It is the cheapest training I know. It is also the only way to learn leadership and to demonstrate the demands of change – by doing it yourself.

Third, we have tweaked the compensation process. A portion of the SES bonuses is now awarded in a peer process. We believe firmly that executives need feedback from each other. A team is strong only if it is talking honestly among its members. And who is to say that I know the right compensation for all 111 executives. We do it three or four times a year, like this: each executive is given \$400 to distribute to his or her peers. We name the criteria for each award: honest conversation, thrilling customers, building skills in people, etc. And the results are right on. The customer fanatics get money when that's the criteria. The people who teach, mentor and shape skills get money when that's the criteria. We publish the nominators, the recipients and the award amounts. If you're just giving it to a buddy everyone will see and know. So you don't.

This was not without controversy. Just as controversial, though, have been our leadership conferences. Once a year the executive team has gone off site for four days and immersed ourselves in a huge amount of creative material. Our conferences are hardly typical. We firmly believe that speakers – inspirational or substantial – are of very limited value when you are aiming for real change. We cannot exhort good leadership out of executives. It comes from within as people experiment, experience, expand, explicate, extract and ultimately exult in their abilities.

Our conferences aim for all that. We have asked executives to name their business passions and team up with others who share them, to imagine the future in groupware technology, to create product fairs and then defend products to venture capitalists, to hear master story tellers, to create a mock web page of their own, to describe customers in visual and graphic design ways so they can appreciate the dimensions of customer profiling, to read and discuss books like *Antigone* which tell of classic leadership dilemmas, and so on. We know that executives need to think in new ways. Good management requires lots of flexibility and discipline. We also know that the lessons we hope people will acquire come to them over time.

Inside all this wonderful story of leadership challenge and development is one very tough problem. That is the problem of moving people out of jobs or rank when they are no longer the right match for the work. Often, this is the problem of poor performance.

While buyouts helped us reduce our overall headcount, it also meant we lost some good performers. But, not every senior executive was a high performer. So, we applied ourselves to "expecting more" from our senior executives and have taken some strong actions to remove some poor performers from the SES. It has been neither pleasant nor quick, but we believe we should always be evaluating and counseling executives because the SES should reflect the best executive leadership possible.

Let me just comment on the issue of the government personnel regulations and processes. I don't doubt OPM and my own Chief People Office when I'm told that I can do just about anything I need to in order to manage our workforce. I am sure that I can remove a poor performing senior executive. The issues in my way are time, energy, and expense

At GSA, I have been sworn to good stewardship to our citizenry. I have to make executive decisions all the time about where to apply resources for the most leverage in service to our country. Should I promote small business, organize leadership conferences, testify on the Hill, hold measurement reviews, meet with employees, or develop partnerships with vendors? Or should I divert a lot of valuable effort to an overly complex, cumbersome, resource intensive personnel process. Guess what most executives will choose? And so very little gets changed.

This is not good management. It is doable, barely, but it is not management that respects time, resources, the risk/reward calculation of executive leadership, my judgment, or the future oriented needs of our organizations.

#### **4. Technology.**

And then there is technology : computers, telecommunication, the Internet, etc. There is no possibility of finding good management in the modern government organization if technology is not smack in the center of everything. The surest and quickest way to empowerment, feedback, information exchange, and good communication is to give people technology tools. We insisted by Flag Day in 1996 that every GSA employee should have access to the Internet. That decision now seems to have been no big deal, but in 1996 we were leaders. The signal we sent to the organization was – be hot, be out in front, learn, change. What better way exists to unleash the power of the individual employee? Certainly there is no cheaper or quicker way.

We can point now to obvious benefits.

We have an on-line university service through which employees can choose from, and take, hundreds of courses.

We have an Intranet that allows people to sign up for events, handle their travel and transportation forms, read our GSA daily newspaper, adjust their personnel information, research policies, you name it.



We have e-mail, which unlocks the power of asynchronous communications. It is hard even to remember the energy we used to spend just trying to catch each other on the phone.

We have people at low-grade level assuming much more sophisticated presentation, graphical and marketing tasks.

And, that's just inside GSA. Our use of the Internet is huge. We simply couldn't be as good as we are without it.

## 5. Disciplines

Unlocking the power of an organization is one large job. The "yin" to balance that "yang" is to put all that power into some sort of coherent order. We can't function like bumper cars. We need disciplines.

Three years ago we declared "measurements" to be one of our four operational priorities. In many ways this was TQM reinvented. It was important to find the proper data streams, summarize what the data told us, share it with some analytical awareness, use "information" to make decisions, build our skills.

Measurements propelled us a great distance in just a few short years. First we had to demand more of our systems. We trashed long-standing legacy systems and installed new ones. This has not been without serious stress but we could not stall or we wouldn't learn enough.

Our Chief Information Office was established and quickly became an important part of our infrastructure. We even made a video tape of the role of the CEO and the CIO in which we interviewed powerful CIO and CEO's from the private sector who explained this important new resource. We called it: *Joined at the Hip, The CEO/CIO Relationship*.

In quarterly reviews we began to dig into the measurements now available to us. We set aside the piles of statistics and honed the measurements. Each iteration brought new questions and insights. If we learned anything, we learned that measurements are very dynamic critters. If done right, they only serve to force the next question and demand the next level of excellence. Our Public Building Service stands tall in its rapid assimilation of a measurement culture. This is quite important because it is our biggest service and its business model cries out for measures that give us the pressure for continual improvement.

Another discipline we are internalizing is project management. GSA fills a particular niche in the federal government and much of that is our expertise in project management – be it in construction projects or information technology. We have created a "center of expertise" in our Public Buildings Service focused

on project management. We are also approaching our current information systems projects from this perspective, intending to break the long-standing traditions of design-build as the only way to get what we want. Put another way, we are learning the power of technology in our project management discipline and understanding that “Standards will set you free”.

One quite visible manifestation of management discipline has been the re-ordering of our central functions. We decided to streamline our “professional services” functions, namely legal, financial, personnel and information. Each of these specialties has parallel entities in the private sector so it is easier to benchmark and seek “best practices”. In addition, the clarity of the central functions, the Four Chiefs and General (Chief Information Office, Chief Finance Office, Chief People Office, Chief Knowledge Office and General Counsel) makes their support and expertise more clearly defined for their customers.

## 6. Style and culture

To say that we have *accomplished* certain “good management” results is to downgrade the importance of creating a culture and style of “good management”. No effort is good enough if it doesn’t resonate, or find a simple way to check itself, or otherwise become integral to an organization.

Two things help define style and culture for GSA. The first has been the need for change and the second is the need for “testing” potential changes quickly. Another word for that is experiment. We are learning to experiment, to assume and absorb an appropriate level of risk, to stand a little taller in the face of gratuitous criticism. It is hard and it requires steadfast leadership, a lot of belief in people, not a little courage. I congratulate the career civil servants of GSA. They have regularly stepped forward, perhaps even gone at times where angels fear to tread.

One example is our **fast track awards system**. We long ago decided that awards needed to be granted closer to the work that warranted them. In other words, why wait a year to say congratulations and thank you to a person for a job well done? To decentralize the awards system and make it “real time” in character required a lot of risk. No longer could a manager wait until one pre-selected time to review the whole budget and set priorities on the awards. This was an extraordinary change in control. It required new systems, new terms, new expectations and we had to do it while in the race – not when the race was figuratively over. This was manage as you go and do so in new and important ways. It has been terrific. We’ve learned a lot and people perceive awards no longer as entitlements but as earned rewards.

Another example is our **Chief Knowledge Officer**. Information systems are one thing and take a lot of our energy. But, just how does information turn into the

kind of knowledge that we need? We don't know. Few seem to. So, we created a CKO and have asked her to start helping us find some answers.

Another example is **challenging executives to, themselves, change**. We are constantly moving senior people into different jobs. Imagine being a Chief Financial Officer, one of the most respected career people in the government, and the Administrator asks you to move over and lead the Federal Technology Service. Or, imagine you are a lawyer, in fact a great lawyer. The Administrator asks you to take a position called "Strategic Innovations" in the Public Building Service. It's a new and important role that hinges not on legal strategies but on new lines of business. Or, imagine you are the Deputy Regional Administrator in Chicago who cares first and foremost about customers. Within a single year Ken Kalscheur, and 5 SES colleagues, created a systematic definition of the difference between "satisfying" and "thrilling" the customer. Ken then applied those new higher bars of excellence in an integrated support project to a customer in high need, namely the Census Bureau. From this we have learned a huge amount about responding to customers, being internally flexible, communicating our performance and in general adding value where value was surely needed.

I am proud of the progress we have made at GSA. Good management is a quest that never ends. We have been able to shed a lot of old bad habits and turn our face to the future with energy and skill. I am confident that the preponderance of employees at GSA recognize that we are different these days, that measurements and customers matter, that we will have to keep changing and improving. Government service is no less.



**TESTIMONY OF COLLEEN M. KELLEY  
NATIONAL PRESIDENT  
NATIONAL TREASURY EMPLOYEES UNION**

**ON**

**QUALITY MANAGEMENT INITIATIVES  
IN THE FEDERAL GOVERNMENT**

**BEFORE**

**THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS  
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT  
MANAGEMENT**

**9:30 AM**

**THURSDAY, SEPTEMBER 23, 1999**

**ROOM 628 DIRKSEN SENATE OFFICE BUILDING  
UNITED STATES SENATE**

Chairman Voinovich, Ranking Member Durbin, Members of the Subcommittee, as the newly elected President of the National Treasury Employees Union, it gives me great pleasure to appear before you today. On behalf of the more than 155,000 federal employees across the federal government represented by NTEU, I want to thank you for holding this hearing and for inviting NTEU to testify.

I believe we are in agreement that the most important resource the federal government has is its employees. As has been shown time and again, when federal agencies make a conscious decision to involve rank and file employees in the decision making process, everyone wins; the agency, the employees, and most of all, the agency's customers - the taxpayers.

There is a direct link between employee job satisfaction and satisfied customers. Research has shown that the quality of service delivery depends on the situation created by the organization. Soliciting and using customer feedback, providing adequate staffing and training programs that emphasize service quality, considerate supervision and career development opportunities are all key to creating an atmosphere in which the employee is motivated to deliver the best possible level of service.

To the extent a federal agency's chief executive spends time with rank and file employees and makes a commitment to understanding the tools employees need to perform their jobs, the quality of work coming out of that agency rises. Pre-decisional employee involvement is key. It should come as no surprise that when employees are involved in work process decisions before they are made, productivity increases and cost savings result.

The conditions of the work and the workplace help breed an atmosphere in which the delivery of superior service is expected. Perhaps nowhere is this more important than at the Internal Revenue Service. The IRS interacts with more citizens than any other government agency or private sector business. Twice as many people pay taxes as vote.

NTEU takes great pride in the fact that we have had a cooperative relationship with the IRS dating back more than a decade. Over the years, we have honed our relationship, building on ideas that get results and tossing out those that do not lead to success. We have learned from each other and continue to learn and build on our relationship as new and challenging situations arise. Our partnership efforts are constantly being tested, reworked and revised in the face of budget restrictions and funding limitations and changes in tax law. Each tax law change requires the IRS to reprogram computers, retrain employees, update forms and redouble customer service efforts designed to explain these changes to

taxpayers. There is often a temptation to blame IRS employees for the complexity of the tax law. This fact makes it all the more important that IRS and NTEU work together to insure that employees have the tools they need to perform their jobs.

IRS employees are competent, hardworking and motivated individuals who want to deliver a high quality product to the American taxpayer. Commissioner Rossotti knows this and his efforts to empower employees have reaped rewards. We, NTEU and the IRS, have worked collaboratively and we have tried, and continue to try, new and different approaches to solving problems.

Following enactment of the IRS Restructuring and Reform Act of 1997, Commissioner Rossotti set in motion a process to restore the public's confidence in the IRS. The Commissioner recognized that any meaningful reform had to include the active participation of his chief asset - his employees. NTEU has long argued for meaningful input for employees, not only at the IRS, but in every federal agency.

I believe the Commissioner would agree with me that although the modernization of the IRS will require several more years of effort and commitment, the results so far have been positive. I think it is heartening for both the Commissioner and I to hear from Members of Congress, the taxpaying public and those that practice before the IRS that we are on the right road. It wasn't too long

ago that nary a positive word was heard about the IRS - either in Congress or among the taxpaying public. Communication between IRS management and the employees who make the IRS work has been crucial to this positive turn of events and will continue to be essential as we continue our important work together.

One particular focus of our partnership with the IRS has been improving customer service. This has included providing not just longer office hours, but hours that meet customer's needs, taking our services to more customer-friendly environments like libraries and shopping malls and using the latest technology to provide our services. During this process, the overall number of employees at the IRS has declined. The dramatic results attained have resulted from improvements in the efficiency of IRS employees and operations, proving again that including front line employees early in the decision making process has a positive effect on the bottom line. Without the commitment of IRS rank and file employees, these well documented customer service improvements could not have been accomplished in the short time frame in which they have occurred.

I am also pleased to report that just last week, the National Treasury Employees Union received two National Partnership Council awards for our work with the IRS and the Food and Nutrition Service. Six awards were given to "teams" that have successfully embraced labor-management cooperation that has resulted in better and more economical service to the taxpaying public.



The 1999 John N. Sturdivant National Partnership Award was awarded jointly to the Food and Nutrition Service (FNS) (Western Region) and NTEU Chapter 227 for their dedicated efforts at improving communication within the organization which has led to improved communication and operations between FNS, its customers and the other programs FNS interacts with. This is an excellent example of management and employees working together toward a common goal.

The North Central District of the IRS (North and South Dakota and Minnesota) and NTEU Chapters 2, 8 and 29 also received the 1999 John N. Sturdivant National Partnership Award. The North Central District Partnership Council received this award for its accomplishments and its team approach to resolving difficulties. Its successes include development of a joint mandatory training program on new work procedures which has increased training effectiveness and dramatically reduced training time and costs, and expansion of the IRS's conflict management initiative to include cooperative dispute resolution. IRS employees in the North Central District are proud of their accomplishments and the fact that they have been able to help improve the IRS's organizational performance. Again, this is an excellent example of what can be accomplished by providing a voice to front line employees.

One facet of the IRS Restructuring Act that I particularly want to mention involved the establishment of an IRS oversight

board. I was pleased that Congress, too, recognized the importance of insuring that the employees' voice in reforming the agency be heard. By insisting on an employee representative on the IRS oversight board, Congress insured that employees' views would be received as the IRS began its reform efforts. Congress recognized that an employee representative was necessary, not in spite of, but **because** of the important role of IRS employees in reform.

An excellent example of our partnership efforts was the establishment of Problem Solving Days. This nationwide effort to provide taxpayers with direct, one-on-one assistance with tax questions and problems proved to be an unqualified success. Surveys following these problem solving days have shown that both taxpayers, **and employees**, believed these efforts were successful. Following the first series of Problem Solving Days, taxpayers rated employees on their service, courtesy, competence and fairness of treatment, effort put forth toward solving problems and convenience of office hours. Using a scale of between one (1) and seven (7), the overall rating was 6.46 - 6.46 out of a possible 7. Employee courtesy ranked highest at 6.77. This experience showed beyond a doubt that given a clear goal, and adequate time and resources, IRS employees can deliver a level of service that in many cases actually exceeds that expected by taxpayers.

Another example of the service and NTEU working together to resolve issues is our recent agreement that the IRS will release

monthly summaries of complaints filed against all IRS employees. Bargaining unit employees have raised concerns to us about what they believe to be uneven levels of discipline between managers and rank and file employees for workplace violations ranging from the most serious infractions to minor issues. IRS Commissioner Rossotti agreed with us that it is in everyone's best interests to make these disciplinary actions public. Moreover, knowing that violations and levels of discipline given out will be made public should insure that IRS managers will go the extra step in making sure that all employees are treated fairly.

As you may know, Section 1203 of the IRS Restructuring Act established 10 grounds for immediate dismissal from the service. The broad scope and vague nature of the so-called "10 Deadly Sins" have created fear and confusion in the workplace. NTEU vigorously opposed Section 1203 and continues to believe that this section of the Restructuring Act should be repealed. IRS employees have justifiably expressed reservations that they could inadvertently break one of the rules and face termination. We believe that our joint agreement to release monthly summaries of all complaints against both rank and file and supervisory employees as well as any discipline meted out will also help alleviate some of the concerns about Section 1203 violations. We are working together to insure that all IRS employees know that only willful, intentional violations of the law, and not inadvertent errors will lead to disciplinary actions. The monthly release of complaints lodged

against IRS employees coupled with clear guidance from the IRS as to what constitutes a Section 1203 violation will go a long way toward relieving the anxiety most IRS employees feel. Too, it will go a long way toward creating the trust necessary to continue to move toward a modernized IRS.

The second phase of Commissioner Rossotti's IRS modernization plan called for the establishment of 11 different design teams. These teams were established to examine specific aspects of work at the IRS. More than one-hundred and fifty (150) rank and file IRS employees serve on these teams. Employee response to the possibility of involvement in the modernization of the IRS was overwhelming. Over 1,500 NTEU members responded to the request for NTEU participation on these design teams. And I think Commissioner Rossotti would agree with me that employee input has been instrumental in the design improvements that have been made to date.

NTEU has long argued for meaningful input for employees in every federal agency. Commissioner Rossotti has repeatedly acknowledged the importance of employees to the IRS restructuring effort. NTEU and the IRS, acting as partners, have taken major strides toward modernizing the service. The challenge for our union, and for our members, is to continue to make sure our voices are heard and that the knowledge and expertise we have gained on the front lines over the years is used to the agency's advantage.

There is nothing particularly unique about IRS employees in terms of their dedication and abilities. All federal employees, given the opportunities and resources, want to deliver first rate programs and services. But, the IRS has confirmed in actions and words what successful private sector companies have known for years -- "In a customer service environment, improvements in job satisfaction lead to improvements in productivity, customer service and work quality." These findings were first reported in a 1992 IRS Research Bulletin but they remain valid today and they underscore the importance of employee involvement in shaping personnel practices and policies.

I believe it is critically important to the future of the IRS and its employees that we work together to restore the public's confidence in the agency. Partnership is an avenue that permits us to work together toward our shared goal and for that reason we have embraced it. Again, thank you very much for the opportunity to be here today. I would be happy to answer any questions.



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# NEWS

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## Treasury Union President Kelley Says Partnership Reshaping IRS, Has Potential To Transform Government

Washington, D.C.—There is no stronger evidence of the positive potential for federal sector labor-management partnership than the role employees are playing in the most ambitious modernization and restructuring ever of the massive Internal Revenue Service, the leader of the union representing IRS employees said today.

President Colleen M. Kelley of the National Treasury Employees Union (NTEU), which represents more than 98,000 IRS employees, told a Senate subcommittee that “employee input has been instrumental” in changes at the IRS in response to the congressional mandate expressed in the 1998 IRS Restructuring and Reform Act (RRA). “Pre-decisional employee involvement is proving to be key” to improving IRS performance, she said.

Kelley, who leads the nation’s largest independent union of federal employees, told the panel “it is clear” that IRS employees want to have their voices heard, as do other employees in their respective agencies. She pointed to the more than 2,400 NTEU members employed by the IRS who volunteered for some 150 positions on 11 different joint design teams established to examine specific aspects of work at the agency as a means of implementing RRA mandates.

She also noted that IRS Commissioner Charles O. Rossotti, with whom she appeared at today’s hearing, has publicly recognized that any meaningful reform of the agency “had to include the active participation of his chief asset—his employees.”

(MORE)

**NTEU's Kelley On Employee Involvement--Add One**

At the same time, the NTEU president reminded Congress that its actions play an important role in delivering quality services to taxpayers. For example, she noted that each tax law change requires the IRS to reprogram its computers, retrain employees, update forms and redouble customer service efforts designed to explain these changes to the public.

"This fact makes it all the more important that IRS and NTEU work together to insure that employees have the tools they need to perform their jobs," she said.

The NTEU president said her union supports partnership throughout the government because it is "an avenue that permits us to work together toward a shared goal" of more efficient and effective service on behalf of the American people.

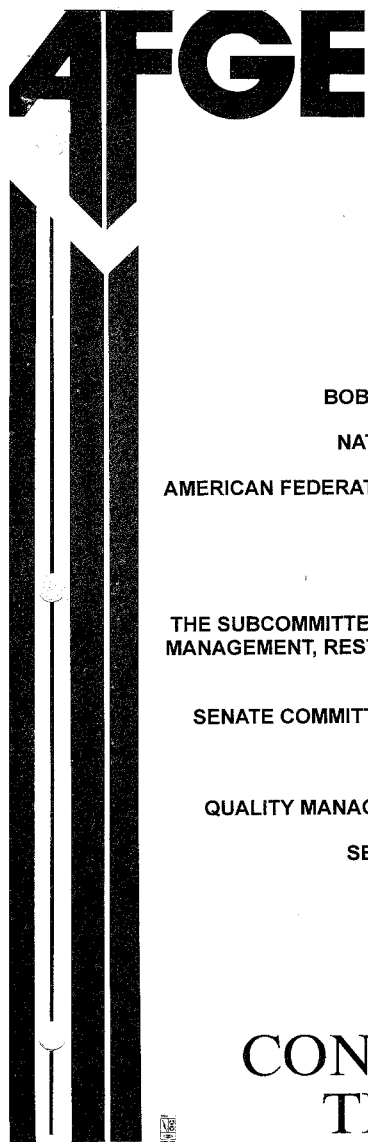
She said there is a "direct link" between employee job satisfaction and satisfied customers and that steps to include front-line federal employees early in the decision-making process "have a positive effect on the bottom line." Partnership is the most important factor in that, she said.

In testimony before a subcommittee of the Senate Committee on Governmental Affairs, Kelley focused on labor-management cooperation and the importance of employee involvement in providing quality governmental services. NTEU represents some 155,000 employees in 24 agencies and departments.

She said it has been shown "time and again" that "when federal agencies make a conscious decision to involve rank and file employees in the decision-making process, everyone wins—the agency, the employees, and, most of all, the agencies' customers—the taxpayers."

She told members of the Subcommittee on Oversight of Government Management, which is examining quality management initiatives in the federal workplace, that NTEU is working hard to improve partnership programs in every agency where it represents employees.

**For more information visit the NTEU web site at [www.nteu.org](http://www.nteu.org)**



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STATEMENT BY  
BOBBY L. HARNAGE, SR.  
NATIONAL PRESIDENT  
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES,  
AFL-CIO  
BEFORE  
THE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT  
MANAGEMENT, RESTRUCTURING, AND THE DISTRICT OF  
COLUMBIA  
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS  
REGARDING  
QUALITY MANAGEMENT AT THE FEDERAL LEVEL  
SEPTEMBER 23, 1999

CONGRESSIONAL  
TESTIMONY



Mr. Chairman and members of the Subcommittee: My name is Bobby Harnage and I am the National President of the American Federation of Government Employees, AFL-CIO (AFGE). On behalf of the more than 600,000 federal and District of Columbia employees represented by AFGE, I thank you for the opportunity to testify here today. Our union is deeply committed to working with federal managers, the Administration and Congress to make certain that the programs and agencies of the federal government carry out their responsibilities and obligations with the highest quality as the top priority.

At this hearing I would like to discuss three examples of AFGE's efforts to make this commitment to quality into a reality. In two cases, AFGE has been able to work with agency management in genuine partnership to improve the quality and efficiency of operations in ways that benefit taxpayers, federal workers and managers, as well as the bottom line. These are relationships where mutual trust, good communication, and joint commitment to the needs of the American public have been manifest through labor-management partnerships, and the results should be considered a model for agencies throughout the government.

However, the success stories of labor-management partnership in the federal government are still largely the exceptions. The complex situation at the General Services Administration (GSA) demonstrates a partnership that appears,

inexplicably, to have been abandoned by the agency's management. I bring it to your attention because I believe that there is still a chance to use the principles of partnership to resolve problems, and turn what by any standard is a challenging management situation into a triumph for both GSA and the government agencies which rely on them for supplies.

On July 8, 1999, GSA announced its intention to close its four distribution centers as well as its four forward supply centers and try to become a "virtual" supply system. The plan was to close the distribution center in Burlington, New Jersey, and the four forward supply points in Franconia, Virginia, Auburn, Washington, Chicago, Illinois, and Denver, Colorado by mid-October, 1999. In the nine to 18-months following October, the distribution centers in Stockton, California; Palmetto, Georgia, and Ft. Worth, Texas were also set to close.

This move followed an abrupt end to what our union considered promising labor-management partnership discussions over how to deal with several serious problems GSA's Federal Supply Service was facing. Until the closure announcement, AFGE had been working with GSA management to address the fact that sales from the distribution centers have been declining over the past six to ten years. The distribution centers provide mainly office supplies to government departments and agencies, including the Department of Defense, which is the Service's largest single customer. The partnership had identified the factors which had led to the decline in unit sales, some of which were unique to

particular locations while others affected the entire distribution system. One example of the former was the fact that in both the New Jersey and Georgia distribution centers, GSA was locked-in to 20-year commercial real estate leases which forced the agency to pay rents more than triple the prevailing market rates. Meanwhile, the entire system was forced to grapple with changes in procurement policies and practices which have taken place throughout the government and throughout the nation.

Prior to the announced closure, GSA had responded to the declining sales by raising prices in order to maintain revenues. All parties realized that this was not a viable solution. In a world of competitive markets, such a move can never be successful; the laws of supply and demand assert themselves in the long run. Thus, sales continued to decline as GSA's prices became less and less competitive. GSA's efforts to maintain revenues without addressing the cause of declining demand ultimately proved impossible, and GSA management came to the partnership table with an impressive list of strategic goals designed to institute changes which would respond to the new institutional and market environment.

The 1999-2000 strategic plan put forward by GSA just last year envisioned the supply and distribution centers meeting the challenge of competition by promoting more responsible asset management (reducing costs per \$100 of sales by 25%), competing more effectively for the federal market (increasing

agencies' use of GSA sources by 23% by improving access and expanding inventory), excelling at customer service (in part by improving the percentage of customers who report that they are "highly satisfied"), anticipating future federal workforce needs (through expansion of GSA Advantage! On-line shopping capability), along with many other initiatives to make the federal supply system more economical and useful to federal customers. These were exciting and useful plans, and the AFGE locals which participated in partnership with GSA were working hard to make them a reality.

A recent arbitration decision gives us reason to hope that the partnership's work may not have been for naught. On Thursday, September 13, in response to a grievance filed by AFGE Council 236, federal Arbitrator Jerome H. Ross ordered the GSA to cancel the impending facility shutdown and its associated reductions-in-force (RIF), pending bargaining with AFGE on the matter. The July closure announcement constituted a profound breach of the trust which is an essential component of any labor-management partnership. It became clear to our union that management had kept up the pretense of a cooperative effort to solve the agency's financial and management problems while at the same time, it prepared unilaterally to close the facilities.

AFGE had no choice but to exercise its duty of representation and file the grievance. Fortunately for the 2,000 federal workers AFGE represents, the arbitrator agreed that GSA had violated both federal labor law and its own

obligations under a written agreement signed in 1993, which committed the agency to joint labor-management reinvention. The arbitrator's decision is a temporary reprieve, and AFGE is committed to bargaining in good faith with the agency so that an alternative to closure can be found which serves the needs of the public, GSA, and its employees.

We remain optimistic that partnership can still work at GSA. We do not question the need to change radically our operations. The lease costs present an enormous challenge: to compete with outside providers at the same costs in spite of the obligation to pay more than triple the market price of warehouse space, the GSA warehouses must improve their quality and efficiency. Further, an honest accounting must be made between GSA's options. A true comparison must be made between the cost of closure and the cost of continuing operations.

It is worth noting that as recently as six months ago, GSA extolled its warehouse distribution centers as providing benefits to its federal customers from its consolidated purchasing, contracting expertise, and compliance with federal procurement and socioeconomic policies. The GSA and the FSS were the best source of supplies for federal agencies because they allowed an efficient and cost-effective means to sail through red tape and contracting compliance, giving agencies "what they need, when they need it to do *their* own jobs effectively and to focus on *their own* core missions." ("U.S. General Services Administration FY 1999/2000 Performance Plan, page 2.)

A report in last week's *Wall Street Journal* (September 8, 1999), illustrated just how foolhardy the GSA's rush to dissolve its warehouse distribution system may have been. Trying to sound "cutting edge" and hip with the new millennium, Mr. Frank Pugliese, the Commissioner of GSA's Federal Supply Service announced his intention to become a "virtual business, like DCW or Amazon.com." Yet the *Journal* article begins by declaring that "the internet's top retailers aren't sneering at giant warehouses anymore—they're building them." It goes on to discuss various companies' efforts, including specifically Amazon.com, to expand their warehouses, in recognition of the fact that customers value reliability above all.

Internet vendors, which have sometimes been referred to as *virtual companies*, have learned that it is *virtually* impossible to serve customers reliably if your business consists of nothing more than computer connections among outside contractors. It seems that old-fashioned tasks such as keeping inventory, filling orders, processing returns turn out to be *real* not *virtual*, after all. Again, to quote the *Journal's* article, "...online merchants are discovering that if they don't control their own warehouses and shipping, their reliability ratings with customers can turn dismal..." The businesses that hoped to operate without their own warehouse distribution systems were left trying to explain why their outside vendors didn't have or ship the stock they promised.

Despite all that has occurred, we remain committed to partnership at GSA. I would like to turn now to some more successful examples of AFGE's labor-management partnerships. One is in the military, at the Crane Naval Surface Warfare Center in Crane, Indiana; the second is the United States Mint. I believe that our experience at these agencies comes much closer to approximating the "Total Quality Services through Partnership" the Chairman developed with the union representing state employees while serving as the Governor of Ohio.

Our AFGE Local Union at Crane has been in a partnership relationship with management since before the President's Executive Order on Partnership. For years, Crane labor and management have worked together to find constructive ways to deal with workplace problems and disputes. The union and management have been sitting together on a steering committee where they handle most issues that come up at Crane. For the most part, these are the routine sorts of things that labor and management deal with in any workplace. More recently, as they began to realize that the very future of their facility was under threat, it was natural for the partners to join together to turn things around.

AFGE and Crane management saw that the contracting out processes in the Federal Government were wounding their organization and preventing meaningful efforts to improve the way they did their jobs. They felt they had little control as they watched helplessly while vendors picked off lucrative pieces of their business leaving the rest of the organization bleeding and weak. They

described this as being killed "by a thousand cuts." No one was looking out for the organization as a whole. No one was doing the kind of planning necessary to decide what makes sense to contract out and what doesn't. Together, they decided to pursue a better way.

The Crane facility is the second largest Navy Installation in the continental United States. It operates with a \$500 - \$600 million annual business base, and is the 12<sup>th</sup> largest single site employer in Indiana. Crane's mission as an acquisition and fleet support organization states that it, "In partnership with industry, academia, and government activities, provides quality, low cost, and responsive acquisition, life cycle product engineering, and logistics support for weapon and electronic systems, ordnance, and associated equipment and components." Crane specializes in such things as electronic warfare, defense security systems, pyrotechnics, radar systems, night vision, and acoustic sensors.

The union and management at Crane have been putting into place an ambitious and courageous Business and Process Reengineering (B&PR) effort that allows them to make wise decisions, based on scientific data and analysis, about what kind of work they should be doing, how they should do it, and how they should organize the work to do it best. In March 1998, Crane was designated a NAVSEA Pilot for Business and Process Reengineering. The partnership has dedicated itself to reaching the goals of:



1. Reducing Total Costs to the Customer
2. Ensuring Technical Relevance
3. Improving Performance
4. Communicating Lessons Learned

In order to reach these goals, the partnership has put almost every single part of their organization under scrutiny and study. Nothing is sacred. Together, they are analyzing their organization, their strengths and weaknesses, and their customers' current and likely future needs. They have identified millions of dollars in projected savings and are making decisions, based on data, about what Crane does best and what has future growth potential.

For me the most impressive aspect of the Crane endeavor is the strong labor/management partnership that is designing and implementing it. In the Spring of 1998 our AFGE Local President at Crane, Bill Mason, came to my office along with then Commanding Officer Captain William Shotts and Crane Executive Director Steve Gootee. They briefed me on their plans for B&PR and asked for my support. Unfortunately, this is a rarity. It is far more common for agencies to notify us by letter after much of the decision-making has already been done. Since that briefing, Crane has a new Commanding Officer, Captain Scott Wetter, who is continuing the partnership way of doing business.

The Crane B&PR operates under a Memorandum of Agreement (MOA) between management and AFGE Local 1415. The goal of that MOA is to be partners in taking control of Crane Division's future using B&PR initiatives to examine services and processes. Crane's Executive Oversight Team, consisting of the AFGE Local President, the Division Commander, and the Division Executive Director, is the final decision making body for all B&PR redesigns. The B&PR Core Team is the day to day action hub for the reengineering efforts. It consists of a B&PR Core Support Team, which includes an AFGE representative along with people with the various expertise needed by the process teams, such as a Process Reengineering Expert, a Database Administrator, a Human Resources Office Lead, an Industrial Engineer, and others. Each of the work teams that are engaged in the B&PR process has a union representative on it.

As the process went forward, it became clear that more work had to be done to develop a plan to deal humanely with employees whose jobs were eliminated or changed drastically. The union asked that the process be stopped while the partners worked on this human resource problem. The B&PR effort came to a halt while they dealt with this important issue. At Crane the partnership gets more than just lip service. The partners then developed a Personnel Transition Office (PTO) to provide a resource as affected employees are placed and/or trained and to foster good communications with employees. An AFGE representative is part of the PTO. The PTO helps match displaced employees with vacancies in all parts of the organization, provides training opportunities

(which the partnership has dubbed "Crane University"), and develops status reports of the whole personnel movement effort. The partners had pledged in their MOA that RIF would be a last resort. The PTO helps to ensure this.

The B&PR at Crane is an exciting initiative that promises to offer meaningful cost savings, new and better ways of performing the work, and documented lessons learned to help other organizations in their own endeavors. Because AFGE and Crane have a strong, dynamic partnership, I am comfortable with this model for government reform. I am very wary of agency efforts to make dramatic changes without a genuine partnership with their unions. Not only am I concerned for the welfare of the workers in such agencies, but I believe the process will be flawed without the input and involvement of frontline workers through their unions.

The United States Mint is another agency whose labor-management partnership is a source of pride to us. AFGE and the U.S. Mint, under Director Philip Diehl, signed the first Partnership Agreement in the Department of Treasury in 1994. Prior to that, the Mint and AFGE had a long history of adversarial relations. We spent far more time trying to win cases against each other than trying to improve the way we did our jobs. The Mint seemed very far from being a likely candidate for a strong labor-management partnership dedicated to world class quality. The key to success at the Mint, as it is at Crane, is the willingness of the agencies to engage the union as a full partner in the most important, fundamental issues of the workplace.

For the Mint this meant involving the union, right from the beginning of the partnership, in developing and carrying out the agency's strategic business plan. At first it looked like the partnership was going to get bogged down with the same problems that had kept the union and management at each other's throats over the years. At that first partnership meeting, Mint management handed the union its plan to implement Total Quality Management. This was a prime example of the way TQM was handled in much of the Federal government in the past, and why the union rejected it. Management's plan had timelines, training, kickoff dates, etc. with no union input whatsoever. The union expected partnership to be more than just a briefing on what management had decided unilaterally. Mr. Chairman, I know that TQM is an important issue for you, but the phrase may carry some meanings you don't intend because of the way it was used in the Federal Government several years ago. For many Federal employees, it just doesn't convey the collaboration and participation we expect.

At the first Mint Partnership Council meeting, we complained, with little expectation that anything would change. But Director Diehl agreed that we should have been included in putting together the quality program. He scrapped the proposed TQM program and asked AFGE to join in developing a new one as part of the Strategic Plan that was to take the organization through the next five years. AFGE then participated in selecting the consultant who would help the participants develop the strategic plan.

Since that first joint Strategic Planning meeting in 1994, AFGE and the Mint have worked together to reach the goals they set and refine each year. Director Diehl and AFGE Mint Council President Greg Wikberg believe strongly in the importance of making the Mint a world class operation while respecting the humanity and aspirations of its employees. In a recent article in The Federal Manager magazine, Philip Diehl said, "Federal and corporate managers usually treat unions as an entity separate from employees, and that's unproductive. We thought of AFGE as people our employees had chosen to express their concerns and we treated talks with AFGE as a focused opportunity to hear from and reply to employees." It is this attitude of respect for the workers and their chosen representatives that has helped make the Mint labor/management partnership such a success.

And it has been a success. The Mint and the AFGE Mint Council just received the 1999 John N. Sturdivant National Partnership Award last week. Among the reasons for the award was the documented \$1.4 million in cost savings, cost avoidance, and improved resource allocation in 1997. In 1998, Manufacturing Excellence Teams, which are the cutting edge units of the Mint-AFGE partnership, are on track to reduce annual expenses by an additional \$4.7 million. In addition, the profits from producing and selling circulating coins have increased from \$428 million to \$594 million. The amount of money that the Mint has sent back to the American people through the Treasury General Fund has

increased from \$465 million to \$562 million. The Mint estimates that 25 percent of the 1998 profit increase was attributable to cost-reduction measures that the partnership had put in place.

Some of the biggest gains brought about by the partnership have been in the area of customer service. Customers who ordered Mint products five years ago had only a fifty-fifty chance of getting their order within three months. Improving customer service became a prime focus of the partnership with dramatic results. For the last three years, the National Quality Research Center at the University of Michigan School of Business has placed the U.S. Mint ahead of all other participating government agencies in customer satisfaction. In fact, the Mint came in ahead of all but one private sector company. The Mint led Disney, Nordstrom, LL Bean, and Southwest Airlines, and came in second overall to Mercedes-Benz.

One of the reasons for the Mint's dramatic turnaround has been its investment in its employees. Since 1994, the Mint's employee training budget has increased from \$400,000 to \$2.5 million a year. Over the last few years, the Mint has embarked on an aggressive, multi-stage Front Line Leadership Training Program for every one of its supervisors and union stewards. The program has since been expanded as the value of having more employees with leadership skills has become clear. In addition, the Mint is working to ensure that employees have opportunities to develop their skills and careers to meet the future needs the Mint

anticipates in its strategic planning. This truly is a win/win situation, with the American public the biggest winners of all.

Our experiences have clearly shown that labor-management partnerships work when the parties truly are committed to them. Partnership is not something you raise when you need something from the other party and forget about when you don't. We in AFGE continue to believe that labor and management, working together, can transform government and provide the kind of quality services and efficient operations the American taxpayer deserves. We do not believe it can be done without labor/management partnership. Unfortunately, too many managers have yet to extend their hand across the table. Too many agencies either have no labor/management partnerships or have established a partnership council but are not actually involving the union as a full partner. We believe that something as important as improving the quality of our government agencies should not be left to the whims of individuals to decide whether they will or won't work together. There must be pressure from within the government to make it work.

Mr. Chairman, I applaud your intention to focus on spreading quality practices throughout the Federal Government. I admire the partnership you developed with your employees' union when you were Governor of Ohio. Your words show how deeply you understand the importance of genuine labor/management partnerships in bringing about the kind of quality government you and I are dedicated to achieving. I urge you to emphasize the importance of

labor/management partnership as you and your committee do your work. For too long now, we have seen agencies attempt reform efforts without making the effort to engage the union in the process. These so-called reforms frequently harm the workers in the agencies and fail because they did not tap into the creativity and expertise of their own employees. Please use as models those agencies who wisely involve their unions as full partners, such as the Crane Division of the Naval Sea Systems Command Surface Warfare Centers and the U.S. Mint.

That concludes my testimony. I will be happy to answer any questions you may have.



United States General Accounting Office

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GAO

Testimony

Before the Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia Committee on Governmental Affairs, U.S. Senate

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MANAGEMENT REFORM

Elements of Successful  
Improvement Initiatives

Statement of  
J. Christopher Mihm, Associate Director  
Federal Management and Workforce Issues and  
James R. White, Director  
Tax Policy and Administration Issues  
General Government Division



Statement

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## Management Reform: Elements of Successful Improvement Initiatives

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to contribute to the Subcommittee's ongoing efforts to identify ways to improve the management and performance of the federal government. As you know, last January we issued a new volume of reports, the Performance and Accountability Series, outlining the major management challenges confronting our largest federal agencies and the substantial opportunities for improving their performance.<sup>1</sup> Many of the challenges discussed in that series represent long-standing, difficult, and complex problems that our work has shown will not be easily or quickly resolved. In fact, implementing and sustaining major change initiatives requires a cultural transformation for many agencies. Therefore, given the magnitude of the problems an agency may face, and the extensive effort and long period of time it can take before problems are fully resolved, progress must often be measured initially in terms of whether the agency has a well thought out management improvement initiative in place to guide its reform efforts.

As agreed with the Subcommittee, this morning we will discuss the elements that our wide-ranging work on federal management issues suggests are particularly important in implementing and sustaining management improvement initiatives that genuinely take root and eventually resolve the problems they are intended to fix. These elements are (1) a demonstrated leadership commitment and accountability for change; (2) the integration of management improvement initiatives into programmatic decisionmaking; (3) thoughtful and rigorous planning to guide decisions, particularly to address human capital and information technology issues; (4) employee involvement to elicit ideas and build commitment and accountability; (5) organizational alignment to streamline operations and clarify accountability; and (6) strong and continuing congressional involvement. Not surprisingly, the elements of successful management improvement initiatives that we will discuss today are consistent with the approaches shared by performance-based management efforts under the Government Performance and Results Act (Results Act) and quality management that we discussed in our July 29, 1999, statement for this Subcommittee.<sup>2</sup> Our statement today is based on our broad body of work and resulting knowledge of management issues, including our examination of the implementation of the Results Act and related initiatives, our reviews of selected National Partnership for Reinventing

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<sup>1</sup>Major Management Challenges and Program Risks (GAO/OCG-99-SET, January 1999).

<sup>2</sup>Management Reform: Using the Results Act and Quality Management to Improve Federal Performance (GAO/T-GGD-99-151, July 29, 1999).

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Statement  
Management Reform: Elements of Successful Improvement Initiatives

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Government (NPR) recommendations, and our ongoing analyses of agency-specific improvement efforts, such as the Internal Revenue Service (IRS) modernization.

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### Demonstrated Leadership Commitment and Accountability for Change

Perhaps the single most important element of successful management improvement initiatives is the demonstrated commitment of top leaders to change. This commitment is most prominently shown through the personal involvement of top leaders in developing and directing reform efforts. Organizations that successfully address their long-standing management weaknesses do not "staff out" responsibility for leading change. Top leadership involvement and clear lines of accountability for making management improvements are critical to overcoming organizations' natural resistance to change, marshaling the resources needed in many cases to improve management, and building and maintaining the organizationwide commitment to new ways to doing business.

Commissioner Rossotti's efforts at IRS provide a clear example of leadership's commitment to change. The Commissioner has articulated a new mission for the agency, together with support for strategic goals that balance customer service and compliance with tax laws.<sup>3</sup> Moreover, the Commissioner has initiated a modernization effort that touches virtually every aspect of the agency, including business practices, organizational structure, management roles and responsibilities, performance measures, and technology. Commissioner Rossotti has assigned clear executive ownership of each of IRS' major initiatives and is using executive steering committees to provide oversight and accountability for driving the change efforts.

Sustaining top leadership commitment to improvement is particularly challenging in the federal government because of the frequent turnover of senior agency political officials. As a result, sustaining improvement initiatives requires commitment and leadership by senior career executives, as well as political leaders. Career executives can help provide the long-term focus needed to institutionalize reforms that political executives' often more limited tenure does not permit. In addition, the other elements of successful management improvement initiatives that we shall turn to shortly are important for institutionalizing reform initiatives.

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<sup>3</sup>IRS' new mission statement reads, "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all." IRS' supporting strategic goals are to (1) provide top quality service to each taxpayer, (2) provide service to all taxpayers by applying the law with integrity and fairness, and (3) increase productivity by providing a quality work environment for its employees.

### Integration of Management Improvement Initiatives into Programmatic Decisionmaking

Traditionally, the danger to any management reform is that it can become a hollow, paper-driven exercise where management improvement initiatives are not integrated into the day-to-day activities of the organization. Thus, successful organizations recognize—and implement reform efforts on the basis of—the essential connection between sound management and the programmatic results those organizations hope to achieve.

The Results Act provides a ready-made statutory mechanism for making this essential connection, engaging Congress in a discussion of how and when management problems will be addressed, and helping to pinpoint additional efforts that may be needed. We have found that annual performance plans that include precise and measurable goals for resolving mission-critical management problems are important to ensuring that agencies have the institutional capacity to achieve their more results-oriented programmatic goals. Moreover, by using annual performance plans to set goals to address management weaknesses, agencies provide themselves and Congress with a vehicle—the subsequent agency performance reports—for tracking progress in addressing management problems and considering what, if any, additional efforts are needed.

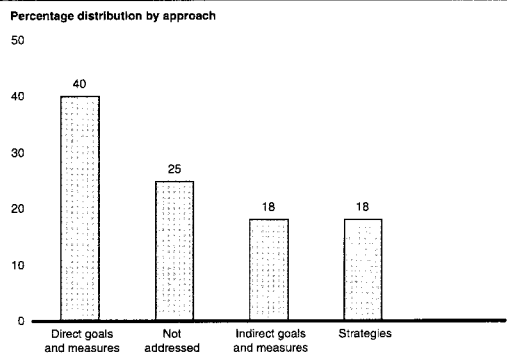
Unfortunately, we found that agencies do not consistently address major management challenges and program risks in their fiscal year 2000 performance plans.<sup>4</sup> In those cases where challenges and risks are addressed, agencies use a variety of approaches, including setting goals and measures directly linked to the management challenges and program risks, establishing goals and measures that are indirectly related to the challenges and risks, or laying out strategies to address them. Figure 1 shows the distribution of the 24 agencies covered by the Chief Financial Officers Act and their different approaches to addressing management challenges and program risks in their annual performance plans.

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<sup>4</sup>Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

Statement  
 Management Reform: Elements of Successful Improvement Initiatives

Figure 1: Approaches Used to Address Management Challenges and Program Risks



Note: Numbers do not add up to 100 percent due to rounding.  
 Source: GAO analysis based on agencies' fiscal year 2000 performance plans.

IRS has important management reform initiatives underway to address long-standing management weaknesses, but it missed the opportunity to demonstrate these actions in its portion of the Department of the Treasury's fiscal year 2000 performance plan. For example, the Department of the Treasury's plan has no goals, measures, or strategies to address several of the high-risk areas<sup>5</sup> we have identified at IRS, including

- internal control weaknesses over unpaid tax assessments (We found that the lack of a subsidiary ledger impairs IRS' ability to effectively manage its unpaid assessments. This weakness has resulted in IRS inappropriately directing collection efforts against taxpayers after amounts owed have been paid.);
- the need to assess the impact of various efforts IRS has under way to reduce filing fraud;
- the need to improve security controls over information systems and address weaknesses that place sensitive taxpayer data at risk to both internal and external threats (Our high-risk update reported that IRS'

<sup>5</sup> These areas are characterized as "high-risk" because of their greater vulnerability to waste, fraud, abuse, and mismanagement.

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**Statement**  
**Management Reform: Elements of Successful Improvement Initiatives**

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controls do not adequately reduce vulnerability to inappropriate disclosure.); and

- weaknesses in internal controls over taxpayer receipts.

Similarly, the General Services Administration's (GSA) fiscal year 2000 annual performance plan does not address several long-standing problems identified by the GSA Inspector General. These problems include top management's lack of emphasis on ensuring that the internal controls are in place to deter fraud, waste, and abuse. GSA's plan also does not fully address issues raised by the Inspector General related to developing new management information systems and ensuring that automated information systems have the proper controls and safeguards. These omissions are significant because GSA's governmentwide oversight and service-provider role, its extensive interaction with the private sector, and the billions of taxpayer dollars involved in carrying out its activities, make it especially important that GSA's operations be adequately protected.

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**Thoughtful and  
Rigorous Planning to  
Guide Decisions**

The magnitude of the challenges that many agencies face in addressing their management weaknesses necessitates substantive planning be done to establish (1) clear goals and objectives for the improvement initiative, (2) the concrete management improvement steps that will be taken, (3) key milestones that will be used to track the implementation status, and (4) the cost and performance data that will be used to gauge overall progress in addressing identified weaknesses. Our work across the federal government has found the effective use of human capital and information technology—both separately and, importantly, as they relate to one another—are areas where thoughtful and rigorous planning is needed if fundamental management improvements are to be made.

For example, we looked at the efforts of four agencies (the Departments of Agriculture, Health and Human Services, Interior, and Veterans Affairs) to both improve services and reduce staffing levels in their personnel offices through the better application of information technology.<sup>5</sup> The agencies planned to increase operating efficiencies and improve services by automating paper-based personnel processes. The agencies expected that new hardware and/or software technology would reduce paperwork and workload, thereby permitting sizable staff reductions. However, the agencies made the staffing reductions before much of the new automation was in place, and automation efforts had not been fully implemented as of

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<sup>5</sup>Management Reform: Agencies' Initial Efforts to Restructure Personnel Operations (GAO/GGD-98-93, July 13, 1998).

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Statement  
Management Reform: Elements of Successful Improvement Initiatives

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late 1997. As a result, the agencies were struggling to achieve their efficiency and service improvement objectives.

On a more positive note, we recently reviewed the efforts of three agencies (the Postal Service, the Department of Veterans Affairs (VA), and the Park Service) to more strategically manage their facilities and assets by forming business partnerships with the private sector.<sup>7</sup> In each of the six partnerships that we reviewed, the agency built the expertise to engage in the partnership and make it successful. For example, the Department of Veterans Affairs established a separate organizational unit staffed with professionals experienced in management, architecture, civil engineering, and contracting to manage its partnerships.

With regard to planning for major technology projects, IRS has historically lacked disciplined and structured processes for developing and managing information technology. We reported in February 1998 that IRS had not clearly defined system modernization phases, nor had it adequately specified organizational roles, making it unclear who was to do what.<sup>8</sup> IRS' systems modernization challenges include completing a modernization blueprint to define, direct, and control future modernization efforts and establishing the management and engineering capability to build and acquire modernized systems. The key to effectively addressing these challenges is to ensure that long-standing modernization management and technical weaknesses are corrected before IRS invests large sums of modernization funds. As we have reported, IRS recently initiated appropriate first steps to address these weaknesses via its initial modernization expenditure plan that represents the first step in a long-term, incremental modernization program.<sup>9</sup>

The Census Bureau, through its effective use of technology in expanding the electronic availability of census data, demonstrates how federal agencies can leverage performance and customer satisfaction through the better use of technology. Before applying technology to its data dissemination efforts, the Bureau released massive amounts of data in printed reports. Now, by using the Internet as its principal medium for disseminating data, the Bureau is able to reduce its reliance on printed

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<sup>7</sup>Public-Private Partnerships: Key Elements of Federal Buildings and Facility Partnerships (GAO/GGD-99-23, Feb. 3, 1999).

<sup>8</sup>Tax Systems Modernization: Blueprint Is a Good Start But Not Yet Sufficiently Complete to Build or Acquire Systems (GAO/AIMD/GGD-98-54, Feb. 24, 1998).

<sup>9</sup>Tax Systems Modernization: Results of IRS' Initial Expenditure Plan (GAO/AIMD/GGD-99-206, June 15, 1999).

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**Statement**  
**Management Reform: Elements of Successful Improvement Initiatives**

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materials, reach a wider audience, and provide its clients with information in a format that better meets their needs. The Bureau reports that its customers are responding positively to the shift, with significant growth in the number of customer hits on the Census Internet site, from about 10,000 per day in 1994 to more than 850,000 per day in 1999. The Bureau plans to use the Internet as its principal medium for releasing data from the 2000 Census.

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**Employee Involvement  
to Elicit Ideas and  
Build Commitment and  
Accountability**

Successful management improvement efforts require the active involvement of managers and staff throughout the organization to provide ideas for improvements and supply the energy and expertise needed to implement changes. Employees at all levels of high-performing organizations participate in—and have a stake in—improving operational and program performance to achieve results. Our work has shown that high-performing organizations use a number of strategies and techniques to effectively involve employees, including (1) fostering a performance-oriented culture, (2) working to develop a consensus with unions on goals and strategies, (3) providing the training that staff need to work effectively, and (4) devolving authority while focusing accountability on results.

Fostering a performance-oriented culture requires agency management to communicate with staff throughout the organization to involve them in the process of designing and implementing change. Setting improvement goals is an important step in getting organizations across the government to engage seriously in the difficult task of change. The central features of the Results Act—strategic planning, performance measurement, and public reporting and accountability—can serve as powerful tools to help change the basic culture of government. Involving employees in developing and implementing these goals and measures can help direct a diverse array of actions to improve performance and achieve results. However, our survey of federal managers, conducted in late 1996 and 1997, indicates there is substantial room for improvement in this area. This survey found that only one-third of non-SES managers (as opposed to nearly three-fourths of the SES managers) reported they had been involved in establishing long-term strategic goals for their agencies.<sup>19</sup>

Employees in high-performing organizations understand the importance of and the connection between their performance and the organization's

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<sup>19</sup>The Government Performance and Results Act, 1997 Governmentwide Implementation Will Be Uneven (GAO/GGD-97-109, June 2, 1997).



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Statement  
Management Reform: Elements of Successful Improvement Initiatives

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success.<sup>11</sup> The failure to constructively involve staff in an organization's improvement efforts means running the risk that the changes will be more difficult and protracted than necessary. For example, in the fall of 1997, the Nuclear Regulatory Commission's (NRC) Office of Inspector General surveyed NRC staff to obtain their views on the agency's safety culture. In its June 1998 report, the Inspector General noted that the staff had a strong commitment to protecting public health and safety but expressed high levels of uncertainty and confusion about the new directions in regulatory practices and challenges facing the agency. Employees who are confused about the direction their agency is taking will not be able to effectively focus on results or make as full a contribution as they might otherwise.

One way high-performing organizations can enhance employee involvement and gain agreement on an organization's goals and strategies is by developing partnerships with employee unions. The U.S. Postal Service's long-standing challenges in labor-management relations illustrate the importance of having a shared set of long-term goals and strategies agreed upon by managers, employees, and unions. As we have reported, labor-management relations at the Postal Service have been characterized by disagreements that have, among other things, hampered efforts to automate some postal systems that could have resulted in savings and helped the Service reach its performance goals.<sup>12</sup> Although there has been some progress, problems persist and continue to contribute to higher mail processing and delivery costs. To help the Postal Service resolve its problems, we have long recommended that the Service and its unions and management associations establish a framework agreement to outline common goals. We have also noted that the Results Act can provide an effective framework for union and management representatives to discuss and agree upon goals and strategies.

Employees' capabilities also play an important role in achieving performance improvements, and training is a key factor enabling employee involvement. Agencies that expect their employees to take greater responsibility and be held accountable for results must ensure that the employees have the training and tools they need to fulfill these expectations. In that regard, IRS is beginning to implement significant changes that will require training for frontline employees and their supervisors. For example, in lieu of hiring a large number of seasonal

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<sup>11</sup> Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO/OCG-99-1, January 1999).

<sup>12</sup> Major Management Challenges and Program Risks: U.S. Postal Service (GAO/OCG-99-21, January 1999).

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Statement  
Management Reform: Elements of Successful Improvement Initiatives

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employees to handle return processing workload during the annual filing season, IRS plans to increase the number of permanent employees and expand their job responsibilities to include compliance work that they can do after the filing season. Those employees will have to be cross-trained so that they can handle both their return processing and compliance responsibilities. Training is expected to be a key factor in IRS' efforts to provide top-quality customer service. Further, given the dynamic environment agencies face, employees need incentives, training, and support to help them continually learn and adapt. Our 1996/97 survey found that about 60 percent or more of the supervisors and managers reported that their agencies had not provided them with the training necessary to accomplish critical, results-oriented management tasks.

High-performing organizations also seek to involve and engage employees by devolving authority to lower levels of the organization. Employees are more likely to support changes when they have the necessary amount of authority and flexibility—along with commensurate accountability and incentives—to advance the agency's goals and improve performance. Allowing employees to bring their expertise and judgement to bear in meeting their responsibilities can help agencies capitalize on their employees' talents, leading to more effective and efficient operations and improved customer service.<sup>13</sup> Some federal agencies, such as the Social Security Administration (SSA), are exploring new ways to involve employees by devolving decisionmaking authority. Although the efficacy of this initiative has not been fully assessed, SSA has been implementing a pilot program to establish a "single decision maker" position. This program expands the authority of disability examiners, who currently make initial disability determinations jointly with physicians, and allows the single decision maker to make the initial disability determination and consult with physicians only as needed.<sup>14</sup>

Our work has shown that agencies can improve the extent to which they devolve authority for employees to make decisions and the extent to which they hold employees accountable for results. Our 1996/97 survey of federal managers found that less than one-third of non-SES managers felt that to a great or very great extent they had the decisionmaking authority needed to accomplish strategic goals. Likewise, only about half of the managers we

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<sup>13</sup> Executive Guide, *Effectively Implementing the Government Performance and Results Act* (GAO/GGD-96-118, June 1996).

<sup>14</sup> SSA Disability Redesign: *Actions Needed To Enhance Future Progress* (GAO/HEHS-99-25, Mar. 12, 1999).

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**Statement**  
**Management Reform: Elements of Successful Improvement Initiatives**

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surveyed reported that they were being held accountable for program results.

Our work has also shown that agencies can do a better job of providing incentives to encourage employees to improve performance and achieve results. Only one-fourth of non-SES managers reported that to a great or very great extent employees received positive recognition from their agencies for efforts to help accomplish strategic goals. At the request of this Subcommittee, we are surveying federal managers again to follow up on whether there have been improvements in these critical areas.

Some agencies have explored new ways of devolving decisionmaking authority in exchange for operational flexibility and accountability for results. For example, in fiscal year 1996, the Veterans Health Administration (VHA) management structure was decentralized to form 22 Veterans Integrated Service Networks.<sup>15</sup> VA gave these networks substantial operational autonomy and the ability to perform basic decisionmaking and budgetary duties. VA made the networks accountable for results such as improving patient access, efficiency, and reducing costs. VA also established performance measures, such as increasing the number of outpatient surgeries, reducing the use of inpatient care, and increasing the number of high-priority veterans served to hold network and medical center directors accountable for results.

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**Organizational  
Alignment to  
Streamline Operations  
and Clarify  
Accountability**

Successful management improvement efforts often entail organizational realignment to better achieve results and clarify accountability. For example, GSA has sought to improve its efficiency and effectiveness by changing its organizational structure to separate its policymaking functions from its operations that provide services. GSA recognized that it suffered from conflicting policymaking and service-providing roles and needed to replace its outmoded methods of delivering service. To address this issue, GSA established the Office of Policy, Planning, and Evaluation in 1995, which it later renamed the Office of Governmentwide Policy, to handle policy decisions separately from functions that deliver supplies or services. GSA believes that this realignment has improved efficiency and reduced the perception of conflict of interest that existed prior to the separation of its policymaking and service-delivery roles.

While GSA's efforts thus far are an important reform, additional opportunities for organizational realignment appear to exist. For example,

<sup>15</sup> VA Health Care: More Veterans Are Being Served, But Better Oversight Is Needed (GAO/HEHS-98-226, Aug. 28, 1998).

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Statement  
Management Reform: Elements of Successful Improvement Initiatives

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the GSA Inspector General has expressed concerns that GSA's organization and management structure has not kept pace with GSA's downsizing, streamlining, and reform efforts. In addition, the Inspector General has said that GSA's organizational structure does not seem to match the responsibility for managing programs with the authority to do so. As a result, for example, GSA has faced situations where regions (which operate independently) have taken divergent positions on similar issues, according to the Inspector General.

IRS' ongoing efforts provide another example of the importance of aligning organizational structures. As Commissioner Rossotti has stated, IRS' current cumbersome organizational structure and inadequate technology are the principal obstacles to delivering dramatic improvements in customer service and productivity. The Commissioner is reorganizing IRS with the aim of building an organization designed around taxpayer groups and creating management roles with clear responsibilities. One of the first organizational realignments taking place is in the Office of the Taxpayer Advocate. This office is intended to, among other things, help taxpayers who cannot get their problems resolved through normal IRS channels. Formerly, the Advocate's Office had to rely on functional groups within IRS, like examination and collection, to provide most of its program resources—including staff, space, and equipment.<sup>16</sup> When functional needs conflicted with Advocate Office needs, there was no assurance that advocate needs would be met. In the new organization, all advocate program resources will be controlled and managed by the Taxpayer Advocate. By organizing this way, IRS hopes to improve both program efficiency and service to taxpayers.

The organizational realignments at GSA and IRS are consistent with a more general exploration under way to use streamlined and clarified organizational arrangements to help enhance accountability and improve performance. For example, building on reform efforts in the United Kingdom and other countries, the Administration has proposed creating Performance-Based Organizations (PBOs) in which selected agencies that deliver measurable services receive greater organizational autonomy in exchange for heightened accountability for results on the part of top and senior leadership. Last year, in an attempt to address significant management and accountability problems with federal student financial aid programs, Congress enacted the first PBO, the Office of Student Financial Assistance, within the Department of Education. We have

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<sup>16</sup>IRS Management: IRS Faces Challenges as it Restructures the Office of the Taxpayer Advocate (GAO/GGD-99-124, July 15, 1999).

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Statement  
Management Reform: Elements of Successful Improvement Initiatives

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identified the management of student financial aid programs, with more than \$150 billion in outstanding student loans, as being at high-risk to waste, fraud, abuse, and mismanagement.

The PBO structure exemplifies new directions in accountability for the federal government because the PBO's Chief Operating Officer, who reports to the Secretary of Education, is held directly and personally accountable, through an employment contract, for achieving measurable organizational and individual goals. The Chief Operating Officer is appointed by the Secretary of Education to a minimum 3-year and a maximum 5-year term, and may receive a bonus for meeting the performance goals or be removed for failing to meet them.

The Office of Student Financial Assistance was provided with increased flexibility for procurement and personnel management, and key managers are to be held directly accountable for performance objectives that include (1) improving customer satisfaction; (2) providing high quality cost-effective services; and (3) providing complete, accurate, and timely data to ensure program integrity. The Chief Operating Officer is to enter into annual performance agreements containing measurable organization and individual goals with key managers, who can receive a bonus or can also be removed.

An additional accountability mechanism is that the Chief Operating Officer and the Secretary of Education are required to agree on, and make public, a 5-year performance plan that establishes the Office's goals and objectives. To further underscore accountability issues, the PBO's Chief Operating Officer is to annually prepare and submit to Congress, through the Secretary, a report on the performance of the PBO. The report is to include an evaluation of the extent to which the Office met the goals and objectives contained in the 5-year performance plan. In addition, the annual report is to include (1) an independent financial audit, (2) applicable financial and performance requirements under the Chief Financial Officers Act and the Results Act, (3) the results achieved by the Office relative to its goals, (4) an evaluation of the Chief Operating Officer's performance, (5) recommendations for legislative and regulatory changes to improve service and program integrity, and (6) other information as detailed by the Director of the Office of Management and Budget.

### Strong and Continuing Congressional Involvement

Finally, Congress plays a crucial role in management improvement efforts throughout the executive branch through its legislative and oversight capacities. On a governmentwide basis, Congress, under the bi-partisan leadership of this Committee and the House Government Reform Committee, has established a statutory framework consisting of requirements for goal-setting and performance measurement, financial management, and information technology management, all aimed at improving the performance, management, and accountability of the federal government. Through the enactment of the framework and its efforts to foster the framework's implementation, Congress has, in effect, served as an institutional champion for improving the management of the federal government, providing a consistent focus for oversight and reinforcement of important policies. On an agency-specific basis as well, support from the Congress has proven to be critical in instituting and sustaining management reforms, such as those taking place at IRS, GSA, and elsewhere across the federal government.

Congress, in its oversight role, can monitor management improvement initiatives and provide the continuing attention necessary for reform initiatives to be carried through to their successful completion. Information in agencies' plans and reports produced under the Results Act, high quality financial and program cost data, and other related information, can help Congress in targeting its oversight efforts and identifying opportunities for additional improvements in agencies' management. In this regard, we have long advocated that congressional committees of jurisdiction hold augmented oversight hearings on each of the major agencies at least once each Congress. Congress could examine, for example, the degree to which agencies are building the elements of successful management improvement initiatives that we have discussed today into their respective management reform efforts. Such hearings will further underscore for agencies the importance that Congress places on creating high-performing government organizations. Also, through the appointment and confirmation process, the Senate has an added opportunity to make clear its commitment to sound federal management and explore what prospective nominees plan to do to ensure that their agencies are well-managed and striving to be high-performing organizations.

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In summary Mr. Chairman, serious and disciplined efforts are needed to attack the management problems confronting some of our largest agencies. Successful management improvement efforts often contain a number of common critical elements, including top leadership commitment and accountability, the integration of management

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**Statement**  
**Management Reform: Elements of Successful Improvement Initiatives**

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improvement initiatives into programmatic decisions, planning to chart the direction the improvements will take, employee involvement in the change efforts, organizational realignment to streamline operations and clarify accountability, and congressional involvement and oversight. Experience has shown that when these elements are in place, lasting management reforms are more likely to be implemented that ultimately lead to improvements in the performance and cost-efficiency of government.

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

**Contacts and Acknowledgement**

For further contacts regarding this testimony, please contact J. Christopher Mihm at (202) 512-8676. For information regarding GAO's work on IRS modernization, please contact James R. White at (202) 512-9110, and for information regarding GAO's work on GSA, please contact Bernard L. Ungar at (202) 512-4232. Individuals making key contributions to this testimony included Kelsey Bright, Deborah Junod, Susan Ragland, and William Reinsberg.



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Testimony of ASQC  
before the  
**National Commission on  
Restructuring the IRS**

September 10, 1996

presented by

**Dr. Jack West**  
Past President



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Doing the right thing right the first time is the universal objective for any organization with a goal of satisfying its customers. This goal applies equally to the public sector as it does to the private sector. My purpose is to share information on the two components of this basic principle that should be helpful to this Commission and the Internal Revenue Service. The two components are doing the right thing (which addresses the question of what to do) and doing it right the first time (which addresses the question of how to do it well).

**Doing The Right Thing**

The last word in IRS is service, which implies there must be customers for that service. Accordingly, the views of the customers must play a big role in determining the way the agency achieves its mission, i.e., what it does.

Organizations, including the IRS, have a powerful new tool to help them better understand what their customers think of them. It is the American Customer Satisfaction Index (ACSI) the first uniform national measure of quality, which has been operational for about three years. (The attached Appendixes contain additional information on ACSI makeup and methodologies.) Briefly, the key point about this measure for this Commission's consideration is that ACSI compares customer experience to their expectations. It does this through thousands of interviews with customers of 200 companies and agencies whose products and services constitute close to half of the nation's gross domestic product. In addition to the IRS, other agencies from the public sector included in the ACSI are central city and suburban trash collection services, central city and suburban police services, and the US Postal Service.

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**IRS Data from the American Customer Satisfaction Index**

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	1994	1995	1996
ACSI Rating	55	54	50
Perceived Quality	66	65	62
Expectations	57	59	56
Complaints (%)	23	16	25

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ASQC and the University of Michigan Business School, co-sponsors of the American Customer Satisfaction Index, were not surprised when the first ACSI released in October 1994 showed that users of the Internal Revenue Service gave that agency a lower customer satisfaction rating than customers gave any of the other 200 companies and

That the IRS is a public sector organization with no competition is no reason to dismiss its low customer satisfaction ratings, as the experience of other ACSI measured organizations shows. Other organizations measured by ACSI operate under monopolistic conditions, and all have higher ACSI ratings.

The US Postal Service has been using customer research, and operating on that research, to make change. USPS is succeeding, as reflected in its rising ACSI scores for mail delivery and counter services from 61 in 1994 to 69 in 1995 to 74 in 1996--the most dramatic improvement of the 200 ACSI measured companies and agencies.

To improve, the IRS will need to set a course similar to that of the postal service in obtaining customer feedback, prioritizing potential improvements, then taking actions to make the prioritized changes. A first step is for the IRS to analyze the complaints taxpayers are making.

#### **Doing It Right The First Time**

One of the most forceful messages I hope to leave with this Commission is that the principles of quality management can indeed be applied to a public sector agency such as the IRS.

In fact, within the quality profession we have seen documented evidence in recent years of IRS improvement activities and results. The Commission undoubtedly will hear about such activities from IRS representatives, so I will not elaborate on them. However, these efforts, reported in professional journals and magazines and at professional conferences, deserve to be recognized and applauded. Yet in spite of many good efforts, customer satisfaction with the IRS declines and we are left to wonder why.

From the viewpoint of an outside observer from the quality profession, the visible quality improvement activity appears to have reached a peak several years ago. It is not clear that the laudable efforts within various IRS units--efforts aimed at making a shift toward the encouragement of voluntary compliance, improving customer satisfaction, reducing burdens on taxpayers, maintaining a quality workforce, upgrading equipment, and improving financial performance--have been deployed throughout the organization. If there is a pattern of improvement efforts, it seems to be one of isolated pockets of excellence rather than a seamlessly integrated system in which organizational learning and diffusion of success are the norms.

To achieve such a system, there is no better guide than the criteria and the core values and concepts of the Malcolm Baldrige National Quality Award.

One of the primary objectives of the Baldrige award is to provide a vehicle for self-assessment. It is now widely recognized as the benchmark for organizational assessment which is used by many organizations as a self-assessment and improvement tool.

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Baldrige calls for a three-pronged focus: an integrated, systematic approach; deployment throughout the organization; and measurable results. It is grounded in the core values and concepts of quality; it demands a systems perspective and a process focus; and it calls for continuous refinement through cycles of learning about organization-wide improvement. The criteria themselves have been tested and refined and are broadly applicable to any organization.

#### **Baldrige Core Values and Concepts**

- Customer-driven quality
- Leadership
- ~~Continuous improvement and learning~~
- ~~Employee participation and development~~
- Fast response
- Design quality and prevention
- Long-range view of the future
- Management by fact
- Partnership development
- Corporate responsibility and citizenship
- Results orientation

Federal agencies find themselves facing mandates such as those spelled out in the Government Performance and Results Act of 1993 and the Executive Order on Setting Customer Service Standards, which aim to promote a new focus on results, service quality, and customer satisfaction. A Baldrige-type self-assessment could aid the agency in complying by guiding it in building a truly integrated and effectively deployed quality system rather than an odd mix of programs put together in order to meet various externally imposed requirements.

#### **Conflicting Functions: Customer Service or Compliance?**

Demands placed on the Internal Revenue Service to provide better customer service inevitably put it in conflict with its duty to ensure taxpayer compliance with the tax laws and regulations. From experiences in the private sector during the last decade, as businesses have struggled with becoming more data-driven, we have learned a simple truth: the things that get measured are the things that get emphasized. And we have seen that what appears most important to the managers who devise the measurement systems is not always most important to customers. The danger is magnified when tensions exist as a result of conflicting functions that compete for the limited attentions and resources of the organization. The lesson here for the IRS and for this Commission is to examine what is measured and determine if the things that are important to the customers of the IRS are the things that are being measured, monitored, and managed. Or is there an imbalance between what is measured and what is desired?

### **Preliminary Recommendations**

As the Commission begins its review, there are a number of areas that we recommend be investigated and a number of questions to be raised, based on the foregoing comments regarding ACSI findings and the Baldrige-based model for organizational assessment and improvement.

Performance measurements and goals currently in use. *An examination of performance measurements utilized by the IRS should be undertaken to determine if these measurements encourage the desired organizational behavior. Are they balanced--that is, properly focused on requirements critical to the agency's customers rather than being weighted toward internal requirements of interest to agency staff and management.?*

How does the IRS set priorities?

What forms of assessment are used? *Has the agency done a Baldrige-type self-assessment?*

Analysis of existing customer complaint data. *What does the IRS already know about sources of dissatisfaction? What else needs to be learned about dissatisfiers?*

Review of current improvement plans.

What improvement activities would have greatest effect on satisfaction? *In this regard, the ACSI impact model can be a useful guide.*

Review of IRS mission. *A careful re-examination of the IRS mission--and the ways in which the mission is interpreted by both the IRS management and the legislative and/or administrative bodies that write tax laws/regulations or have IRS oversight--may yield valuable insights. Most organizations have multiple constituencies and find themselves pulled in conflicting directions by the different expectations of each. Successful organizations are able to find a balance that satisfies the needs of all constituencies. The IRS needs to find that delicate balance.*

Involving IRS personnel in solutions. *While guidance and constructive criticism from above or from outside the agency are helpful in making major changes, it is necessary to ensure that ownership of the processes and their improvement becomes resident within*

*the agency so that desired changes take root initially and become institutionalized.*

Learning from previous IRS quality efforts. *Lessons from both the successes and failures of previous activities undertaken by the IRS may shed light on reasons for isolated pockets of excellence that demonstrate accomplishments which have not spread throughout the agency.*

ASQC has a reservoir of talent that could be tapped to assist the Internal Revenue Service in such areas as customer satisfaction research, self-assessment, and training in improvement techniques. We stand ready to offer this assistance and knowledge at the request of the agency and the Commission.

#### APPENDIX A

##### **About the American Customer Satisfaction Index**

The American Customer Satisfaction Index (ACSI) is based on approximately 50,000 annual customer interviews with respondents screened and qualified as recent customers of 200 companies and agencies. The households from which respondents are screened are selected as random-digit-dial replicate national samples (48 samples per year) of telephone households in the continental United States. In each household, an adult 18-84 years of age is selected for screening, choosing the adult with the birthday date closest to the date of interview.

Qualified customers are asked multiple-choice questions about their expectations, perceptions of quality, complaints--and for customers of private-sector companies, perceptions of value, repurchase intentions, and price tolerance. All customers are asked three questions about satisfaction: (1) overall satisfaction, (2) whether goods or services met, exceeded, or fell short of expectations, and (3) how what was received compared to the ideal. Customer responses are modeled using an econometric model designed at the National Quality Research Center, University of Michigan Business School, to produce the ACSI and the variables that are drivers of satisfaction or are outcomes of satisfaction.

Each year 250 users are qualified for IRS interviews. This year's screening question was, "Did you file an income tax return for 1995 making use of forms and instructions, or information services of the Internal Revenue Service?"

Sampling error for the national ACSI is plus or minus 0.3 points, at the 90% confidence level, and for the IRS is plus or minus 4 points. The ACSI for the IRS in 1996 is significantly less than the 1994 and 1995 scores--greater than could be caused by sampling error.