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NOMINATION OF HON. MARK W. EVERSON

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON THE

NOMINATION OF HON. MARK E. EVERSON TO BE DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

JULY 17, 2002

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NOMINATION HEARING OF HON. MARK W. EVERSON TO BE DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

WEDNESDAY, JULY 17, 2002

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 2:01 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Committee, presiding.

Present: Senators Lieberman, Akaka, Thompson, Voinovich, Bennett, and Fitzgerald.

OPENING STATEMENT OF CHAIRMAN LIEBERMAN

Chairman LIEBERMAN. The hearing will come to order. Good afternoon, Mr. Everson. Welcome everyone to the hearing today.

We are considering your nomination to be Deputy Director of Management for the Office of Management and Budget, which is the third highest ranking position at that Department and one that gives you responsibility for establishing management policies for all executive agencies in the areas of finance, human capital, procurement, and information technology. These duties will, as you well know, take on added significance in the coming months as a result of the intention that the President and members of both parties in Congress have of establishing a new Department of Homeland Security, consolidating a number of existing agencies, and creating some new programs to respond to the threat of terrorist attacks. That means that the careful management of these agencies and programs will be needed more than ever if we are to minimize overlap and maximize efficiency. So in your new position, you will have a genuine opportunity to help in doing just that.

I also wanted to mention that as Chair of the President's Council on Integrity and Efficiency, you play an important role in interacting with IGs on behalf of the administration. This Committee has a longstanding role in ensuring that Inspectors General are able to do their jobs independently and with adequate funding because they are so central to the principles of good, efficient, consumer-oriented government.

I think your current portfolio as Controller at OMB has probably acquainted you with the inadequate financial systems and controls now in place at too many Federal agencies. As you know, the General Accounting Office has identified financial management at the

Department of Defense, the Forest Service, the Federal Aviation Administration, and the IRS as high risk because of systemic problems there.

One of the most significant problems is the outdated financial systems that many agencies have, which do not meet the most basic accounting requirements and deprive Federal managers of timely and accurate information that they need for daily decision making. This Committee has been particularly concerned about improper payments that agencies make that have come in at extraordinarily high estimates in recent years and we count on you, and I know you share our concern to do your best to eliminate this type of waste, which really is unacceptable.

Finally, I want to commend the administration and thank the administration for recognizing the importance of including the government's ability to communicate electronically with the public and to communicate within itself among agencies and for working with this Committee to recently pass an electronic government bill out of the Senate. Our work, of course, is far from complete and I hope that the administration's cooperation with our Committee is extended to the House, where consensus on a bill has not yet been achieved, but I would guess we can play a role in bringing that about.

Mr. Everson, I have seen your responses to the Committee's prehearing questions and I appreciate the care with which you have answered our questions. Again, I welcome you to this Committee today. You have achieved a promotion more rapidly than I think anyone else in the administration. I believe you are the first to come back twice for a hearing here, so we welcome you and look forward to working with you in the coming years.

Senator Thompson.

OPENING STATEMENT OF SENATOR THOMPSON

Senator THOMPSON. Thank you, Mr. Chairman, and thank you for scheduling this hearing. I want to add my welcome to Mr. Everson also.

We know that this is one of the most important jobs in government. We know that, over the years, the management function of OMB has slipped and has not been given the priority that it ought to have and that it deserves, and we have seen the results of that. We have seen that in the important areas of information technology development, financial management, human capital, overlap and duplication, that our Federal Government has performed very poorly. Many of these functions are on the GAO high risk list, as you pointed out. And even more troubling, so many of these areas in which we are having such problems government-wide are areas that are extremely crucial as far as homeland security is concerned.

The management problems of the Federal Government are longstanding and daunting. They are extremely important, and I am glad that we have Mr. Everson to take over those responsibilities. Having been there now for a while, you understand them even better than you did before.

The administration has put an unprecedented emphasis on improving both the efficiency and the effectiveness of the Federal Government and the President's management agenda has laid out

an array of things that need to be done and possible solutions. The OMB has tasked agencies with accelerating their financial reporting, requiring them to move up the release of their financial statements from 6 months to 2 weeks after the end of the fiscal year. In addition, the administration has set an ambitious agenda for integrating performance into the budget and for conducting public-private competitions to ensure that taxpayers are receiving the best value for their dollar.

All these are good goals, things that need to be done, and I think the administration has made a wise choice in selecting Mr. Everson. It has been clear from the meetings that I have had with Mr. Everson that he has extensive experience in management, not just in financial management. He has a master's degree in accounting from New York University Business School and a bachelor's degree from Yale. He has 26 years of experience in both business and government, holding positions of leadership in the Department of Justice, U.S. Information Agency, the American National Can Company, Sky Chefs International, and now OMB.

So it is clear that he has management experience both inside and outside of government and detailed knowledge of how the OMB operates. I look forward to supporting his nomination and to working with him on addressing some of these problems that we are all too aware of.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Thompson.

Senator Voinovich, do you have an opening statement.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Yes, I do. Thank you, Mr. Chairman. It is a pleasure to be here today for the confirmation hearing of Hon. Mark Everson, the President's nominee for Deputy Director for Management at the Office of Management and Budget. I congratulate Mr. Everson on his nomination to what I believe is one of the most important posts in the Executive Branch of government. Welcome back to our Committee.

As the Chairman has said, you are no stranger to this process. It was 9 months ago that you were here for the Controller's position at the Office of Management and Budget.

Your willingness to endure the process twice in less than 1 year demonstrates that you are truly a committed public servant——[Laughter.]

And I thank you for your dedication to your country.

I assume this is your family?

Mr. EVERSON. Yes, it is, sir.

Senator VOINOVICH. I would like to welcome them and I would like to thank your wife and your children for the sacrifice that they have already made so that your dad and husband can serve his country, and thank you for the continued sacrifice that you are going to make so that he can continue to make a difference for the American people and help our President do the job that we want him to do.

It will come as no surprise to you that I believe human capital management to be one of our government's biggest challenges. Mr. Everson, you and I have discussed that at length and I think you

understand that these challenges are enormous. Furthermore, if they are not tackled immediately they will continue to be the subject matter of future hearings of this Committee. After you are confirmed, human capital will be on your watch.

Mr. EVERSON. Yes.

Senator VOINOVICH. So the things that are going to happen are going to be attributed to you, and you know you have a very severe human capital crisis in the Federal Government.

I think it is evident from your rise from Controller to the Deputy Director for Management, that you have the confidence of the President and his team, which is also very important for your success.

Mr. Chairman, I know that Mr. Everson is working with OPM Director Kay James. It is vital that the teams at OMB and OPM work together to get the job done. It appears the chemistry between the agencies is pretty good, so I am optimistic that we will be moving forward with some real progress in the human capital area.

I just want to thank you for being here today and I hope, Mr. Chairman, we can move the nomination forward as quickly as possible.

[The prepared statement of Senator Voinovich follows:]

PREPARED STATEMENT OF SENATOR VOINOVICH

Good morning and thank you Mr. Chairman. It is a pleasure to be here today for the confirmation hearing of Mark Everson, the President's nominee for Deputy Director for Management at the Office of Management and Budget. I congratulate Mr. Everson on his nomination to what believe is one of the most important posts in the Executive Branch. Welcome back to our Committee.

As you know, Mr. Everson is no stranger to the confirmation process. In fact, just over nine months ago, our Committee held his nomination hearing for the Controller's position at the Office of Management and Budget.

Mr. Everson, your willingness to endure this process twice in less than one year demonstrates that you are truly a committed public servant and I commend you for your dedication to our country.

It will come as no surprise to you that I believe human capital management must be a top priority for OMB. For too long, our federal government has neglected its employees. Mr. Everson, I encourage you to spend as much time as is necessary to get a handle on the human capital management challenges before you. These problems, which will only worsen in the coming years, will require your serious and sustained attention if they are to be successfully addressed.

Given Mr. Everson's swift rise from Controller to Deputy Director for Management, it is clear that he has the trust and confidence of the President to perform his new role. I am certain he will be able to work well with OMB Director Daniels, OPM Director James, and the President's entire Management Council to accomplish the goals set forth in President Bush's Management agenda.

Mr. Chairman, I support Mr. Everson's nomination and hope we can move it expeditiously through the Committee and to the floor for final passage before the August recess. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Voinovich.

Mr. Everson, would you like to introduce your family now?

Mr. EVERSON. Certainly, sir. I am very pleased we have here today my really—it is a larger group than in October, but——

Chairman LIEBERMAN. We noticed.

Mr. EVERSON. You remember Nanette, my wife, and she has actually joined the administration. She has taken the afternoon off to be here. She has become Associate Counsel to the President. She is doing the ethics work. So between the two of us, I give the red

marks and she gives the ethics guidance within the White House, so we are not all that popular sometimes.

Our son, Leonard, was not here last time. He was overseas in Scotland. He has returned and we are very proud of him and pleased he is here.

You might remember Emma, who was here.

Chairman LIEBERMAN. I do.

Mr. EVERSON. She got a new dress, but she is here.

And then we are especially thrilled that Marcella, who is our sister-in-law, is here with my two nieces, Elia and Bella, and then, most importantly, Max Michael, who is the newest addition. They are in from Germany, so they went through our new rigorous screening processes and border control a few weeks ago.

Chairman LIEBERMAN. Welcome and wilkommen. It is nice to have you all here. It is a beautiful family.

Mr. EVERSON. Thank you. Thank you for that opportunity.

Chairman LIEBERMAN. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman.

I would also like to add my welcome to you, Mr. Everson, and your lovely family, to this Committee.

Mr. Everson, as OMB Controller, you know that sound judgment is vital to the government functions that we rely on every day here in Congress. As we consider the creation of a Department of Homeland Security, agencies need appropriate management guidance. For this reason, I offered an amendment to S. 2452, the National Homeland Security and Combatting Terrorism Act. This amendment, which was adopted, requires OMB to provide specific guidance on actions agencies need to take to implement the National Homeland Security Strategy.

Mr. Everson, I look forward to hearing your perspective on how this would be accomplished. I am also interested in how you believe agencies should strike the proper balance between new homeland security responsibilities and their critical existing functions.

I believe you'll agree with me that sensible management also requires transparency of costs in government and among Federal contractors. Regardless of whether they are Federal employees or contractors, we need to ensure that we collect accurate information about those who perform the work.

Another issue of great concern to me is OMB Statistical Policy Directive 15, which governs the racial and ethnic data collection by Federal agencies. This was revised in 1997. As background, Native Hawaiians were disaggregated from the Asian Pacific Islander category and a new category entitled "Native Hawaiians and other Pacific Islanders" was created. The Directive gives agencies until January 1, 2003, to make all existing record keeping or reporting requirements consistent with its standards. Given the upcoming implementation date, I look forward to working with you to ensure that all agencies are informed of the new standards and understand its requirements.

Mr. Everson, I am confident that you appreciate the importance of government management, and I want to wish you well.

Mr. EVERSON. Thank you, sir.

Senator AKAKA. Thank you very much.

Chairman LIEBERMAN. Thanks, Senator Akaka.

Senator Bennett, do you have an opening statement?

Senator BENNETT. No, thank you, Mr. Chairman. I just welcome Mr. Everson here and look forward to an opportunity to chat with him about the management side of Management and Budget.

Chairman LIEBERMAN. Thanks, Senator Bennett.

Let us proceed. For the record, Mr. Everson has submitted responses to a biographical and financial questionnaire. He has answered pre-hearing questions submitted by the Committee and additional questions from individual Senators and has had his financial statement reviewed by the Office of Government Ethics, in which his wife, to the best of my knowledge, was not involved.

Without objection, this information will be made part of the hearing record, with the exception of the financial data, which is on file and available for inspection in the Committee's offices.[1]

In addition, the FBI file has been reviewed by Senator Thompson and me pursuant to Committee rules.

Mr. Everson, as you remember from your last visit here, our Committee rules require that all witnesses at nomination hearings give their testimony under oath, so would you please stand and raise your right hand.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. EVERSON. I do.

Chairman LIEBERMAN. Thank you. Please be seated.

Mr. Everson, do you have a statement that you would like to make at this time?

TESTIMONY OF HON. MARK W. EVERSON TO BE DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. EVERSON. Yes, Senator, I do. Good afternoon, Mr. Chairman, Senator Thompson, and Members of the Committee. As you know, I am Mark Everson. I am already the Controller and I am very pleased to be here today as you consider my nomination to be the Deputy Director for Management.

In your pre-hearing questionnaire, you asked what would be my priorities as the Deputy Director for Management. I will just touch briefly on each of those four priorities. One of them is implementation of the President's Management Agenda. The second is the establishment of the Department of Homeland Security, making sure that it functions correctly. Third, strengthening the role of management within OMB, and also, finally, strengthening the President's Management Council.

In terms of the management agenda, just to give you a brief update, as part of the mid-session review that we released earlier this week, we did for the first time present a progress report on how the departments and agencies are doing in terms of implementing both the five government-wide initiatives and also the nine agency-

[1] Biographical and financial information appear in the Appendix on page 23.
Pre-hearing questions for the record and responses with attachments appear in the Appendix on page 31.
Questions for the record and responses appear in the Appendix on page 77.

specific initiatives. You will see from our evaluations that we feel that there is a great deal of progress being made in some instances.

You might recall, we have this red-yellow-green grading system. We apply it both as to the status against standards for success, that is, against the long-term goals, but also on a progress side to say, are you actually moving, because it recognizes, just as was indicated, in the case of, say, DOD, it is going to take a long time to make movement here. What we have done is we have graded out on the progress side.

NASA has got five greens. That is the top. A number of the departments, Commerce, Energy, Education, Labor, and Treasury, ended up with four. There are some disappointments, though. The Agriculture Department ended up with three reds. That means that in our view, there has not been any significant progress on three of the five initiatives.

Overall, though, it came out where one might expect. About half the scores were green. That means they are moving forward in a way that we think will get them where they need to go. I look forward to working with the Committee as you provide the oversight on how we are doing here and I am sure we will be in very close touch on that.

The Department of Homeland Security—I know I am in a weak position here today to ask favors from the Committee, but I would, if possible, like to respectfully nudge you towards providing a little more latitude in the areas of management flexibility in terms of establishing the new Department. I would like to state, as the President stated yesterday in the leadership meeting, that in no way, shape, or form do we have any intention of gutting civil service protections, whistleblower protections, any of the things that employees currently enjoy.

We do believe, however, that because of the magnitude of the task, bringing together organizations that include 18 different unions, they have all kinds of different management systems, financial systems, IT systems, we need to have some latitude here both in the personnel area to make the Department more effective and also in the areas of reorganization, transfer authority, procurement, as well as property. So to us, that is important to make the Department as effective as possible.

In terms of the President's Management Council, I took that over on an acting basis in January after Sean O'Keefe went to become Administrator at NASA. I think we are being successful in trying to make that Department, or that organization a little more operational. We have restructured it a bit. We have got an Executive Committee that consists of the deputy secretaries of several of the Departments and also Kay James, Clay Johnson, and Albert Hawkins from the White House.

In addition, we have three working Subcommittees that are within the structure, one for human capital—Kay chairs that; another for e-Government, which Cam Finley, Deputy Secretary of Labor, chairs; and a third for budget and performance integration that is chaired by Bill Hansen. This is providing, I think, more of an interaction between us at OMB or OPM as central policy makers and the departments who are accountable for getting things done, so I think that is a good step.

The last priority, strengthening management within OMB, I can only report to you that in my 11 months within the structure, I have seen a steady increase in the attention to management within the operation. I know that Mitch Daniels feels that way, Nancy Dorn, and the other senior people. It is getting its fair slice as we work on this whole series of issues, budget, management, and regulatory.

Before I close, I just want to take a moment to thank you, Mr. Chairman, for your leadership on this homeland area. I think your role as a principal architect of all this is a singular contribution to the Nation. A legacy will be left, as the President indicated yesterday, and you have been a very real part of it, along with your colleagues here on this Committee.

I would also like to thank Senator Thompson for your, sir, dogged role on management issues in general. It has been a real breath of fresh air, I think, within the government, the work you have done, the championing you have done in these last years, and if you will pardon my expression, you will be a tough act to follow.

When I testified before you last time, I mentioned my family. As you have all indicated, they have been a great source of support. They occasionally grow frustrated with the hours, but as a rule, I could not do it without them and I know that is the case going forward. I just want to give you my personal commitment that if you do confirm me for this new position, I will give you my level best and we will just see how that goes.

Chairman LIEBERMAN. Thanks, Mr. Everson. Thanks for a good opening statement, for your kind words, and for your quite appropriate tribute to your family.

I am going to start by asking you certain questions that we ask of all nominees. First, is there anything you are aware of in your background which might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. EVERSON. No, sir.

Chairman LIEBERMAN. Do you know of anything, personal or otherwise, that would in any way prevent you from fully and honorably discharging your responsibilities as Deputy Director for Management of OMB?

Mr. EVERSON. No, sir.

Chairman LIEBERMAN. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted Committee of Congress if you are confirmed?

Mr. EVERSON. I do.

Chairman LIEBERMAN. Thank you. Let me proceed with questions. We have a vote that is supposed to go off around 2:30, so I am going to be selective in my questions. I know you have been grilled abusively by our staff, and I have received the results of that questioning.

I want to ask you if you would describe the role you would like to take in information management and e-Government issues.

Mr. EVERSON. We feel this is a very important area. It was indicated in several of the opening remarks, the systems area. Our systems are woefully deficient in the government. The President's agenda item for this, where we are trying to work across agencies and break down the traditional organizational structures where

processes and systems are put in that only pertain to Defense or Commerce or whatever agency it is and do not get any of the leverage that you need for businesses that are standard or processes that are standard, such as payroll processing, we think a lot needs to be done in that area.

I think you know that my boss, Mitch Daniels, established a separate office within OMB to spearhead that. That is led by Mark Forman, and I do think we are making a great deal of progress in this area.

If confirmed, I will supervise that office, and if that office is transformed, as under your legislation, becomes really the co-equal to the financial and the procurement offices, I would continue to do so.

We think it is critical and it will get a great deal of my attention. My clear intention was, in changing the PMC, that we showcase this one and we get the right cooperation amongst the departments. Central to this and eliminating redundancies and reducing investment needs is to get the departments to sign in here. I think with the able leadership of Cam Finley and the participation we are getting in some of the departments, we have got some opportunities here.

Chairman LIEBERMAN. I appreciate that answer. As I think you know, early on, I advocated the creation of a Federal Chief Information Officer, who would be responsible for ensuring better IT management and promoting e-Government initiatives, and a lot of that was based on counsel that we received from the private sector about how the IT systems that are working best are where there is a separate Chief Information Officer, within the company.

There was some disagreement with that approach from within the administration. We worked out the compromise that we did, and I wanted to ask you whether you would, as you go forward overseeing this, keep your own mind open to whether we might not be better served with a separate CIO?

Mr. EVERSON. I am pleased to do that. If I could respond through reference to what we have proposed for the Department of Homeland Security, the CFO Act of 1990 did a very good job of establishing deliverables and expectations as to what financial management had to do for the government. I do think, however, there has been a certain fracturing of management since that time. We have CFOs in one part of the department, CIOs, procurement officers, and Chief Human Resource Offices in some cases.

What we tried to do with the new proposal is to put it all together under one Under Secretary for Management because we think you need to have an integration of the management issues.

You are entirely correct. In the private sector, frequently, there are CIOs who are directly under the Chief Executive Officer. Frankly, I do not see that as a workable model in most of these departments and agencies, given the way—given the responsibilities the secretaries and the deputies have. I think we are better off having a very strong management voice that is making sure that you have an integration of all those functions.

I am shocked, coming back into government from industry. In industry, usually, the staff guys get together and have arguments with the operating people. Here, the staff people do not even get

together. They are all islands of expertise and they are not actively coordinating. That is the dilemma you have on this very issue, sir.

Chairman LIEBERMAN. OK, and we will keep talking. Thank you. Senator Thompson.

Senator THOMPSON. Thank you very much. Mr. Everson, you mentioned that homeland security is your second priority listed. It is on all of our minds right now as we are getting ready to mark up a bill and so forth.

From your standpoint, from a government management standpoint, as we proceed to put together a big new department, with 170,000 employees, that brings various agencies together, what do you see our greatest challenges as a government, as a Congress, as a Committee will be in dealing with that? What guidance from your time on the inside could you give us in terms of ranking areas of importance, things that we particularly ought to pay attention to, things that you and the OMB ought to pay attention to? This is going to probably be the most daunting management problem that we face, at least in terms of importance to the country. Do you have any ideas that you could share with us?

Mr. EVERSON. Certainly, Senator. We have, I would tell you, three broad objectives as we approach the creation of this Department. The first is actually to, of course, accomplish the creation of an effective Homeland Security Department.

The second objective is to make sure that as we do that, because this will take time, we continue in the interim to enhance homeland security and to not take our eye off the ball on the day-to-day challenges and issues that are out there.

The third is not to ignore the other, the collateral, the other missions that are important of these agencies that would come into the Department. As you know, there are many important and other vital missions at the Coast Guard or at FEMA that need to be attended to.

So everything we are trying to do is measured against those three standards. That argues for, in our view, a deliberate transition process. If you go to the construction of the statute, we create the Department in our proposal 30 days after enactment, but then provide a 1-year transition period to bring in the different components according to a measured schedule of when you would be ready to do that.

To do it effectively, we feel, again, that you need to have the latitude, the flexibilities, both on a short-term basis to stand up the Department, but moreover, to make it effective. We cannot take the attitude that whatever solution is created, that is going to be it. It has to be changed in response to emerging threats, because those will clearly require us to adjust, but also because of the experience that we gain as we go along and see what we have done that needs to be adjusted.

Senator THOMPSON. As we integrate these new agencies in the Department, is it important to apply the tools we have been trying to gear up for some time now, such as the Results Act and other things that we have been using and integrate them into the new Department?

Mr. EVERSON. Absolutely. I was at a presentation this morning where I was asked, would the OMB scorecard be used in the new

Department? Absolutely. We need to measure program effectiveness in the new Department just as we would in any existing element of the government.

Senator THOMPSON. If not more so.

Mr. EVERSON. That is exactly right. We recognize there are some underperforming elements that will go into the new Department. The INS is the one that is most frequently cited.

Senator THOMPSON. Let me ask you this. With regard to some of these traditional areas of deficiency that I mentioned a few minutes ago, information technology, human capital, financial management, what do you see as the most difficult problem, the most systematic problem that we have in our government? And rank it also in terms of importance to us. Is there any one thing out there among all those difficulties that you feel that we, as a Congress, as an administration, really need to get a hold of for the sake of the good of our country?

Mr. EVERSON. I think Senator Voinovich has put his finger on it and it is very much in this human capital area. I think that we have a recognition that e-Government, technology, needs to be harnessed. There is a clear consensus on that. But we seem trapped in a very difficult relationship where we are afraid to change. You used the word, Senator, "anxiety" yesterday with the President. Clearly, there is a great deal of anxiety about making change.

So we need to take some of these systems—the GS schedule established 50 years ago. Any business that is still working with the same personnel systems as five decades ago has long since gone out of business. We need to take fresh approaches in the personnel area. That would be, first and foremost, what I would say.

Senator THOMPSON. All right, sir. What about, going down my own favorite list here, things such as improper payments? I think the GAO has recently determined that we are probably at $20 billion a year, at least, and maybe much more than that. Are we making any progress in that area? I believe the House has just passed a bill that would require these agencies to set forth and disclose their improper payments. We have not done that here yet. Does the administration have a position on that?

Mr. EVERSON. Robert Shea told me that if he came to work for me, you would never ask another question on improper payments, but—— [Laughter.]

Senator THOMPSON. Well, he has not solved the problem yet.

Mr. EVERSON. No, he has not. But in all seriousness, I think that we are starting to gather some steam on this. Last year, we went out to the agencies and requested that they develop plans. This is, in essence, what the House bill that you referred to does. It codifies what OMB is doing in terms of developing targets.

We are making some progress in some of these areas. The other thing we are doing is we are increasing the measurement. I would suggest to you that the studies that GAO has done in the past that identify about $20 billion in erroneous payments actually, believe it or not, and this is a shocking sort of thing to say, they do not capture all the true activity out there because they only measure some programs.

We are refining those measurements and we are also identifying, frankly, two things that need to be done, areas where we will work

with States, such as in the food stamp area, to try and improve their response, and finally, we are trying to develop certain statutory changes that are necessary for the sharing of information. So I think we are moving forward.

Senator THOMPSON. Thank you very much, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Thompson. Senator Voinovich.

Senator VOINOVICH. I am pleased that you understand that if you do not have the right people, with the right skills that you are not going to get the job done. I would like you to share with us where you already think you are in that area.

As you know the Internal Revenue Service was facing severe management challenges and we gave them additional tools to get the job done. The FAA was also having problems, so we gave them separate tools to get the job done. We also gave GAO special authority to move forward. Homeland Security poses its own unique challenges. We have Defense Secretary Rumsfeld talking about the human capital crisis that he has in the Defense Department in our national security.

How do you expect to deal with the human capital problems in an expeditious manner?

Mr. EVERSON. Obviously, Senator, this is one of the greatest challenges we have. Our priority at this time, I would suggest, is to try and develop in the new Homeland Security Department a model that will at once provide enhanced homeland security through a better-equipped workforce, and also, we believe, down the road, be a model for the rest of government.

If I could just sort of digress into Homeland for just a minute or two, the President made it clear yesterday that we are very anxious to work with the unions to develop a flexible personnel system. We are doing that now. Kay James and I have a further negotiating session scheduled with the union leadership for Monday.

Furthermore, Governor Ridge will be seeing Mr. Sweeney early next week. That is an appointment that we have now scheduled for Tuesday.

Chairman LIEBERMAN. Thank you, Mr. Everson.

Mr. EVERSON. I did not want to make a direct reference to our conversation, but—— [Laughter.]

We have got to get both sides to come together on this, clearly, because going back, and I made reference, Kay James has done a study. You have seen it, a white paper on the pay systems. That is only a piece of the problem that confronts us.

The approach we are trying to take here with Homeland is to say, let us put out something here that clearly protects the rights of the employees. We feel we reference that in our bill. Apparently, we did not satisfy or calm all those anxieties. We are more than willing to explicitly delineate those protections.

But we also feel, at the same time, while we would also recognize the right to collective bargaining, we need to protect the President's existing right to limit that in instances of national security. I am sure you are aware of the Morella amendment that passed in Government Reform last week. We are strongly opposed to that.

So we can construct something recognizing those two centerpieces, but still moving forward with the President's proposal on

flexibility. We need to take it as a whole. I feel that if we cherry pick this and do not come up with something that is overall flexible, it just may not meet the unanticipated needs as we go down the road.

Senator VOINOVICH. I would just like to make one other comment. As you know, I have worked very hard with the administration on an overall piece of legislation that will deal with some of the real problems that you have got across the board. Our Committee is dealing with the challenges facing our proposed Department of Homeland Security.

It would seem to me, Mr. Chairman, that what we ought to be looking for something that would make these various new flexibilities available to all of the agencies. Then we could single out certain areas where we know we have a strategic need. Perhaps starting with Homeland Security and the Defense Department. Then we could sit down with the unions, who are very concerned about this, as you well know, to see if there are what kind of compromise we could negotiate so they could go to their membership for their input, because they have got to have some cover.

I am really concerned that these tools are needed now. If we just deal with homeland security and don't give the other agencies the flexibilities they need, then we are only compounding our problems. Because all of the needs of our agencies are important. I mean, the FBI, for example, they have been to see me. If they do not get another compensation system, I do not know how they are going to be able to get the job done. They need some flexibility.

So it seems to me that as we move down the road, we ought to be looking at the big picture and trying to figure out something that gives the unions comfort that they are not giving away the store, and at the same time, perhaps the administration might come through with some money and flexibility. The unions are concerned about pay comparability and compression, and health care. It is going to be very difficult, in my opinion, for us to get the unions to go along with this without them seeing some money. As Jerry Maguire said, show me the money.

Chairman LIEBERMAN. Well said.

We have a few minutes left on a vote. If you want to ask some questions, Senator Fitzgerald, I would be inclined to yield the gavel to you with the hope that you will not do anything too wild while you are in charge of the Committee.

Senator FITZGERALD. So that we could go vote and then come back?

Chairman LIEBERMAN. I was thinking that I would let you close the hearing, if you want to ask some questions, or if you——

Senator FITZGERALD. Yes. We are so short on time, I think we are right up against it. Could I come back and take it and——

Chairman LIEBERMAN. Yes, definitely. I am happy to recess the hearing at this point with the understanding that Senator Fitzgerald will come back, perhaps himself, and ask some questions, and then I will close the hearing.

In the meantime, I thank you very much. It is my intention to try to move your nomination through both the Committee and the Senate as quickly as possible. I look forward to working with you.

Mr. EVERSON. Thank you, sir.

Chairman LIEBERMAN. For now, the Committee stands in recess. [Recess.]

OPENING STATEMENT OF SENATOR FITZGERALD

Senator FITZGERALD [presiding]. We will call this meeting back to order, and Mr. Everson, thank you very much for your patience. It is good to see someone who at least for a while lived in Illinois, and I guess your mother still lives there.

Mr. EVERSON. Still there.

Senator FITZGERALD. I guess I can call you an honorary constituent in that case. You lived there in the late 1980's, early 1990's?

Mr. EVERSON. Absolutely. I would be pleased. We moved around so much that, Illinois, it seemed really like the center of where we were, and when we went back from France, it was really our preference, in fact, to go back to the Chicago area for a whole host of reasons, but it did not happen.

Senator FITZGERALD. Well, welcome to this Committee and congratulations on your appointment. Congratulations to your family. How many kids do you have? Have you introduced your family to the Committee?

Mr. EVERSON. I introduced them, yes. We have two children. We do have a constituent of yours in addition who is not here today. We actually have a foster daughter who is a Cambodian refugee who is living in Bolling Brook with her family, her husband and their two daughters. They are not here, but this is my sister-in-law and her three children, in addition to Emma and Leonard, who are our children.

Senator FITZGERALD. Wonderful. Welcome, and congratulations. Your background and qualifications are superb. Your educational credentials, also your credentials in the corporate world are great. It sounds like you will be able to do a very good job at the OMB.

I did want to ask you a few questions, and I appreciate you waiting for us to get through that vote so I could have this opportunity. There are a couple of issues I want to address. It strikes me as we have this hearing that we have just spent a week on the Senate floor, last week, debating rules or regulations and laws that would govern the accounting industry in America, but we were really only concerned with corporate America.

I think that sometimes we fail to consider the accounting rules that we apply in the Federal Government. Actually, I think the *Wall Street Journal* had an editorial once that was entitled "The Federal Enron." They were referring to the Federal accounting standards.

Mr. EVERSON. Yes.

Senator FITZGERALD. I have been struck by the fact that the first 2 years I was in office, it was under the prior administration, the national debt was going up steadily. I think it went up about $200 billion during my first couple of years in office, and yet every year, the Federal Government was claiming a surplus. I thought it was odd that the national debt could be going up if we are running surpluses.

After investigating this, I found out that the way the Federal Government was claiming a surplus was that we have a general

fund and we would raid 150 or so trust and pension funds, take all the revenue out of the trust and pension funds, mix it in with the general fund and say the general fund is running a surplus. But we were borrowing from the trust and pension funds, putting notes, promissory notes or government bonds in those funds and the national debt was going up. If somebody in the private sector were to reach into their employees' pension fund and loot it, they would go to jail, without question. But Washington does it all the time and they do not really talk about it. They ignore it.

The fact of the matter is, we do not use anything close to Generally Accepted Accounting Procedures, although I am afraid that in the last couple of years, the Federal Financial Accounting Advisory Board prevailed on the independent group, the AICPA, the American Institute of CPAs, to call what we do in the Federal Government GAAP accounting, which I thought was somewhat outrageous.

In any case, I want to ask you a couple of questions about governmental accounting. There is, as I alluded to, a Federal Financial Accounting Standards Advisory Board.

Mr. EVERSON. Yes, sir.

Senator FITZGERALD. My understanding is that, recently, an agreement was entered into by the OMB, the Treasury Department, and the GAO to restructure that board and I was interested to see the addition of a majority of non-Federal Government members to the Board. I hope that will increase the independence of the Board. But I have one strong concern, and that is the fact that any one of the Comptroller General, the Secretary of the Treasury, or the Director of the OMB may single-handedly object to any standard proposed by the Board and prevent that standard from being implemented.

Now, we were talking about the independence of the Financial Accounting Standards Board that governs the private sector all last week. We never really discussed the independence of this Financial Advisory Board, this Financial Accounting Standards Advisory Board, and I wanted to get your thoughts——

Mr. EVERSON. Yes.

Senator FITZGERALD [continuing]. On whether that Board is independent, should be independent, what do you think, and what do you think the OMB and the administration's position is on the independence of that Board?

Mr. EVERSON. Thank you. I am glad you raised the general subject and then the specific matter, the FASAB. On the general subject, we agree that there is a very significant need to integrate the budget and the financial information such that the accounting information is consistent with the budgetary information. If you look at the 2001 financial statements of the government, which were issued in March—it is shocking that it takes 6 months to issue these statements, but——

Senator FITZGERALD. And you do want to move the date up, do you not, to December 15?

Mr. EVERSON. Absolutely. As was referenced before, we have set an objective that would move the financial statements for the government that are now prepared 6 months after the close of the fiscal year to December 15 in fiscal year 2004. That would require the

agencies to report 45 days after the end of the fiscal year instead of 5 months. So that is a tall order, something that was actually discussed at the PCIE, that is the IG group, yesterday. People are diligently working on it. I am confident that just by setting this marker here, we are going to make very significant improvements in controls in financial statement preparation.

But part of this is to get financial information that is consistent with budgetary information. If you look right now, we reported a deficit for our financial statement purposes of $500 billion for the 2001 reporting year, in contrast to a surplus of over $100 billion plus.

The difference there was that the accounting standards, the GAAP standards, which, as you say, are a little bit different from the private sector standards and need to be improved, they recognize the cost, the effective changes in cost for future benefits, health and retiree benefits, that were granted to our veterans and our military employees at the end of 2000. Pardon me, when it was actually in the fiscal year 2001 reporting. For budget purposes, this was counted as $10 billion worth of cost. When it comes through and you do it on an actuarial basis, it came out to almost $300 billion of cost, and that is a cost that the government is going to have to swallow in the out years.

That is just one example of where the way we budget and score things does not—it is not consistent with what good financial management——

Senator FITZGERALD. We are using cost accounting, are we not, as opposed to accrual?

Mr. EVERSON. We are using financial—we are recognizing—there, you are looking at the present value of the obligations you have already incurred for both your veterans and your current employees at DOD. That was the big impact there. It was a benefit that was granted that picked up all of——

Senator FITZGERALD. If we had full accrual accounting, our numbers would recognize those costs, correct?

Mr. EVERSON. They do not recognize it on a budgetary basis. The financial statements do. That is the distinction. And all the debate that you have up here and that we have is for the budgetary purposes, but it is only showing part of the picture, is what we would say.

Turning to the FASAB, we recognize there has been a deficiency in the stature of that organization, if you will, and in the independence of it. It was running with a five-four government-private sector relationship, or pardon me, it might have been six-three, in fact, and we decided to split, to swap that around to make it a six-three majority of non-governmental, as you say, retaining the same relationship between Executive and Congressional Branch representation.

Whereas before you had four Executive Branch agencies plus GAO and the Congressional Budget Office, so that there was a two-to-one representation, we have inverted that so that we will have six private sector or non-governmental representatives, then two Executive Branch agencies, one being OMB, one being Treasury. We set the policies on the accounting and financial standards generally. Treasury, as you know, implements them as they are our

bookkeeper, or they prepare the financial statements, and then GAO, which does the auditing and looks at a lot of the standards, too. So we retain that same ratio for the government participation.

You are right, there is still a right to veto on the part of any one of the principals, that is something that I do not think really we would see exercised because of the avalanche of criticism that we provided, but it is a complicated legal issue. We are very committed to the independence, particularly Secretary O'Neill. He really felt this——

Senator FITZGERALD. I would encourage you to think about that and take my concerns back to Mitch Daniels——

Mr. EVERSON. Yes.

Senator FITZGERALD [continuing]. Because what if Global Crossing or Enron had a veto over the rules set by the Financial Accounting Standards Board? I mean, it is problematic and you really do want that board to be independent——

Mr. EVERSON. Yes.

Senator FITZGERALD [continuing]. And to clamp down on practices that maybe should not be allowed and to have the ability to enforce them. So I would encourage you to think about it, although I do compliment you for increasing the number of outside members. I think that will be helpful.

Mr. EVERSON. Thank you.

Senator FITZGERALD. Back on the accounting issues, the accounting around here is crazy. You alluded to us not taking into account the increase in unfunded liabilities when we pass a program for veterans or for some other group, and that you are using internally some different numbers than we are using up on the Hill.

Mr. EVERSON. Not internally, for the financial—the preparation of the financial statements. I had meant to but did not bring up the financial report of the government, which is on a GAAP basis, but it is a government GAAP which does have—it does not pick up, for instance, right now, all of the property in the same way, and I think this is the whole benefit of getting this outside——

Senator FITZGERALD. Well, is it not correct that when we consider whether we have a budget deficit or surplus, we take all the cash out of 150 or so different government trust funds and pension funds, such as the Federal Employees Pension Fund, the Military Retirees Pension Fund, the Social Security Trust Funds, the two of them——

Mr. EVERSON. Right.

Senator FITZGERALD [continuing]. The Medicare Trust Funds, even the State Unemployment Insurance Trust Funds, which we do not own, we just manage for the 50 States. We take all the cash that——

Mr. EVERSON. There is the on-budget surplus and the additional surplus, exactly right. You get into this argument that was so prevalent during the campaign and then more recently of the lockbox and what is in the—where are you in terms of what are you using from all those other pieces. That is exactly right.

Senator FITZGERALD. There is no money in any of those trust funds, is that not correct?

Mr. EVERSON. I do not know all the answers in terms of which—the various trust funds. Some have positive balances and some are borrowed out.

Senator FITZGERALD. When they have balances, the balances are an asset balance and they have government bonds——

Mr. EVERSON. There are IOUs from other—you are exactly right. This is where you get into the interaction of all the debt and what is debt held by the public, which is that net position that is on the financial statement.

Senator FITZGERALD. Does anybody in the administration favor cleaning up this? I mean, this is really—I think it is an outrage that we raid all the pension and trust funds that the government manages, we spend it on other programs and put IOUs in there.

Mr. EVERSON. We are looking. We are strongly in favor of greater transparency, and I think we do have a—we have a fair amount of transparency here, because in these financial statements, we do have a great deal of disclosure. There is discussion about—let us go back to, say, Social Security. Should you put that future obligation on the balance sheet? Right now, that is not on the balance sheet of the government. What should you put on the balance sheet?

That is the kind of issue that will very much be targeted for discussion and to be addressed by the newly-reconstituted FASAB. That starts to get to that linkage of the very question you are getting to. We, for sure, want to get more integration of the budget and the financial statements to recognize those costs and to clarify the accounting so that you get past what right now is a discussion that is based on 10-year projections, many of which are faulty, 5-year projections——

Senator FITZGERALD. I hope you do all that——

Mr. EVERSON. Yes.

Senator FITZGERALD [continuing]. But I also hope you go one step further and rethink this whole idea that all these trust funds can be phony. If they are phony and they are not real trust funds and they have no money in them, maybe we should not call them trust funds or pension funds.

Congress has passed laws to make it illegal for private corporations to raid their pension funds. It would be illegal if somebody at ABC Corporation went into their employees' pension fund, took that money out, spent it on other programs, and then put a corporate bond in there. They would get in trouble for that.

Similarly, we passed laws making it illegal for State and local governments to raid their pension funds for their retirees.

Mr. EVERSON. Sure.

Senator FITZGERALD. It would be a very serious infraction for a State to dip into its State Employees Pension Fund, take that money out, and spend it on something else. Now, often, States do not put the amount of money into the pension fund that they should, but I am not aware of any that actually raid it and spend it on other programs. But we do this all the time——

Mr. EVERSON. Yes.

Senator FITZGERALD [continuing]. In the Federal Government, a whole variety of pension and trust funds——

Mr. EVERSON. Yes.

Senator FITZGERALD [continuing]. And really, they are nothing more than an accounting sham and I am very concerned that it is misleading the American people about the financial condition of the government. You guys have done such a good job under Mitch Daniels. I think he has great experience and really, from everything I can see, thinks the right way about it.

Mr. EVERSON. Yes.

Senator FITZGERALD. I wonder if you would not take that concern back——

Mr. EVERSON. I will carry this back, and I think there is a great deal of discussion. Dave Walker from GAO, as you know, he raises these issues of the long-term health of all these funds. It is very serious.

Senator FITZGERALD. I have talked to people in Mr. Walker's office who have defended the whole practice, and it was shortly after I came into the U.S. Senate, and I just thought they sounded bizarre to me. I think to anybody outside the beltway, our practices sound bizarre. I think there has been too much incestuousness in all these government accounting people talking to themselves. We would not allow this anywhere else in America.

Mr. EVERSON. I am glad you surfaced this sentiment and I will certainly take it back for discussion within our shop.

Senator FITZGERALD. Thank you. Along the same lines, my understanding is, right now, since about 1990 when we passed the, was it the Chief Financial Officer Act, we have required the 24 largest departments and agencies and a few others that are specified by Congress to have audits. Prior to the early 1990's, I guess there were no audits for the Agriculture Department, the Defense—just no audits, nothing.

We have begun in the last decade or so to require audits, but we do not do it for all the departments, just the 24 largest, and I have actually introduced a bill that would require all executive agencies with a budget authority in excess of $25 million to prepare audited financial statements and subject those statements to an independent audit. I estimate that, based upon current budgets, 19 additional Federal agencies would be covered under the bill, including the SEC. Is it not ironic, the SEC does not get audited. It may audit companies in America, but it does not face any audits, the Federal Trade Commission and the Federal Communications Commission.

I guess that there has been legislation like this introduced by Congressman Toomey in the House, and that has been fairly well received. I wonder if you could comment on your opinion about the CFO Act generally and to what extent that you feel the information it requires has been helpful to the OMB in its quest to improve government financial management.

Mr. EVERSON. I mentioned, and I think you had stepped out of the chamber for just a minute, but that I believe the CFO Act was a very significant contribution to improving Federal management. It set up, and the follow-on Act set up a series of deliverables, if you will, or expectations requirements for agencies to better manage their finances and other areas of their operations. So I think that is positive.

My reservations about the Act and the whole series of management legislation that took place really pertained to two issues, one being the sort of the fracturing of responsibility for management within the government. After the CFO Act came along, you had a focus on CIOs. You have human resource officers in some instances, procurement officers, and some of these are split off such that you do not see the management people talking to each other. They are operating in some of these departments as independent agents.

That, to the degree to which you say we are going to solve problems by making chief human resource officers or CIOs or chief procurement officers without having it all integrated in the department, it does not get to where you need to get, which is to integrate the management stuff. That is not a problem with the expectations, though, that you have established in the Congress on what needs to be done. That is a management structuring question.

On another element that is complicated, we have had a proliferation of different reporting mechanisms. There is FFMIA, FMFIA, there are a couple different things that are out there where you have moved away from the private sector standard of reporting on material weaknesses, which I think is the right standard, and you get some things that are not complying with systems requirements or some things that are general control weaknesses.

It is sometimes hard for an agency head to figure out what thing to fix next because you have got to report on four or five different grids of overlapping areas, if you can understand my point. Each statute provides a different mechanism or a slightly different prism through which to view these problem areas, and we——

Senator FITZGERALD. Would you have recommendations, how we might be able to——

Mr. EVERSON. We are looking at it, whether there needs to be some sort of rationalization that would say, look at material weaknesses. Material weaknesses, if identified by auditors and known by management, that will sweep in all the areas of concern. So there may be a need to do some rationalization.

As to your bill, we have said that we support what has gone on in the House because we think that subjecting it to the audits is—and I guess the threshold, at least that I am familiar with, $25 million, we are all for that. We are not so sure—I am not sure—pardon me, I am not familiar with the specificities of the bill that you have got. We do not want to mandate that a small agency would have to be FFMIA compliant on systems, because from a government-wide point of view, the reason we need compliance is so that when you pull together those financial statements, they are all on a consistent basis. But if it is some $40 million agency, if they have got something that serves their purposes, that ought to be good enough as long as the numbers are good.

Senator FITZGERALD. But you support the audit requirement?

Mr. EVERSON. Yes, absolutely.

Senator FITZGERALD. That it be audited and——

Mr. EVERSON. Yes, sir, we do.

Senator FITZGERALD. Now, on the audits that we have had, I guess this year, we have had no change in the number of departments that were receiving clean audits. I think 18 of 24 CFO Act

agencies were able to obtain an unqualified audit opinion for their 2001 financial statements. The 18 were different in that FEMA deteriorated and so did NASA. NASA got a disclaimer of opinion. But there was some improvement by the DOJ and the DOT, and I certainly would compliment them. They got clean opinions.

The Education Department got a qualified opinion. I gather that the USDA got a disclaimer again, but there may have been some improvement in their prior practices. We still have the DOD getting a disclaimer. We still have other agencies getting terrible opinions, but we are giving them more money. There is not really any teeth in the Act. What is the downside if you go on year after year getting a disclaimer of opinion?

Mr. EVERSON. I think that through our initiative to improve financial management, we are bringing greater focus on this and there will be accountability within the management teams of these departments to achieve those results. A lot of it has to do with the elimination of material weaknesses, which in many instances departments have pushed off. The easiest thing to do is to just sort of extend the due date for getting these things resolved.

I would characterize looking behind the numbers as you just did in your analysis. I think we would characterize it as modest but important improvement that was made this year. The slippage in NASA, for instance, I think it largely related to you had a change in auditors there, so it was a first time through. NASA did not meet the documentation standards that the new auditor put forward. I am totally confident that both there and FEMA, with very aggressive remediation plans they have in place, that they are going to get back to where they were before.

Senator FITZGERALD. What steps does OMB take to hammer on these agencies?

Mr. EVERSON. We sit down with the agencies. We have an annual meeting, which is a very broad series of discussions well before the audit takes place. It involves the department, ourselves, GAO, Treasury, and the Inspector General of the department. The Inspector Generals, as you know, they are responsible for overseeing that audit in the departments and agencies. In many instances, it is contracted out, but in others, it is not. And then we follow up as needed, depending on whether it is a problem agency or not.

I would characterize what has happened so far as real improvement. The Agriculture situation you mentioned, their problems now principally relate to the Forest Service, but they took two or three big entities and were able to get opinions on them at this point, at this time for the first year. You mentioned two big departments, Justice and Transportation. That is good news. That is progress.

I am rather encouraged in this area. The one that is going to take the longest is going to be DOD, and that is going to take a while yet. But our standards for success here, if you go to the standards for success that we have articulated, and we developed these with GAO and Treasury as to financial management, they are broader than just the audits. They run to things like systems that provides information that supports day-to-day decision making. That is a high standard. You do not just get that with the audit.

Senator FITZGERALD. Do you feel there should be any budgetary or appropriation consequence to an agency that really does go on year after year and you do not see the improvement in their——

Mr. EVERSON. I think there should be a management, in terms of change of management. That should be the first step. We have looked carefully. We have authorities, as you would be aware, under Clinger-Cohen to stop or change systems. If people are not executing their systems correctly, we can step in there and will not hesitate to do so, as the facts may demand.

But one of the things we are trying to do is get people to move quicker. I am a little struck, coming back into government, by the reluctance to get issues resolved. Part of the split we have here is when a system is starting to be deployed and it is coming out as—it is not working as well in, say, the first module, people just stop. They wait——

Senator FITZGERALD. Now, you were a CFO, is that right, in——

Mr. EVERSON. I had lead responsibility for all the finances at Sky Chefs, that is correct, and at Pechiney, I had the internal budgeting and reporting for management reporting——

Senator FITZGERALD. Now, in the corporate world, it was no big deal. They have an unqualified opinion——

Mr. EVERSON. That is exactly right. Well, it was a baseline, and that is what we are trying to get to here. You do not get—we are saying you need that and you need that, but it is a minimum. It is a floor, not a ceiling.

Senator FITZGERALD. I know Secretary Evans told me that when he was visiting with his predecessor at the Department of Commerce, they were bragging that they had gotten an unqualified opinion, and he could not understand why that entitled you to bragging rights, because in the real world, that would just be what was ordinarily expected and, in fact, you would be in big trouble if you could not get an unqualified opinion.

Mr. EVERSON. We could not agree with you more, and frankly, it is not that hard to get, if all you have to do is get it 5 months after the end of the fiscal year.

Senator FITZGERALD. Yes.

Mr. EVERSON. You just keep running the numbers until you finally nail them down.

Senator FITZGERALD. Mr. Everson, thank you so much for being generous with your time. Congratulations to you and your family. I look forward to working with you and we hope that—I am sure you will have a good relationship with this Committee.

Mr. EVERSON. Yes, sir.

Senator FITZGERALD. If we can be helpful in any way, please let us know.

I am going to say that this completes this hearing. The record will remain open for the rest of today in case any Committee Members want to submit written questions—we hope not too many will do that to you, as I am sure you have other work to do—and any written statements that they want to provide. The record will be open until the close of business today. With that, the Committee stands in recess. Thank you.

[Whereupon, at 3:30 p.m., the Committee was adjourned.]

APPENDIX

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. **Name:** (Include any former names used.)

   Mark W. Everson

2. **Position to which nominated:**

   Deputy Director for Management, Office of Management and Budget

3. **Date of nomination:**

   May 6, 2002

4. **Address:** (List current place of residence and office addresses.)

   — — — —

   Office of Management and Budget
   17th and Pennsylvania Avenue, NW
   Washington, DC 20503

5. **Date and place of birth:**

   September 10, 1954
   New York, New York

6. **Marital status:** (Include maiden name of wife or husband's name.)

   Married to Nanette (nee Rutka) Everson

7. **Names and ages of children:**

   — — — —

8. **Education:** List secondary and higher education institutions, dates attended, degree received and date degree granted.

   Phillips Exeter Academy, 9/68 to 6/71, Diploma, 6/71
   Yale University, 9/72 to 5/76, B. A. (History), 5/76
   New York University – Business School, 6/76 to 9/77, M.S. (Accounting), 9/77

9. **Employment record:** List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)

   See Attachment I

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, State, or local governments, other than those listed above.

    None

11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

    None other than those positions listed on Attachment I

12. **Memberships:** List all memberships and offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

    In 1993-1995, I served on an honorary council of Indiana executives which advised the President of the Hudson Institute. For a number of years, I have been a member of the President's Club of the Heritage Foundation.

13. **Political affiliations and activities:**

    (a) List all offices with a political party which you have held or any public office for which you have been a candidate.

    Elected in 1989 and served for one year as community representative to an elementary school local school council in Chicago.

    (b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

    Member of Texas Republican Party, 2000-2001

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of $50 or more for the past 5 years.

2000- $1000 to Bush-Cheney Compliance Committee
$500 to Newton for Congress
$75 to Texas Republican Party
1999- $1000 to Bush for President primary campaign
1998- $500 to Bush for Texas Governor

14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

U.S. Department of Justice, Attorney General's Award for Distinguished Service, 1987

15. **Published writings:** List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written.

Enclosed

16. **Speeches:** Provide the Committee with four copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated.

Enclosed

17. **Selection:**

(a) Do you know why you were chosen for this nomination by the President?

I believe I was chosen to become Deputy Director for Management based on a favorable assessment of the work I have been doing helping to implement the President's Management Agenda, both as Controller and as Vice Chairman of the President's Management Council.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

I have twenty-six years of experience in both business and government. Most of my assignments have been in finance, but I have held operating positions as well. I have lived and worked overseas in both developed (France) and developing (Turkey) countries. I believe I have the broad base of experience necessary to tackle a position of this scope.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

   I have no such business connections, as I am a government employee.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

   No

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

   No

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

   No

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

   Yes, at the pleasure of the President.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

   None

2. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy other than while in a federal government capacity.

   None

3. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

   Yes

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

   No

2. To your knowledge, have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendere) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.

   No

3. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

   I have never been individually named or a party to any administrative proceeding or civil litigation. However, during my period of employment with SC International Services, Inc. and affiliates, the company and its affiliates were party to a number of administrative agency proceedings and civil litigation matters. The matters in question were normal for a corporation of its size. No specific matters were disclosed in the company's financial statements because they were not material. (It should be noted that the company's outside auditors reviewed all legal matters with outside legal counsel during the annual audit process to determine whether any such matters require disclosure. None did.)

4. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

   None

E. FINANCIAL DATA

The Answers to the Financial portion of this Questionnaire are available for inspection in SD-340.

AFFIDAVIT

I, MARK W. EVERSON being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Mark W. Everson

Subscribed and sworn before me this 9th day of May, 2002

Bessie M. Jones Neave
Notary Public
Commission Expires: Aug. 14, 2004

Attachment I
Mark W. Everson
Employment Record

November 2001 to Present – United States Government, Washington, D.C. Controller, Office of Federal Financial Management, Office of Management and Budget, Executive Office of the President.

August 2001 to November 2001 – United States Government, Washington, D.C. Consultant to the Director, then Counselor to the Director, Office of Management and Budget, Executive Office of the President.

October 1998 to August 2001 – SC International Services, Inc., Arlington, Texas. Served as Vice President-Finance and Controller until February 2001; then as Group Vice President-Finance.

July 1988 to September 1998 – Pechiney Group/American National Can Company. Served as Plant Manager of Chicago, Illinois can manufacturing factory until February 1991; then as Managing Director of subsidiary in Manisa, Turkey from March 1991 until May 1993; Vice President and Controller of glass container division in Marion, Indiana from May 1993 until April 1995; Vice President-Control of Pechiney Group in Paris, France from April 1995 until April 1997; and then Senior Vice President-Control from April 1997 until September 1998, also in Paris.

July 1982 to July 1988 – United States Government, Washington, DC. From July 1982 to May 1985, served as Special Assistant to the Director and then Assistant Director of the United States Information Agency. Served in the Department of Justice from May 1985 until July 1988, first as Special Assistant to the Attorney General until July 1986, and subsequently as Executive Associate Commissioner and then Deputy Commissioner of the Immigration and Naturalization Service until July 1988.

September 1976 to July 1982 – Arthur Andersen and Co., New York, New York. Staff Auditor, then Senior Auditor, then Audit Manager.

PRE-HEARING QUESTIONNAIRE
FOR THE NOMINATION OF MARK W. EVERSON,
NOMINEE FOR DEPUTY DIRECTOR FOR MANAGEMENT, OMB

I. Nomination Process and Conflicts of Interest

1. Were any conditions, expressed or implied, attached to your nomination? If so, please explain.

Answer: No.

2. Have you made any commitments with respect to the policies and principles you will attempt to implement as Deputy Director of Management, Office of Management and Budget (OMB)? If so, what are they and to whom have the commitments been made?

Answer: Other than a commitment to swear to uphold and defend the Constitution of the United States and work to implement the policies of the President of the United States, I have made no such commitments.

3. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification.

Answer: No.

II. Role and Responsibilities of the Deputy Director for Management

4. How do you view the role of the Deputy Director for Management (DDM) at OMB? What would you highlight from your experience that will enhance your effectiveness in this role?

Answer: As laid out in the Chief Financial Officers Act, which created the position, the DDM is given the responsibility for establishing government-wide management policies for executive agencies. As I wrote in response to the Committee's biographical questionnaire, I have twenty-six years of experience in both business and government. Most of my assignments have been in finance, but I have held operating positions as well. I have lived and worked overseas in both developed (France) and developing (Turkey) countries. I believe I have the broad base of experience necessary to tackle a position of this scope, and that my experience helping to implement the President's Management Agenda thus far is also highly relevant to my selection.

5. What would be your priorities as Deputy Director?

Answer: My priorities would be as follows:
(1) Implementation of the President's Management Agenda;
(2) The President's initiative to create a Department of Homeland Security;
(3) Strengthening the President's Management Council; and
(4) Reinforcing the importance of management within OMB.

6. What do you see as the main challenges facing OMB? What will you do, as DDM, to address these challenges?

Answer: OMB provides critical support for the President in implementing his management and budget responsibilities. Each of these responsibilities vies for the proper attention of those within the Administration. As DDM, I will use my energies to ensure that we continually reinforce within OMB the need to address the government's management challenges, and bring about a more efficient and effective Federal Government.

7. How do you view OMB's role (and yours as DDM) in communicating and working with Congress to improve management in the Federal Government?

Answer: Congress, and the Governmental Affairs Committee in particular, has done an excellent job of bringing Executive Branch focus on the major management challenges facing the Federal Government. Much of the Committee's work has informed the selection of the initiatives that make up the President's Management Agenda. I will work to keep Congress aware of our progress in addressing these challenges, identifying our successes as well as asking for assistance in removing barriers to progress. An important element of keeping Congress informed will be the transmittal of OMB's evaluation of agencies' progress against the Executive Branch Management Scorecard criteria. We will be providing Congress with regular updates of the scorecard.

III. Policy Questions

Organization, Planning and Management of OMB

1. The President's FY 2003 Budget included an Executive Branch Management Scorecard, which the Administration stated it will use "to track how well departments and agencies are executing the Administration's management initiatives, and where they stand at a given point in time against the overall standards for success." The Scorecard rated agencies using a red light (unsatisfactory), yellow light (mixed results), and green light (success) system. What criteria were used to make these judgments? What information and documentation will OMB make available to Congress and other stakeholders, such as

GAO, on the plans and strategies that agencies are putting in place to "get to green" on the Management Scorecard? In the absence of such documentation, how do you believe the scorecard will support the conclusion that agencies have, or have not, made improvement?

Answer: The President's FY 2003 Budget summarizes the basis for each scorecard evaluation. "Status" scores are based on five standards for success published in Chapter 23, "Scorecard Standards for Success," in the Analytic Perspectives volume of the Budget. OMB is assessing agency "progress" on a case by case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows:

Green: Implementation is proceeding according to plans agreed upon with the agencies;

Yellow: Some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and

Red: Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.

As scores improve, we will note the basis for the improvement. Probably the best way for Congress to monitor steps by individual agencies is for them to be assessed through the existing oversight practices employed by their Congressional authorizing committees. I would welcome this intervention because it would strengthen accountability at the level where it would have the greatest impact.

2. Separate from the grades agencies received on the Management Scorecard, OMB also assessed and identified a selected set of programs and judged them to be effective, ineffective or unknown. These judgments were included in the FY 2003 Budget and were used as the basis for Administration recommendations to redirect funds from programs judged to be lower performing to those deemed to be higher priority or more effective.

- How were the selected programs chosen?
- How were judgments regarding the degree of effectiveness made?
- Were these judgments made in consultation with the agencies?
- To what extent were these judgments based on the published annual performance goal(s) and measures for the programs and the reported performance data?

- Will such efforts in future years show a clear connection between an agency's published annual performance goals, subsequent performance (in the performance report), and OMB's assessments?

Answer: In the President's FY '03 Budget submission, OMB "rated" the effectiveness of 126 programs, evaluating them as effective, moderately effective, ineffective, or unknown. The programs assessed were selected by OMB in consultation with agencies in order to provide a more robust presentation of performance information. The information on which program ratings were based was far from perfect, but we believed it was important to offer, in an initial and admittedly exploratory way, a presentation that would enhance public and Congressional understanding of government performance. The Administration invites a spirited discussion and welcomes additional data, as well as suggestions about how to measure performance better throughout the Federal Government.

OMB staff and agencies collected evaluations, studies, and performance documentation of all sorts from multiple sources to assess which programs were effectively obtaining desired outcomes. We reviewed these evaluations with agencies, but the judgements were made by OMB.

Government Performance and Results Act (GPRA) performance measures were considered as a part of this process, and in many cases were highly informative. However, with many programs the search for meaningful performance measures continues and our assessments necessarily had to consider other material.

We remain committed to working with all agencies of the Federal Government to improve their performance measures. These measures must represent the most salient features of a program's performance assessment. The integration of budget and performance information is one of the government-wide initiatives on the President's Management Agenda. As we assess programs in the future, we will insist that agencies develop a credible linkage between resources and performance, so that there will be clear connections between an agency's published annual performance goals, subsequent performance, and OMB's assessments.

3. How do you plan to hold OMB's senior executives accountable for implementing the goals and objectives set forth in OMB's strategic plan? How will you ensure that OMB's senior executives integrate the implementation of OMB's statutory management, budget and policy responsibilities?

Answer: In this Administration, management issues are a regular and important topic of discussion among OMB's senior management, including the Director, the Deputy Director, and other OMB policy officials. I expect this to continue. We are

strengthening OMB's Senior Executive Service (SES) performance appraisal process to hold managers accountable for achieving our goals and objectives. We will use this assessment in making decisions about SES performance, including promotions and award determinations. I am pleased by the steady increase in attention to management issues I have seen by the Resource Management Offices at OMB.

4. What do you see as the role of the DDM in addressing OMB's human capital strategic planning? In particular, how do you plan to ensure that OMB staff have sufficient training and expertise to effectively oversee financial management, performance measurement, information resources management, and procurement issues as well as to identify potential systemic problems in the agencies they examine?

Answer: Director Daniels has asked the Deputy Director and the Executive Associate Director to take the lead on the development of OMB's human capital strategic plans. If confirmed, I will support these efforts and pay particular attention to the necessity that budget examiners have adequate knowledge and expertise in management areas.

5. The President's Budget for FY 2003 begins the process of linking agency budgets to the performance results these agencies have reported under the Government Performance and Results Act (GPRA). Based on these results, the Budget recommends that some agencies sustain significant cuts in funding of certain programs or minimal increases that may not keep pace with inflation. Others, like the National Weather Service's hurricane and tornado warning program, were judged to have performed well and are recommended for budget increases.

- Now that agencies clearly will see the potential consequences of their performance measurement, what steps will you take as DDM to ensure that agencies continue to set and report progress on the most challenging goals in their GPRA reports? Will some agencies have an incentive to set program goals that they know they can meet, in order to avoid budget cuts?

- When an agency reports that it has not met program goals, how will the Administration determine what path to take, i.e., what criteria will the Administration use to determine when a program might meet those goals with additional funding, or, on the other hand, that the program should be cut because it is not effective?

- What challenges do agencies face in terms of achieving full linkage between performance results and agency budgets? What will you do, as DDM, to help agencies address these challenges?

Answer: For the integration of budget and performance information to be successful, performance targets have to be meaningful and ambitious. This is why OMB has developed a Program Assessment Ratings Tool to bring rigor and discipline to the measurement of performance of Federal programs. If confirmed as DDM, the application of this tool, described in somewhat more detail in question 6 below, is how I hope to gauge the seriousness of agency performance management efforts.

Performance measures do not replace the need for high quality professional judgement, nor do they put the deliberative budget process on autopilot. Some ineffective programs face daunting challenges, like the need for more support or significant enhancements to management practices. In particular, there is a common failure on the part of agencies to have timely and accurate financial or performance information, making it very difficult to assess program costs and effectiveness. This will need to be remedied in order to establish linkage between performance results and agency budgets.

We will make judgements about what course to take in program management and funding levels based in large part on the information gleaned through the use of the new Program Assessment Ratings Tool. However, the conclusions reached and the actions taken will vary depending on the circumstances in each case.

6. In an April 24, 2002 memorandum to Executive Departments and Agencies, OMB Director Daniels provided guidance to agencies on preparation of the FY 2004 Budget. The memorandum states that "[a]s part of the President's budget and performance integration management initiative" the FY 2004 Budget will include "effectiveness ratings" for approximately 20% of each agency's programs. According to the memorandum, "OMB has already begun an extensive effort to identify a subset of programs and evaluation metrics for these programs." What criteria did OMB use to identify these programs? How were the evaluation metrics developed and who was included in this process?

Answer: This year, OMB is conducting a more systematic review of program performance to inform FY 2004 Budget decisions. Our goal is to assess systematically the effectiveness of all Federal dollars. To begin, we chose to rate approximately 20 percent of all Federal funding for the '04 budget process. The process of selecting the programs that will be rated this year is ongoing.

Currently, OMB is working with agencies to identify those programs that will be rated in the fall. In selecting programs for assessment, we are focusing on programs for which there is data on which to base a rating, such as performance information, General Accounting Office (GAO) reports, and program evaluations. We believe it is most productive to focus on older programs rather than new ones

because there should be more data available to document program achievements. We intend to rate the full variety of programs run by the Federal Government, large and small, mandatory and discretionary.

In order to ensure that our assessments are performed in a consistent, credible and robust manner, the Director formed a Performance Evaluation Team comprised of examiners from each of OMB's Resource Management Offices to help us develop the methodology, rigor, and transparency of the program effectiveness ratings. The Performance Evaluation Team has constructed a Program Assessment Ratings Tool, which is designed to establish a more consistent approach to rating program effectiveness across the Federal Government. There are several versions of the tool reflecting the diversity of Federal programs. Our goal is to make program effectiveness ratings for FY 2004 more robust, defensible, consistent, and transparent.

We've used this tool on a test basis in recent select examinations as part of OMB's spring review process. In addition, we have asked the PMC members for comments on the tool and its application to their programs. We will be modifying the Program Assessment Rating Tool based on the PMC's input and our experience with its use on a test basis this Spring.

7. The April 24, 2002 memorandum from Director Daniels also asks agencies "to work with OMB staff to develop evaluation metrics for several major cost-cutting, government-wide functions." The memorandum describes six of these functions for which OMB is working to develop common performance measures: low income housing assistance, job training and employment, wildland fire management, flood mitigation, disaster insurance, and health. An addendum to this memorandum that was provided to affected agencies sets out "more detailed information on the ... common performance measures" and adds three cross-cutting environmental functions to the earlier list.

- How were the cross-cutting functions and affected programs selected for this project?

Answer: The process of selection is still underway and subject to modification. Discussions are continuing with agency representatives. However, one essential element is that performance and cost information must be available to ensure that development of common measures will be useful. Education Deputy Secretary William Hansen chairs the Budget and Performance Integration subcommittee of the President's Management Council, which is working to address many of the challenges associated with this initiative.

- How will these cross-cutting measures be used?

Answer: The measures will be used to develop initial comparisons of affected programs. It is expected that this initial development will raise further questions that will lead to continuing analysis. The measures will be published with the FY 2004 Budget.

- Who will make the determinations regarding what measures will be used for each cross-cutting function identified? What involvement will you have as DDM in this process?

Answer: The determinations are under joint development between OMB and the affected agencies. An OMB Program Associate Director has the lead for each of the common measures, and I have been participating and will continue to participate to ensure that my perspective is considered as these measures are developed and reviewed in the fall. The budget and performance integration subcommittee of the President's Management Council, chaired by Education Deputy Secretary William Hansen, is also looking at this issue.

- The addendum's discussion of common measures for flood insurance programs acknowledges that certain benefits and costs, such as environmental costs and benefits, are important aspects of these programs but states that "we currently do not have a good method of displaying these types of effects in numerical terms that would be consistent across different types of projects or programs." For this reason, the addendum states that these costs and benefits are not included in this measure. Do you agree with the view stated in the addendum, and expressed by many others, that harms and benefits to the environment are often difficult or impossible to quantify? What other kind of program benefits and costs do you believe are particularly hard or impossible to quantify? How do you believe the effectiveness of programs whose costs and benefits are difficult or impossible to quantify should be evaluated and compared? How will you advise agencies to address this problem?

Answer: I agree that harms and benefits to the environment can be difficult to quantify. Performance measurement is a more difficult endeavor in the public sector than in the private sector. This is true because there are usually multiple factors influencing the conditions Federal programs are trying to affect. Just because it's difficult, however, doesn't mean we shouldn't continue to explore ways to measure the success of the programs in which the Federal government invests so much. That is what the endeavor to measure the effectiveness of these programs is about – coming up with robust, defensible, consistent, and transparent assessments of program effectiveness -- however challenging program effectiveness is to measure.

- In many cases, the programs selected for this analysis have been created and authorized by separate Congressional actions and may have varying

Congressional mandates and missions. What will you do to ensure that the common measures that are developed will be consistent with the policies Congress has directed each program to fulfill?

Answer: This effort is intended to illuminate the extent to which programs are achieving their Congressionally-mandated missions. Common measures can help us understand whether or not a program is accomplishing its mission effectively or at all.

- For some programs, such as the wetlands programs, the proposed metrics that agencies will use to compare their performance are quite specific. Have you determined that the affected agencies have the FY 2001 data these metrics require or will these measures require new data collection? If the latter, what will agencies be asked to do to get this information?

Answer: The proposed common measures are still at a preliminary stage. We are consulting with affected agencies on a number of questions related to these measures, including the availability of timely and reliable data. The success of this effort will depend to some degree on the data that is currently available. Different data may be required before making an assessment of program effectiveness. We will address those barriers to program evaluation as we encounter them.

Financial Management

1. The government faces significant challenges in achieving accountability and generating reliable financial and management information on a timely basis for decision-making due to pervasive, generally longstanding financial management problems. Describe your views on the importance of financial management improvement, in general, and OMB's role in addressing these challenges.

Answer: The financial management challenges facing the Executive Branch are extensive and comprise all elements of financial management: human, systems, processes, and policies. Many of the problems are government-wide (systems being the primary example), but selected departments and agencies can be said to have pervasive problems. The best way to address these challenges is to (1) articulate clear standards for financial management success, (2) establish a prioritized agenda for improvement, and (3) use all available vehicles to develop, coordinate, implement, and monitor improvement plans.

We are addressing these challenges through the Improved Financial Performance initiative, one of the five major government-wide components of the President's Management Agenda. The criteria we will use to measure agencies in improving

financial performance include not just getting clean opinions on agency financial statements, but also ensuring that financial management systems meet Federal requirements, integrating financial and performance management systems to support day-to-day agency operations, ensuring that agencies do not suffer from repeated material weaknesses, and, of course, that they have no Anti-deficiency Act violations.

Another aspect of this initiative is our effort to reduce erroneous payments. The government makes billions of dollars in erroneous payments each year, but until now we have no systematic effort to measure the extent of this problem. We are insisting that agencies estimate the extent of their erroneous payments and set goals and develop plans to reduce them.

I also believe it is critical to engage interagency organizations that play advisory, coordinating, or implementing roles in Federal financial management. These groups include the President's Management Council, the Chief Financial Officers Council, the Joint Financial Management Improvement Program, the President's Council on Integrity and Efficiency, and the Executive Council on Integrity and Efficiency. Active participation by OMB in these groups supplements the direct activities of OMB and its work with individual departments and agencies. Most importantly, I would continue to report regularly to the President's Management Council on the state and progress of Federal financial management, thus focusing attention on our efforts at the highest level.

If confirmed as DDM, I would ensure that financial management improvement efforts receive attention at the highest levels.

2. The Executive Branch Management Scorecard contained in the President's FY 2003 Budget evaluates 26 departments and agencies on the success of their efforts in five management areas selected by the Administration, including financial management. Of these agencies, all but 5 received "red lights," the lowest score, on their financial management. Only one agency received the highest possible score in this area. What have you done during your tenure as Controller to help agencies improve in this area? What will you do, as DDM, to improve agencies' performance in financial management?

Answer: Standards for financial management success must reflect requirements that financial information be accurate, timely, and useful. As Controller, I initiated an agenda with three dimensions: (1) core elements or attributes of Federal financial management requiring attention government-wide (an example would be improving the timeliness of financial statement preparation); (2) targeted opportunities involving multiple agencies (the President's Management Agenda initiative to reduce erroneous payments, for example); and (3) "repair work" at selected departments or agencies where financial management is clearly at an

unacceptable level. We have been meeting quarterly with the 24 CFO Act agencies to assess and support their efforts to improve financial management. I am pleased to report that the progress grades included many green and yellow lights, indicating that the agencies have developed and are implementing aggressive corrective action plans to "get to green" on status.

If confirmed as DDM, I would ensure that the statutory offices continue to work with agencies to realize significant progress in financial management. I would use my leadership role in the President's Management Council and other interagency organizations as a "bully pulpit" to facilitate improvements in financial management and all of the areas of the President's Management Agenda.

3. The Chief Financial Officers (CFO) Council, which has been chaired by you as OMB Controller, has formed a committee to address the problem of improper and erroneous payments by agencies. This is a problem that has long been a concern of the Committee's, as improper payments by agencies cause the loss of billions of dollars each year by the federal government. According to its draft charter, this new committee will utilize the recommendations made by GAO in its recently issued Executive Guide, *Strategies to Manage Improper Payments*, a manual prepared at Senator Lieberman's request to provide guidance to agencies on how to reduce this problem. What will you do to monitor the efforts of this CFO Council committee and ensure that agencies implement its recommendations?

Answer: Many of the principles outlined in the GAO Report, *Strategies to Manage Improper Payments*, are embodied in the Administration's effort to measure, track, and reduce erroneous payments. In fact, there is a component of the strategies defined in the GAO report--control environment, risk assessment, control activities, information and communications, and monitoring--in the deliverables the committee has promised. I have asked Robert Shea, a member of my staff, to sit in on Committee meetings and activities both to observe and participate, and reinforce my personal interest in this initiative. The Administration is serious about reducing erroneous payments, and the CFO Council Committee is just one of the tools it is using to meet this challenge.

4. The Federal Financial Management Improvement Act of 1996 (FFMIA), Public Law 104-208, Title VIII (31 U.S.C. 3512 note), requires auditors performing annual financial audits to report whether agencies' financial management systems comply substantially with federal accounting standards, federal financial management systems requirements, and the government's standard general ledger. Agencies whose financial systems are not in substantial compliance with the basic requirements of FFMIA must develop remediation plans to achieve compliance. These plans must be developed in consultation with OMB and must describe the corrective actions the agencies will take to achieve substantial compliance. GAO's most recent report on FFMIA stated that only 16 of the

21 major departments and agencies covered by FFMIA that were reported as noncompliant for FY 1999 prepared remediation plans. GAO-02-29 (October 2001). Moreover, GAO's review of the remediation plans concluded that many did not contain sufficient detail to be adequate tools for agency use in resolving financial management problems and that some of the corrective actions proposed did not fully address the problems they are intended to correct. What actions will you take, as DDM, to work with agencies to improve their remediation plans and ultimately to ensure that these agencies are in substantial compliance with FFMIA requirements?

Answer: FFMIA compliance is but one of many financial management issues monitored under the scorecard. Tracking against the scorecard standards includes interactions between agencies and OMB staff on financial management problems, approaches for correcting the problems, resource requirements, implementation plans and concerns, change management at the agency, phasing out old systems, and other discussions necessary to ensure that high-level plans, such as those presented in the FFMIA remediation plans, are developed into workable project plans and implemented according to schedule. I agree that agency attention to longstanding management challenges, including those identified through FFMIA, has not been sufficient. The Administration, especially OMB, is continuously reinforcing the need to resolve, once and for all, these challenges. I believe it is important for agencies to develop adequate project plans that go beyond the high level required by FFMIA for remediation plans and to use these plans to manage their projects efficiently to result in improved financial performance. I have recently spoken to the importance of this subject and presented government-wide statistics at a full CFO Council meeting.

5. In your view, are the staff resources dedicated to financial management issues sufficient for OMB to identify and correct systemic problems, improve government-wide financial management practices, and implement statutory requirements such as the Chief Financial Officers Act, the Government Management Reform Act, and FFMIA?

Answer: I believe the staff resources dedicated to financial management issues are adequate, particularly as OMB's Resource Management Offices are steadily improving their expertise in this area. Because the challenges the Federal government faces in financial management are significant, I have sought to leverage existing resources through the participation of other Executive Branch departments and OMB offices in task forces, councils, etc. The CFO Council in particular is proving a useful tool in the development of financial performance policy advice, and also for the implementation of government-wide initiatives.

6. What do you see as the role of the Chief Financial Officers (CFO) Council? How can OMB work with CFOs to leverage resources devoted to financial management issues?

Answer: The CFO Council, particularly its Executive Committee, is an important participant in the development of financial management policies. As Controller, one of my first goals was to revitalize the Council and leverage its resources toward achieving the goals outlined in the President's Management Agenda. The Council formed a new committee structure to mirror the five government-wide initiatives. The committees include Best Practices, Budget and Performance Integration, Erroneous Payments, Financial Statement Acceleration, Financial Systems and E-Government, and Human Capital. The committees each have projects underway that will improve government-wide performance in a number of areas. The Human Capital Committee, for example, is working diligently to recommend programs, policies, and practices that will enhance the government's ability to recruit and retain talented financial management professionals.

7. What role do you envision for OMB in the selection of qualified agency chief financial officers? How have you worked with the Office of Personnel Management, as Controller, to develop a means to attract and retain financial management staff, and what more do you hope to do if you are confirmed as DDM?

Answer: The CFO Act provides for an OMB role in advising agency heads "with respect to the selection of agency Chief Financial Officers and Deputy Chief Financial Officers." It also establishes an OMB role as to qualification standards and assessments of financial management staffs. Shortly after my confirmation as Controller, I met with the Office of Presidential Personnel to offer technical assistance and input as pertains to Presidentially-appointed CFO positions. I also work with agency heads and others involved in the filling of career CFO openings as they occur.

National Preparedness and Homeland Security

1. According to Executive Order 13228, which established the Office of Homeland Security (OHS), the Assistant to the President for Homeland Security, in consultation with the Director of OMB, shall identify programs that contribute to the Administration's homeland security. In addition, he is to provide advice to the Director of OMB on the level and use of funding in departments and agencies for homeland security activities, and certify to the Director of OMB the funding levels believed to be necessary and appropriate for homeland security-related activities of the Executive Branch. The National Strategy has not yet been completed by OHS, but a working definition of homeland security has been articulated in the President's FY 2003 Budget. Given these responsibilities:

   - What steps will OMB and OHS take to improve coordination of programs across departments and agencies?

Answer: Since the establishment of the Office of Homeland Security, there has been an extraordinary level of cooperation between OMB and OHS. OMB has dedicated staff and managers working with OHS, and many more are engaged with homeland security on an issue-by-issue basis. OMB has also participated in OHS' Policy Coordinating Committee (PCC) process, which is dealing with many of the key issues that require better coordination among federal departments and agencies, such as border management and bioterrorism preparedness. Together, we are identifying specific areas in need of better coordination, considering areas where duplication of effort may impede coordination, and developing budgetary and policy recommendations to address these issues.

- What criteria will OMB use to evaluate agencies' programs to identify programs related to homeland security?

Answer: First and foremost, OMB will focus on the key capacities that our nation needs to support homeland security. We have begun to do this in FY 2002 and the FY 2003 Budget, and will continue to do so as we support the development of the National Strategy and formulate future budgets. Working with OHS and the individual agencies, OMB will help to develop, refine, and evaluate performance against measures that benchmark our progress in attaining these capacities. This is a complex challenge, but one to which we are committed.

- What criteria will OMB use to evaluate agencies' progress in implementing the National Strategy?

Answer: As stated above, OMB will focus on developing the key capacities that our nation needs to support homeland security. We will evaluate agency performance using measures that benchmark our progress in attaining those capacities. The Administration expects that future agency budgets will support the National Strategy, and will hold individual agencies--and multiple agencies, where a multi-agency capacity is needed—accountable for demonstrating performance in these areas.

2. OMB provides important oversight for many management functions and legislative requirements. How should the National Strategy for homeland security be integrated with the government's existing efforts under the Government Performance and Results Act and other key management legislation that OMB oversees? Will homeland security goals, objectives, and measures be integrated into agency performance plans? What performance review and accountability mechanisms do you believe need to be in place? How do you propose using such mechanisms to gauge the efficacy of the FY 2003 expenditures and to assist in the development of future budget submissions?

Answer: The Administration will develop a clear, sustainable process to make certain that

the National Strategy is implemented through future budgets. In developing such a process, OMB will work to ensure that the programs that support homeland security are clear and well-defined. This will involve working with agencies and the Congress to ensure that the policy dialogue on homeland security focuses on an agreed-upon set of programs and issues, and that these programs have measurable goals and objectives. With such a framework in place–the effort to develop such a framework will be ongoing through FY 2003, the formulation of the National Strategy, and the FY 2004 Budget process--we can make certain that performance measurement and management accountability are integrated into our efforts to implement the Strategy.

3. The President's FY 2003 Budget recognizes significant roles for state and local governments and the private sector in the proposed initiatives for homeland security. The National Strategy is expected to more fully develop these roles.

- What role do you believe the federal government can and should play in fostering and maintaining necessary capabilities at the state and local levels?

- In what circumstances do you believe it appropriate for the federal government to provide funding to state and local governments for their efforts to combat terrorism?

- How do you believe the federal government can encourage and foster local and state-level intra- and inter-state mutual assistance programs?

Answer: Ensuring homeland security is a nationwide effort, involving all levels of government and the private sector. The Federal Government can play an important role -- where it is appropriate to do so -- in fostering and maintaining necessary capabilities at the state and local levels. It can set broad standards that are based on the collective expertise of our Nation's homeland security components. At the same time, those Federal regulations and standards should provide the necessary flexibility to state and local governments.

The Federal Government can provide assistance to ensure that state and local governments develop specific capacities or meet certain standards. But it is important that we set clear expectations of what will be achieved when such funding is provided. Regardless of the specific program, we need to be certain that the measures that state and local governments are taking will increase their level of preparedness in an efficient way. Federal incentives to encourage and foster local and state-level intra- and inter-state mutual assistance programs are a good example of this. As the FY 2003 Budget asserts, it is critical that we foster cooperation among first responders. We must not develop islands of equipment and expertise, but ensure an optimal, integrated response capability. I believe the

new Department of Homeland Security, if created, will do a great deal to improve coordination between the Federal government and state and local government and private sector interests.

4. Much of the nation's critical infrastructure is privately owned. Clearly, the private sector is a part of the National Strategy to combat terrorism. What tools or mechanisms do you think should be considered to engage, fund, or support the private sector? In what circumstances do you believe it is appropriate for the federal government to provide funding to the private sector for their efforts to combat terrorism?

Answer: The National Strategy will be a national plan, not just a Federal Government strategy. As you know, the nature of American society and the structure of American governance make it impossible to achieve the goal of a secure homeland through Federal activity and expense alone. The National Strategy for Homeland Security, therefore, will be based on the principle of partnership with state and local governments, the private sector, and citizens, and will articulate the framework for this partnership. In developing the Strategy, the Administration will consider all mechanisms to productively engage the private sector, including legal reform, regulation, and tax incentives, and cooperative arrangements with various levels of government.

5. State and local governments are seeking greater "flexibility" for use of homeland security funding, such as local determination of the most effective use, and multi-year funding to match multi-year planning goals and objectives.

- Do you support providing such flexibility to state and local governments?
- How can the federal government expedite funding to the state and local governments?

Answer: When allocating taxpayer dollars, it is important to ensure that the appropriate planning and goal-setting--or, in some cases, the mechanism to do so--is in place. The Administration is committed to providing flexibility to state and local governments while ensuring that funds enhance the capacity to protect against and respond to terrorist acts. We do not want to substitute Federal spending for state and local spending, but to ensure that Federal funds enhance our overall preparedness. Federal funding is being provided to state and local governments as expeditiously as is practical, and we will be vigilant in ensuring that this remains the case. I think that the new Department of Homeland Security, once created, would help expedite this funding by providing a single point of contact to state and local governments.

QUESTION 6 WAS NOT PROVIDED

7. What mechanisms will the federal government employ to monitor use of funds appropriated for homeland security to determine that the money is actually spent for the intended purposes? As DDM, what actions will you take to ensure that agencies are held accountable for this spending?

Answer: OMB will ensure that the programs that support homeland security are clear and well-defined and have measurable goals and objectives. Such goals and objectives will allow OMB and Congress to monitor spending and hold agencies accountable for their performance. The new Program Assessment Ratings Tool specifically addresses this issue and will be used to hold agencies accountable.

8. What do you believe is the proper balance between federal standards and regulations for homeland security and individual state and local standards and regulations?

Answer: For homeland security, both Federal and local standards and regulations are important. The Federal Government should be responsible for setting broad standards for homeland security protective measures that are necessary to secure our nation. However, these Federal regulations and standards should be set so as to provide flexibility to state and local governments, where warranted. In many cases, the specific circumstances of a state or locality might require unique standards or regulations for that area.

9. There are a number of coordinating councils, interagency work task forces, and other groups that OMB oversees, chairs, or is a member of. How are these various groups being integrated into homeland security and national preparedness efforts? Should the roles or charters of these groups be changed to better meet these new needs?

Answer: Working with OHS, OMB has utilized the resources of a number of coordinating councils, interagency task forces, and other groups that support homeland security. Since September 11th, agencies have recognized the importance of these crosscutting efforts, and have largely cooperated with each other to achieve common goals. Clearly, the creation of a Department of Homeland Security will facilitate the integration of these various groups into homeland security and national preparedness efforts.

10. What do you believe is the role of Congress in developing, supporting, and implementing the National Strategy for Homeland Security?

Answer: Only the Congress can create the new Department of Homeland Security requested by the President.

11. According to a May 6, 2002 article in *Newsweek*, the White House is now undertaking an

evaluation of OHS, which was created to coordinate our government's response to the September 11 terrorist attacks. The report notes that Governor Ridge, the Director of Homeland Security, has had repeated "clashes" with other agency heads and that the President is considering a range of alternatives, ranging from eliminating the post altogether to transforming it into a separate cabinet-level Department with Governor Ridge in charge. What is your view of the difficulties that Governor Ridge has encountered? What is the relationship between his office and OMB? What lessons about how best to organize government to combat terrorism have you drawn from the experience of OHS?

Answer: OMB has had an excellent working relationship with Governor Ridge and the Office of Homeland Security. I strongly support the President's proposal to create a Department of Homeland Security.

12. The Director of OHS has named Steve Cooper, who is special assistant to the President, to serve as senior director of information integration and chief information officer at OHS. Before that, OMB named Mark Forman as associate director for information technology and e-government at OMB. Can you describe the missions of these respective offices, any overlap between them, and the working relationship between the two? As DDM at OMB, what will your role be with respect to these offices?

Answer: The roles and responsibilities for each of these officials are quite different yet also linked in a few important ways.

Steve Cooper's responsibilities are focused on identifying the architecture necessary to improve the acquisition and sharing of information to ensure better decision making and reduced response times in support of the homeland security mission.

Mark Forman's role is to develop for the entire Federal Government an architecture that improves program performance and enhances the delivery of information and services to the public through vastly more effective and efficient use of information technology. In this context, they are working closely together to leverage resources and ensure that the government's architectures are linked. Mark Forman is also leading the Administration's electronic government initiatives. I will supervise Mark Forman if confirmed as DDM.

13. In the wake of September 11, it is clear that Federal agencies need to do a much better job of sharing critical information with other agencies, with state and local officials, and with the American people. What is your understanding of the major obstacles that must be overcome to enable more effective information sharing among Federal agencies, and between Federal agencies and their state and local counterparts? What role do you perceive for OMB in this effort and how much of a priority will this issue be for your

office? What strategies or policy changes do you believe Congress should consider in order to facilitate information sharing across government?

Answer: OMB was an active participant in developing the President's proposal for a Department of Homeland Security. The creation of a new Department would significantly improve information sharing across government, and improve coordination with state and local governments. As indicated in the President's proposal, overcoming the barriers to information sharing will require integration of overlapping and redundant IT projects.

14. One major obstacle to information sharing with state and local officials appears to be the proliferation of different requirements for security clearances among different agencies. A clearance from one agency is insufficient for another - forcing some individuals to seek multiple clearances. Do you believe there should be greater coordination in this process or is the current system working well? Do you believe OMB has a role to play in creating more synergy between the various security clearance requirements across government? What other steps do you believe can, or should, be taken to address this issue?

Answer: E-Clearance, an E-Government initiative, will result in a significant improvement in the time needed to process clearances. Clearance information throughout the Federal Government will be more accessible and reciprocity between agencies will be more easily achieved. Just recently OMB requested that security clearances among different agencies be loaded into the Clearance Verification System (CVS). This system ensures that there is documentation in centrally accessible databases of all government-issued security clearances. The result will be searches of existing clearances in a matter of seconds, rather than days under old manual methods. Such a coordinated improvement will shift the focus of investigative resources to the review of the risk aspects of background investigations, an important element in the Administration's homeland security efforts.

15. Last year, the Director of OMB stated that federal agencies - especially those agencies with homeland security missions - can expect funding increases with increased oversight and more pressure to demonstrate performance. How can agencies demonstrate performance in the area of homeland defense? How is this reflected in the Executive Management Scorecard?

Answer: Homeland Security is an absolute priority of this Administration and should be funded accordingly. We will assess the program performance and operational efficiency of those agencies with homeland security missions as we do with all agencies. The scorecard for these agencies, like all others, will also assess their progress in implementing the five government-wide management initiatives where the President has recognized the greatest room for improvement. Part of

the Budget and Performance Integration initiative includes program evaluations, which will be made using the Program Assessment Ratings Tool.

Inspectors General

1. As the DDM, you would chair the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). As Chair, you will be in a position to examine issues that cut across the entire Inspector General (IG) community, including issues dealing with IG independence and IG efforts to promote integrity and efficiency in government operations and programs.

   - How will you view your role as Chairman of the PCIE and the ECIE?
   - What is your view of the degree of independence the IGs should have in auditing and investigating federal operations, programs, and activities?
   - How do you plan to work with the IGs and their agency heads in order to strengthen their constructive working relationships and to promote the effectiveness of the IGs and efficiency and accountability in government operations?
   - How do you plan to facilitate honest and open discussion between the IGs and their agency heads, particularly when they find themselves in disputes about IG findings and recommendations?

Answer: I work very closely with the PCIE and the ECIE in my role as Controller, relationships I would expect to strengthen if confirmed as DDM. I believe in the essence of the IG Act, which calls for the independence of the IGs in auditing and investigating Federal operations, programs, and activities. The DDM needs to support that independence and, at times, serve as a facilitator in the relationship between an IG and an agency head. Through my leadership of the two IG Councils and the President's Management Council, as well as the other interagency groups chaired by the DDM, I would strive to foster constructive working relationships that would enhance the IG community's ability to contribute to the efficiency and accountability of government operations.

2. Following the September 11th attacks, some IGs have assumed greater roles in homeland security as their agencies have increased their activities in this area. In addition, many IGs are being asked to do more of their traditional work without assistance from the FBI, as the FBI is focusing fewer of its resources on government program fraud. Nevertheless, the need to detect and prevent fraud, waste and abuse in government programs will continue to exist. Therefore, the IGs will have to find ways to continue uncovering fraud, waste and abuse within their agencies and in government programs with less FBI support.

- What is your vision of the IGs' audit and investigative responsibilities post-September 11th? What role do you believe they should play in homeland security issues?

- How do you believe IGs should balance that role with their core mission of detecting and preventing fraud, waste and abuse in government programs?

- What actions do you believe are necessary to address the human capital and budget needs of the IG offices so that they have the personnel, skills and resources to carry out their financial management and law enforcement responsibilities?

- Do you believe IGs will require additional funding and resources to oversee the implementation of their agencies' homeland security efforts? If so, what actions will you take as DDM to ensure that IG offices are adequately funded?

Answer: The IG community provided invaluable assistance to the FBI and others in the immediate aftermath of September 11th. However, I believe IGs should retain their traditional mission focus on detecting and preventing waste, fraud, and abuse in Federal programs. IG offices face many of the human capital issues confronting other Federal offices; I believe that the flexibilities offered by the proposed Managerial Flexibility Act of 2001 will address these concerns. I will work within OMB to make sure IG offices are adequately funded.

3. Public Law 106-422, sponsored by Senators Lieberman and Thompson, established an IG forensic laboratory to perform forensic services for all of the IGs. Because of new and changing priorities, the FBI is no longer able to conduct laboratory examinations on many IG investigations; many IGs are now having these examinations done by other laboratories on an ad hoc basis. The laboratory established by Public Law 106-422 would allow for all IG forensic work to be done at one central location. However, there is no current funding for this laboratory and no indication that future funding will be available.

- What will you do as DDM to resolve this problem and provide the necessary support to the IGs?

- How will you encourage efforts to pool IG audit and investigative resources? In particular, what will you do as DDM to assist smaller offices whose IGs are appointed by their respective agency heads and have limited resources?

Answer: As DDM, I would work with the IGs and other law enforcement agencies to ensure that IGs have adequate access to the forensic services they require. As Chair of the PCIE and ECIE, I would encourage interagency IG audits and

investigations of common issues, such as erroneous payments or debt collection. GAO recently issued a draft report on consolidating smaller IG offices. I would like to study that report and work with the IGs to develop the best mechanism to ensure appropriate audit and investigative coverage of the smaller agencies.

4. The Committee recently reported to the full Senate S. 2530, introduced by Senator Thompson and Senator Lieberman, which amends the Inspector General Act of 1978 (5 U.S.C. App. § 1 *et seq.*) to provide law enforcement powers for certain investigative personnel who work for Presidentially-appointed, Senate-confirmed IGs. The legislation also calls for oversight of these powers by the Attorney General and the IGs. Currently, PCIE IG offices are given three-year deputations of law enforcement powers by the Attorney General. Do you support statutory law enforcement powers for these agents?

Answer: As I stated before, the primary role of the IGs is to detect and prevent waste, fraud, and abuse in Federal programs. I do not have strong views on the question of statutory law enforcement authority for Igs, and believe it would be best addressed by the Attorney General.

Information Policy and E-Government

1. OMB is responsible for providing direction on government-wide information resources and technology management and for overseeing agency activities in these areas, including analyzing major agency information technology investments.

   - What is your understanding of the role of the OMB DDM with regard to policies and oversight of government-wide and agency-specific information management and technology decisions?

Answer: The DDM performs the functions delegated to the Director pertaining to information management and technology issues. If confirmed, I intend to pay significant attention to these critically important management priorities, which are closely linked with achieving the E-Government goals in the President's Management Agenda.

   - The Administration's position has been that it would create the new position of Federal Chief Information Officer (CIO), to be responsible for government-wide information management, technology, and e-government issues, and that the Federal CIO position would be held by the DDM. If confirmed as DDM, would you also serve as Federal Chief Information Officer? If so, why is this more effective than having a single person tasked with this responsibility as a full-time job in the Executive Branch? In what way would your designation as Federal Chief Information Officer alter your responsibilities, as compared to the traditional responsibilities of the DDM?

Answer: The Administration continues to believe that the DDM is best positioned to serve as the Federal CIO, as the OMB Deputy Director testified before the Senate last summer. The Administration has already created the new, full-time position of Associate Director for IT and E-Government, a position held by Mark Forman. This position is the principal leader of the E-Government agenda and helps the Director and the DDM to set and oversee strategic direction for this effort. As DDM, it would be my role as Federal CIO to ensure that these issues are fully integrated with the other elements of the President's Management Agenda. In practice, I would expect the relationship between the DDM and the Associate Director to be comparable to that between the DDM and the Controller or the Administrator of the Office of Federal Procurement Policy.

2. OMB is responsible by law for implementing the Paperwork Reduction Act, which includes important provisions relating to information resources management and dissemination of information to the public. What experiences in your background have prepared you to work in these areas?

Answer: I have twenty-six years of experience in both business and government. As I mentioned previously, my assignments have been in finance, but I have held operating positions as well. I have both assessed information resources management issues from the perspective of one overseeing policies and investment funding decisions, and been responsible for implementation and operation of specific systems. I believe I have the broad base of experience necessary to tackle the challenges outlined in questions 2 through 5.

3. OMB is responsible by law for implementing the information technology capital planning and performance-based management provisions of the Clinger Cohen Act. What experiences in your background have prepared you to work in these areas?

[See Above.]

4. OMB has taken the lead in formulating government-wide electronic government policies and initiatives. What experiences in your background have prepared you to work in this area?

[See Above.]

5. OMB is responsible for implementing the Government Information Security and Reform Act, and sets policy in other areas of information security. What experience do you have in the area of information security?

[See Above.]

6. What, in your view, are the major information policy and technology management challenges facing the Federal government? How can OMB best help the government meet these challenges?

Answer: The use of information technology to serve the American people represents a major cultural challenge to the Federal government. Although we have made much progress in the last year, we remain far behind the private sector in using information technology to enhance the Federal government's productivity. The challenges include not only making electronic services available to the public and making it easier for them to access what they need on-line, but also the agencies' ability to harness technology. In addition, there is far too much overlapping and redundant investment in business processes that are common across government. As an example, there are at present 16 processors of civilian payroll. OMB is leading the government's efforts to improve its use of technology, standardize transaction processing, and eliminate redundant investments. I have established an E-Government Subcommittee within the President's Management Council, chaired by Labor Deputy Secretary Cameron Findlay, to foster these efforts across government.

7. What are your views on the use of the budget process to improve information technology (IT) management? What other incentives does OMB have at its disposal to encourage good management practices? As DDM, how would you enhance coordination between management and budget staff in order to improve the adoption of OMB policies and guidance across government?

Answer: The budget process is a critical tool for improving IT management. The process for FY 2003 saw an unprecedented focus on IT management issues, which will provide valuable improvements in this area. However, OMB coordinates IT policy through a variety of means in addition to the budget. I understand that OMB staff met with each of the agencies to discuss IT management and E-Government last summer, integrating budget planning with a management focus built from the Clinger Cohen Act (CCA), and the Federal Acquisition Streamlining Act (FASA Title V). OMB IT policy staff work closely with OMB's Resource Management Offices and the other statutory offices as an integrated team to used OMB's multiple authorities to drive change in the agencies. If confirmed as DDM, I intend to promote more of this coordinated approach to management challenges.

8. Regarding IT policy, what is your view of the appropriate relationship between the Office of Information and Regulatory Affairs (OIRA) and the Associate Director for Information Technology and E-government? What are the responsibilities and the staff composition of each? How do you see these two entities following coordinated, yet distinct paths and what is the contribution each makes to OMB's mission?

Answer: Each of these offices has a very important role to play in the transformation of the Federal Government. The Associate Director for Information Technology and E-Government sets strategic direction in the key areas of E-Government and IT management. This official works closely with and sets IT policy leadership for the work of OIRA, as well as the Resource Management Offices and other statutory offices. OIRA remains statutorily responsible for assisting the Director in carrying out key information policy and technology responsibilities under the Paperwork Reduction Act. OIRA's Information Policy and Technology Branch works as an integrated team with the office of the Associate Director for Information Technology and E-Government. It will always be the job of the DDM to ensure the integration and coordination of these activities so they further OMB's mission and comply with relevant statutes.

9. The Information Branch within OIRA, with a staff of about ten, is responsible for implementing vital and far-reaching information laws and policies. These include administering significant portions of the Paperwork Reduction Act and much of the Director's information technology capital planning and budget review functions under the Clinger Cohen Act, implementing information security responsibilities, and overseeing agency implementation of the Government Paperwork Elimination Act and the Privacy Act.

- Do you believe that the Information Branch of OIRA has sufficient staff to perform its work well?

- In response to the same question, the OMB Deputy Director, Nancy Dorn, promised during her confirmation process to investigate this and other staffing needs. What has been the result of Ms. Dorn's investigation?

Answer: The challenges facing OIRA in its oversight role of the government's information technology, like many of the other management challenges, are significant. Like other parts of OMB, particularly the statutory offices, OIRA leverages existing resources through the participation of other Executive Branch departments and OMB offices in task forces, councils, etc. The CIO Council, among the most active interagency councils in the Federal government, will remain a powerful tool in the development of information technology policy advice, and also for the implementation of government-wide initiatives. Deputy Director Dorn is working closely with Director Daniels and other senior officials, including myself, to review OMB's overall staffing needs. I do not expect significant changes in the allocation of staffing resources across OMB as this process continues.

10. What are your views on the sufficiency of the Privacy Act? How do you intend to address Internet privacy concerns?

Answer: The American people entrust to the Federal Government much of their most sensitive personal information, which we have a responsibility to safeguard. If confirmed, I look forward to working with OMB staff on whether changing technology and business practices may necessitate revising the Act and to initiate the legislative changes that might be required. But protecting privacy will always remain a priority.

11. Recent national events have reinforced the importance of information, information technology, and critical infrastructure to the security and economy of the nation. How do you see OMB working on government-wide issues such as homeland security, criminal justice information sharing, and cyber security to ensure that the critical information and technology resources are reliable, secured, and made available to all legitimate parties?

Answer: OMB is working closely with the Office of Homeland Security and individual agencies to identify information, and to improve both the sharing of information across the Federal Government and with state and local officials, first responders, and industry.

Additionally, under the Government Information Security Reform Act of 2000 and other statutory authorities, OMB is driving the improvement of Federal agency security programs. We are requiring agencies to fully integrate security with their capital planning and budget processes and are measuring their progress through use of the Executive Branch Management Scorecard.

12. Current homeland security initiatives include measures related to data sharing, and public-private and federal-state partnerships. How do you see the relationship between these measures and current privacy laws and policies? Who should have the primary role and how will such efforts be funded?

Answer: It is OMB's responsibility to work closely with all agencies of the government, including OHS, to ensure that privacy requirements are addressed. OHS has the primary role for coordinating homeland security issues, and OMB has the primary role for privacy laws and policies with regard to Federal information. OMB and OHS work together to ensure that both goals are achieved. The role of OMB and others in this area will need to be assessed as the Department of Homeland Security approaches creation.

13. OMB released the E-Government Strategy in February 2002, a plan for implementing the President's management initiative of expanding e-government to make it easy for citizens and businesses to interact with the government, save taxpayer dollars, and streamline business–to-government transactions. The 24 e-government initiatives (known as Quicksilver), detailed within the strategy, were selected to improve the efficiency and

effectiveness of the federal government's transactions through the use of improved technology.

- As the DDM, how would you assess progress and success implementing the E-Government Strategy and other e-government initiatives? For example, how do you plan to demonstrate to Congress that greater efficiency, cost reductions, better service to citizens and businesses, and higher productivity are resulting from these initiatives?

Answer: If confirmed, I expect to work with the Office of IT and E-Government to achieve such results in each of the Quicksilver initiatives and I believe we will be able to demonstrate evidence of real progress in the near future. OMB is working with agencies to implement the workplans and business cases for these 24 initiatives. Improved productivity and better citizen service are key indicators. I strongly support making information available to Congress so that our progress in these endeavors can be adequately assessed.

- What additional actions are needed to break down bureaucratic stove-pipes, resistance to change, and other key barriers that may hinder the implementation of promising e-government initiatives?

Answer: One of our key management objectives is to identify and remove barriers to efficient and effective management. In the area of e-government, we are addressing these barriers through the work of the E-Government Committee of the President's Management Council. That committee will identify such barriers and offer recommendations to remove them. However, in one area -- e-grants -- we recently submitted to Congress a set of recommendations for statutory and administrative changes necessary to achieve the goals of streamlining the grants process. We are working to address the necessary administrative changes. We hope to work with the Governmental Affairs Committee to resolve the remaining statutory impediments.

- What would you estimate the total cost of the President's E-Government Strategy—as being implemented through the 24 cross-cutting projects—to be? In addition, what do you estimate the cost savings or cost reductions to be that are associated with this strategy?

Answer: Clearly, implementation of a number of the e-government initiatives will be resource intensive, but we do not yet have final cost estimates for the entire program. In general, the 24 initiatives were selected because they offered an opportunity to integrate redundant IT investments in a manner that should lead to better results and more citizen-centered government. We are currently working on a financing strategy for all of the initiatives and would be happy to share this

information with the Committee once it is developed.

14. In your view, what steps should the Administration take to improve and encourage citizen use of the federal government's portal, FirstGov?

Answer: The operating goal of FirstGov is now "three clicks to service" -- citizens should be able to access key information and services through FirstGov within three clicks of a computer mouse. In my view, we should meet the demands of the public by delivering information and services in a citizen-centered manner, a fundamental goal of the President's Management Agenda.

15. The Government Paperwork Elimination Act (GPEA) requires agencies to develop capabilities by October 2003 to permit, where practicable, electronic maintenance, submissions, or disclosure of information, including the use of electronic signatures.

- To what extent do you believe that agencies will have the required capabilities by the deadline? What, if anything, does OMB need to do to facilitate this process?

Answer: By October 21, 2003, agencies are to provide the option for electronic filing and electronic signature capabilities for the full range of government activities and services, unless it is not practicable to do so. Agencies have made a commitment to develop an implementation schedule to meet this. OMB is in the process of gathering information on agency compliance with GPEA. Agencies are being asked to discuss their overall GPEA strategy, their schedule, and what additional capabilities they will need to meet the deadline.

To ensure agencies are on track for a successful implementation, OMB should continue to provide recommendations to each agency, and will use current authorities including the Paperwork Reduction Act review process to help agencies move forward.

- Will the electronic processes required by this Act significantly reduce information collection burdens? In your view, what additional electronic processes, if any, should be considered?

Answer: Implementing an electronic process does not automatically reduce the burden of information collection. I am advised that OMB has encouraged agencies through the budget review process to implement those projects with a positive return on investment for the agency and the public. The E-Government initiatives also include electronic processes that cross government lines which have the potential to reduce the burden on the public in a wide range of areas, a good example being our e-grants initiative, led by HHS.

- What do you see as OMB's role in leading, facilitating, and policymaking to ensure the successful government-wide implementation of this Act?

Answer: I see OMB continuing to use its management and budgetary tools, as well as its technical expertise, to push for full and timely implementation of this Act.

16. The federal government is facing a tremendous challenge in preserving electronic records in an environment of rapid technological change. How should OMB work with the National Archives and Records Administration (NARA) to develop the approaches and technology needed to address this challenge?

Answer: E-records management was adopted as one of the 24 E-Government initiatives. NARA is the managing partner for this initiative. This initiative has been defined to address challenges related to electronic records so that they may be preserved for future use by the government and citizens. The objective of this initiative is to provide the tools that agencies need to manage their records in electronic form and guidance on electronic records management applicable government-wide, and the necessary capability of agencies to transfer electronic records to NARA in a variety of data types and formats.

17. Making government information more accessible to citizens is a fundamental purpose of e-government. How will the planned Quicksilver e-government initiatives make information more accessible to citizens? What further actions are needed?

Answer: The goal of E-Government initiatives is to leverage resources like the Internet. The initiatives bring together agencies that had, for the most part, developed and delivered services themselves without regard to similar services being delivered at other agencies. By bringing together similar agency efforts into one initiative agencies can leverage each others' resources, unify service delivery, and provide the citizen with services based on citizen needs rather than the needs of one agency. This in turn provides quicker service, reduced reporting burden, easier use, and more comprehensive information and services. Full implementation of these projects will be a high priority in the coming months.

18. Enterprise architectures are essential blueprints for inter- and intra-agency operational and technological change. Without these blueprints, agency operations and their supporting systems evolve in a non-integrated, stove-piped fashion, and result in duplication of effort and poor information sharing.

- What is the state of enterprise architecture use in the federal government today? How does OMB expect this to change?

Answer: Enterprise architecture has been incorporated in agency scorecards for expanding

e-government. This is fully discussed on an agency-by-agency basis in the Analytical Perspectives volume of the President's '03 Budget. Clearly, there is much room for improvement in this area. If confirmed, I hope to demonstrate improvement through these initiatives.

- What is OMB's role in promoting development and use of enterprise architectures by individual agencies and across agencies, such as in e-government initiatives?

Answer: OMB's role in promoting the use of enterprise architecture has been led by the Associate Director for IT and E-Government. Where appropriate, agencies are working together to develop comprehensive business cases. This requires as their foundation cooperation, coordination, and standardization among participating agencies.

- What is your plan for ensuring that the 24 e-government initiatives are guided by enterprise architectures?

Answer: OMB approves the business cases developed to implement these initiatives. Clearly, a necessary component of these cases is the plan to design and implement an enterprise architecture. If confirmed, I will strongly support the development of enterprise architecture for all our e-government initiatives.

- What are your plans for increasing federal agencies' adoption of sound enterprise architecture (EA) management principles and achieving successful EA implementations?

Answer: If confirmed, I will work through the President's Management Council and by using the Executive Branch Management Scorecard for the e-government initiatives.

19. Over the past few years OMB has increased the reporting requirements described in Circular A-11 and the Exhibit 300, which agencies must follow as part of the budget submission process. For the current budget cycle this trend continues with additional focus on security and privacy, enterprise architecture, and GPEA for all major IT projects. In addition, questions have been included which pertain to Capital Asset Plans for all assets.

- Is OMB able to provide quality reviews of this information with its available staff and resources?

Answer: Yes.

- How does OMB plan to use this more extensive data to oversee agency IT

investments throughout the year?

Answer: I understand OMB will use the Section 300 business cases and the agency IT investment portfolios in concert with the Federal Enterprise Architecture Business Reference Model to ensure linkage and support of the President's Management Agenda.

Procurement Policy

1. The federal government spends more than $200 billion a year acquiring goods and services. Are there changes you believe are necessary to make the contracting process more productive?

Answer: Generally, I believe we should ensure that there is a proper balance between improved efficiencies achieved through new acquisition initiatives and the fundamental concepts of competition, fairness, integrity, due process, and transparency. In making the contracting process more productive, we must eliminate "stove- piping" and better integrate the roles played by requirements and contracting personnel. Requirements personnel must be educated about the positive role that can be played by contracting officials when they are involved early in the process. Contracting personnel can make an enormous contribution to the acquisition process if they are involved when the requirement is first defined.

2. Recent years have seen an increase in the use of government-wide and interagency contract vehicles. Some have praised these as simpler and more responsive vehicles for meeting agency needs, while others have raised concerns that agencies are using these vehicles to short-cut competition requirements and are wasting taxpayer dollars. What is your view of these contract vehicles? How will you ensure that these contracts are used to best leverage the government's buying power while satisfying contractual requirements?

Answer: I will look to the Office of Federal Procurement Policy (OFPP) to take whatever steps may be necessary for ensuring that agencies use competition and good contracting practices, including through these streamlined tools, to achieve the type of positive results that taxpayers should rightfully expect from a performance-based government. I recognize the need for contracting tools that enable agencies to meet their needs on a timely basis. At the same time, I appreciate well that effective investment of taxpayer dollars demands that agencies consistently take advantage of competition to achieve good quality at lower cost. I am aware of OFPP's effort to lead an interagency group that is evaluating both current acquisition trends as they affect use of competition and ways to ensure competitive market pressures are brought to bear in meeting

mission needs. I understand from the OFPP Administrator that interagency contracting through streamlined tools such as multiple award contracts and the multiple award schedules (MAS) program is a particular focus of the group's review.

3. Over the past decade the federal government has significantly increased its acquisition of services. Annually, the government acquires nearly $130 billion of services, more than twice the amount spent on products. However, the GAO and others continue to find instances in which the government is not obtaining fair and reasonable prices and is avoiding competition.

- Do you see these issues as being systemic across the government?

Answer: Yes.

- In your view, what are the principal causes of these problems?

Answer: Government contracting policies and management practices are, in many respects, still largely geared towards the acquisition of products, which was the traditional focus of Federal acquisition. As the question points out, however, agencies have increasingly been turning to the marketplace for services, i.e., for managed solutions, rather than products, to meet their needs. Unfortunately, acquisition policies and management practices have not evolved sufficiently to reflect this new emphasis. As a result, the acquisition workforce lacks the guidance and structure it needs to award and manage service contracts in a cost-effective manner. This problem has been exacerbated by the fact that services, by their very nature, can be more difficult to describe than products and require the exercise of a greater level of judgment in the contracting process -- both of which can increase the government's vulnerability to poor results without proper guidance and management attention.

4. In April 2002, the Commercial Activities Panel, chaired by Comptroller General David Walker, issued its final report. Sharp disagreement among members existed on several important issues.

- What is your view regarding replacing OMB Circular A-76 with a Federal Acquisition Regulation (FAR)-based approach?

Answer: As we assess how to improve A-76 to make it faster and more fair, we need to recognize that there are not any "silver bullets." OFPP has set up an interagency working group to provide input into several changes that could be made to OMB Circular A-76, including ones that would reduce the time it takes to complete competitions and add consideration of "best value." The intent will be to test and

evaluate the new system. We will attempt to take the best elements of private/private competitions that are governed by the Federal Acquisition Regulation and the best elements of the current A-76 process. Certainly, "best value" seems to be more appropriate in some areas than in others.

- Some believe that using the "best value" standard in the public-private competition process favors contractors over federal employees in making award decisions. Do you agree?

Answer: No, in fact we have heard from Federal employees who believe that the "best value" approach could favor the in-house group winning the competition.

- Do you believe that the "best value" standard can be quantified objectively, or is it too open to manipulation in the awarding of contracts?

Answer: While the use of "best value" does involve a degree of subjectivity versus a pure cost comparison, the testimony provided to the Commercial Activities Panel suggests that agencies should not be prohibited from using elements of "best value."

- If the Administration determined that it favored adopting a "best value" standard, what legislative changes would be required?

Answer: My understanding is that legislative changes would not be required.

- Should a "best value" standard be adopted, what steps should the government take to ensure that costs are still contained?

Answer: Our goal is for the taxpayer to be well-served by taking into account costs. The agencies should focus on costs, especially for commercial activities that are recurring and where performance quality is well-understood. One approach could be to track and compare the costs of similar services acquired across government or the private sector.

5. It is important that accurate data on the cost of contracting be reported. What steps do you believe would be appropriate to ensure that this goal is achieved?

Answer: I understand that agencies identify the funds they obligate on government contracts using the Federal Procurement Data System (FPDS). Apparently, FPDS does not track the costs of contract administration, which are more difficult to define and collect. There may be a need to explore methodologies and processes to better serve the acquisition community.

6. Last year, OMB issued guidance directing all departments and agencies to compete or directly convert in FY2002 the work of 5 percent of the FTEs (full time equivalents) listed on the Federal Activities Inventory Reform Act (FAIR) inventories with increases to up to 50 percent in the coming years. Do you agree with these goals? If so, what do you believe is the policy rationale for the goals? To your knowledge, to what extent does the outsourcing process undertaken by the Administration include a determination of whether the work could be done more efficiently by federal employees or contractors? Do you believe such a determination should be part of the process?

Answer: Yes, I support the overall goals of the Competitive Sourcing Initiative. But the application of numerical goals to individual agencies needs to take into account their different circumstances and starting points. OMB recognizes that agencies need to build a significant infrastructure for public/private competitions and to do that, agencies need to initiate the process with time lines, training, and a reasonable balance of competitions and conversions. I believe the competition goals help provide a results-oriented framework for measuring our progress toward achieving the benefits of competitive sourcing. The goal of the process is to determine who is best positioned do the work most efficiently. Studies have shown repeatedly that after a public-private competition, regardless of who wins, cost savings exceed 20 percent and performance is enhanced. As agencies decide how to meet the President's competitive sourcing goals, they should be given considerable latitude to decide which commercial activities to study. The relevant factors agencies examine should revolve around how the commercial activity can be accomplished more effectively and efficiently. No matter which direction agencies take, they must focus on "commercial" as opposed to "inherently governmental" activities and should perform the competition with as much involvement from the employees and their representatives as possible.

7. An April 17, 2002 letter from Angela Styles, Administrator, Office of Federal Procurement Policy, OMB, to the Comptroller General providing OMB's comments on the report of the Commercial Activities Panel stated that "OMB will revise the criteria for success [in the Administration's competitive sourcing initiative] to require agency competition plans to include the following elements: ... (3) the consideration of opportunities to allow the public sector to compete for new work and work currently performed by the private sector." As DDM, how will you assist agencies in implementing OMB's recommendation?

Answer: I will assist agencies in meeting our agreed-upon criteria for success. OMB has been working with each agency separately and has taken into account circumstances that are unique to individual agencies. If an agency believes that the existing workforce has the capabilities to compete for new work or work currently performed by the private sector, there should be consideration given to a competitive sourcing opportunity. Angela Styles' letter to the Comptroller

General applauds the Panel for endorsing the principles of competition, the principles that make up the heart of the competitive sourcing initiative. The letter also reaffirms the importance of setting goals for the agencies and crafting individual plans to lay the foundation for current and future competitions.

IV. Relations with Congress

1. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Answer: Yes.

2. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Answer: Yes.

V. Assistance

1. Are these answers your own? Have you consulted with the Office of Management and Budget or any interested parties? If so, please indicate which entities.

Answer: I did consult with staff of OMB, on whom I will rely in meeting the responsibilities as DDM, on some areas within specific areas of expertise. But the answers are my own.

AFFIDAVIT

I, MARK W. EVERSON, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

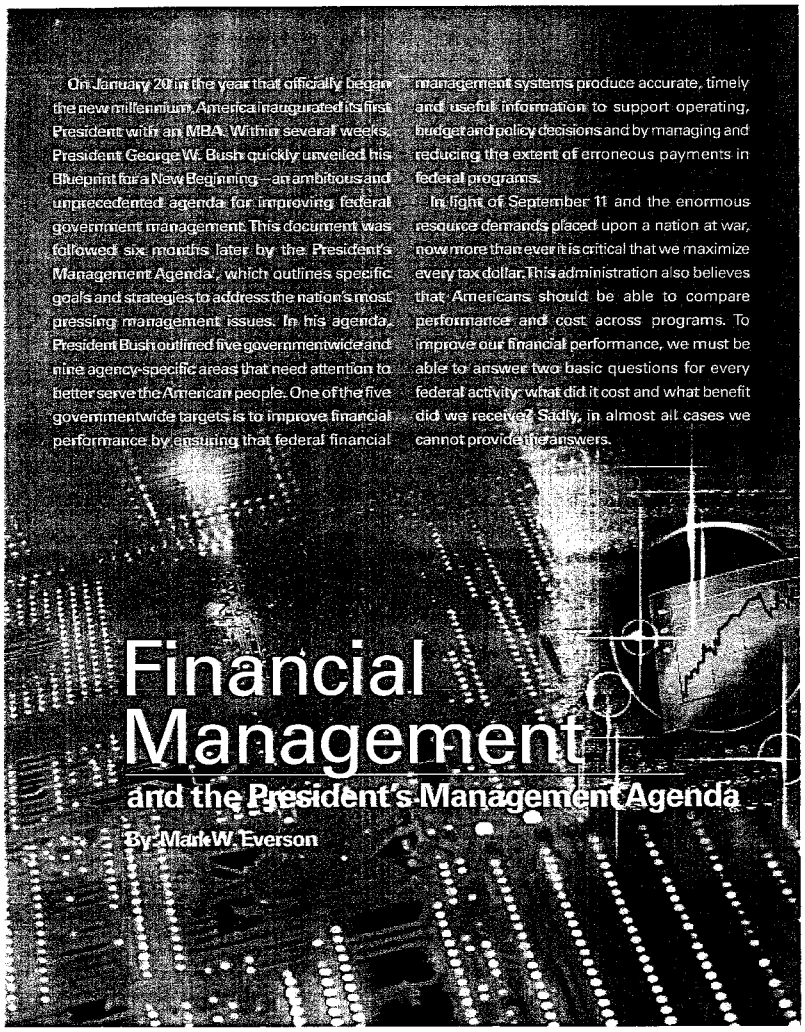
Mark W. Everson

Subscribed and sworn before me this 10th day of June, 2002.

Beverly Jones Neave

Notary Public

Commission Expires: August 14, 2004



On January 20 in the year that officially began the new millennium, America inaugurated its first President with an MBA. Within several weeks, President George W. Bush quickly unveiled his Blueprint for a New Beginning—an ambitious and unprecedented agenda for improving federal government management. This document was followed six months later by the President's Management Agenda[1], which outlines specific goals and strategies to address the nation's most pressing management issues. In his agenda, President Bush outlined five governmentwide and nine agency-specific areas that need attention to better serve the American people. One of the five governmentwide targets is to improve financial performance by ensuring that federal financial management systems produce accurate, timely and useful information to support operating, budget and policy decisions and by managing and reducing the extent of erroneous payments in federal programs.

In light of September 11 and the enormous resource demands placed upon a nation at war, now more than ever it is critical that we maximize every tax dollar. This administration also believes that Americans should be able to compare performance and cost across programs. To improve our financial performance, we must be able to answer two basic questions for every federal activity: what did it cost and what benefit did we receive? Sadly, in almost all cases we cannot provide the answers.

Financial Management

and the President's Management Agenda

By Mark W. Everson

The President's Management Agenda

President Bush's vision for government reform is guided by three principles. Government should be:

- Citizen-centered, not bureaucracy-centered;
- Results-oriented; and
- Market-based, actively promoting rather than stifling innovation through competition.

The President has called for an active but limited government that focuses on priorities and executes them well. And rather than pursue an array of management initiatives, the administration has elected to identify the government's most glaring problems—and solve them. The President's Management Agenda is a starting point for real, sustainable management reform. (See *Figure 1*.)

The first governmentwide initiative, **Strategic Management of Human Capital**, focuses on attracting highly talented and imaginative people to the federal government to improve the service provided to our citizens. **Competitive Sourcing** exposes parts of government to competition so that they may better provide what customers want while controlling costs. Studies have shown that public-private competition improves business processes and reduces costs generally by 20 percent or more. As mentioned above, **Improved Financial Performance** focuses on improving how government manages its money—reducing, for instance, the billions in erroneous payments the government makes every year. **Expanded E-Government** harnesses the power of the Internet to make government more productive and accessible to our citizens. Finally, **Budget and Performance Integration** begins the process of linking resource decisions with results and providing information needed to hold government accountable.

Executive Branch Management Scorecard Will Measure Success

To ensure accountability for performance and results, the administration is using an Executive Branch Management Scorecard.[2] The scorecard tracks how well departments and agencies are executing the President's management initiatives and where they stand at a given point in time against overall standards for success.

The scorecard employs a simple "traffic light" grading system common today in well-run businesses. Scores are based on standards for success[3] defined by the President's Management Council after consultation with experts in government and academe, including individual fellows from the National Academy of Public Administration. Under each of the five sets of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria and "red" if it has even one of a number of fatal flaws. Getting to "green" on the Executive Branch Management Scorecard will require significant and sustained effort by federal agencies, but will result in unprecedented improvements in the management of the federal government.

The grades on the Management Scorecard submitted with the Fiscal Year 2003 President's Budget could be best described as a "sea of red." The administration's baseline evaluation of departments and agencies against the standards for success shows mostly poor scores with 85 percent red—and only one green rating for financial performance at the National Science Foundation. Only four of the major departments and agencies scored "yellow" in financial management. The National Aeronautics and Space Administration (NASA) graded yellow, but unfortunately now slips back to red as a result of a disclaimer on its Fiscal Year 2001 financial statements.

Figure 1: The President's Management Agenda

Governmentwide Initiatives

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded E-Government
- Budget and Performance Integration

Agency-specific Initiatives

- Faith Based and Community Initiative
- Privatization of Military Housing
- Better R&D Investment Criteria
- Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management
- HUD Management and Performance
- Broadened Health Insurance Coverage Through State Initiatives
- A "Right-Sized" Overseas Presence
- Reform of Food Aid Programs
- Coordination of Veterans Affairs and Defense Programs and Systems

Improved Financial Performance

The standards for Improved Financial Performance are ambitious. They were reviewed and approved by the Secretary of the Treasury, the Comptroller General and the Director of the U.S. Office of Management and Budget (OMB). To achieve a "green" rating, an agency must meet all of the following criteria:

- Financial management systems must meet federal financial management system requirements and incorporate applicable federal accounting and system standards as reported by the agency head;
- The agency must be able to produce accurate and timely financial information;
- It must have integrated financial and performance management systems supporting day-to-day operations; and
- The agency must be able to produce an unqualified and timely audit opinion on its annual financial statements with no material internal control weaknesses reported by the auditors.

The Fiscal Year 2001 financial statements of the 24 major departments and agencies that were received on February 27 demonstrated modest but important progress in improving financial performance. As in the Fiscal Year 2000 reports, 18 agencies received unqualified opinions, although the governmentwide statement was disclaimed. Five agencies—the U.S. Departments of Agriculture, Education, Justice and Transportation, and the U.S. Agency for International Development—showed marked improvement in the quality of their financial statements. Two agencies—NASA and the Federal Emergency Management Agency—deteriorated from last year.

Even though federal agencies are making progress toward the goal of clean financial statements, we are raising the bar. As Treasury Secretary Paul O'Neill said, "It takes the federal government five months to close our books…This is not the stuff of excellence." For financial information to be useful, we must receive it on a regular basis, not just once a year and not five months after the fact. So we are accelerating the due date for agency financial statements from February 27 in Fiscal Year 2001 to November 15 in Fiscal Year 2004. The governmentwide financial statements will then be completed by December 15, three-and-a-half months earlier than is currently the case. With these accelerated due dates, agencies will have to reinvent their business processes and improve their systems to produce more readily the financial information necessary to prepare financial statements.

Expanding E-Government and Implications for Financial Systems

Another of the five governmentwide management reform initiatives has profound implications for financial management systems. The goal of the e-government initiative is to make the government a "click and mortar" enterprise—more accessible, effective and efficient. Instead of roaming around thousands of websites, Americans should need only two or three clicks to get service online. To achieve a "green" rating, an agency's major information technology projects must meet all of the following criteria. Projects must:

- have a defensible business case;
- be within 90 percent of cost, schedule and performance targets; and
- demonstrate progress towards realizing the e-government goals through progress toward or participation in at least three delineated areas.

These e-government criteria require agencies to have well-managed information technology project portfolios that achieve defined benefits and also pursue e-government strategies and modern integrated technologies on a collaborative basis so that investment and benefits are shared across agencies. Scores on the e-government goals suggest that federal agencies are getting better at leveraging the potential of technology to serve citizens, partner productively with business and achieve greater internal efficiency. Nine agencies achieved yellow for expanding e-government. OMB's *E-Government Strategy*,[4] issued in February 2002, highlights 24 cross-cutting initiatives selected based on the greatest value to citizens, potential improvement in agency operations and the likelihood of deployment within 18 to 24 months. Several of these projects will have direct impact on the standardization of data and financial operations, while reducing costs.

The Fiscal Year 2003 budget emphasized improved information technology management and governance, stressing the importance of developing agency enterprise architectures, which are "blueprints" that systematically and completely define an organization's baseline and target environments. They identify redundant organizations, processes and projects to unify and simplify business lines, identify opportunities for cross-agency applications and identify processes and projects that could be better performed in the private sector.

To meet the President's goals for financial performance, agency financial systems must transition to business processes and internal controls that "build in" data quality at the start of the transaction. In the future, agencies will simply not have time to conduct the cumbersome, manual reconciliation processes that have produced financial statements in the past.

Major Problems in Financial Systems

The current inventory of federal financial systems is not well-positioned to meet this higher bar. Agency audit reports provide a litany of limitations: significant numbers of agencies with inadequate reconciliation procedures, lack of timely and accurate recording of transactions, poor financial system integration, noncompliance with accounting standards and weak information security.

Looking at our financial system inventory and comparing it with the private sector points to major problems in federal financial management. A 1998 analysis[5] of 11 federal organizations performed by the Hackett Group illustrates the challenges facing the federal government. The study found that although federal agencies usually spent less on financial management operations, they generally operated more systems than their private sector counterparts. The Hackett study found that federal agencies had 17.2 systems per $1 billion in revenue, while the companies it examined had an average of just 12.6. Federal systems were also older. However, the more enlightening finding included the fact that federal agencies allocated their work force to processing transactions rather than decision support—the tools, techniques and methods used to facilitate the decision-making process. Financial management in the federal government appears less expensive than the private sector because the federal government invests too little in decision support.

Research, also by the Hackett Group, published in 2001, found common practices among high performing companies.[6] These best practices, described by the Hackett Group as transcending traditional functional and organizational boundaries, include some of the following:

- Increased focus on standardization to gain cost and information benefits;
- Use of outsourcing to optimize performance, enable rapid scalability and reduce overall costs; and
- Consistent data availability, a critical component of faster, more informed decision-making and improved service levels.

These studies demonstrate that high performing organizations pay less total cost for their financial management in all dimensions—labor, systems, etc.—and receive greater dividends in terms of quality information because they do it once, faster, and use standard data and simplified business practices. This is what it will take to meet the goals not just for the Improved Financial Performance objective, but for all areas of the President's Management Agenda.

Getting to Green

Across the board, the administration is focusing on capital planning and investment control, enterprise architecture and performance management as critical disciplines essential to achieving benefits from the more than $50 billion invested annually by the government in information technology. A few examples highlight renewed agency commitment to using technology and systems to improve financial management.

- **The Department of Defense (DoD)**—Soon after his appointment, Secretary Donald Rumsfeld directed Pentagon leadership to conduct a complete overhaul of financial management practices and processes. He gave his Under Secretary of Defense (Comptroller), Dov Zakheim, the authority and resources to get it done. The reform effort now under way plans fundamental and sweeping changes to financial management practices and supporting infrastructure. A key step is imposing discipline. DoD is developing an "enterprise architecture" that will serve as the blueprint to construct its future financial management infrastructure. This architecture will include departmentwide standards and will enunciate how to modernize and link both systems and business processes that cross functional areas such as logistics, personnel, health care, accounting, finance and others. This is a huge undertaking with many steps. Overcoming service rivalries will remain a challenge, but DoD is off to a great start.
- **The Department of Health and Human Services (HHS)**—This agency currently operates five accounting systems that traditionally have failed to use up-to-date technology. On June 14, 2001, Secretary Tommy Thompson directed that the number of financial management systems be reduced from five to two and he insisted that they encompass the most modern and sophisticated practices now in use. This project is known as the Unified Financial Management system. It will allocate HHS' full costs for services and products to each program or initiative because it will be a standard, efficient system. This will enable HHS to link operating and financial information.
- The E-Payroll Initiative, led by the **U.S. Office of Personnel Management**, is designed to simplify and unify elements of the payroll process to consolidate and integrate payroll systems across government. This effort will provide several hundred million dollars in savings to organizations, significantly reduce future information technology investments and could foster direct privatization.

To help agencies get to green, the Chief Financial Officers Council recently established a new committee structure to mirror the initiatives of the President's Management Agenda. The committees include: best practices, budget and performance integration, systems/e-government, human capital, financial statement acceleration and reducing erroneous payments. One of these committees, the erroneous payment committee, includes a partnership between the Chief Financial Officers Council and the President's Council on Integrity and Efficiency, the council of Inspectors General.

Conclusion

The administration is taking exciting and long overdue steps to improve government management. But the President's Management Agenda has limited its focus on five initiatives to ensure that attention is concentrated on achieving management improvements in these areas. If we achieve the goals of the President's Management Agenda, we will have taken a big step toward improving the efficiency and effectiveness of federal programs and thereby increasing the trust of the American people in their federal government.

End Notes

1. The President's Management Agenda, August 2001. (*www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf*)
2. The Budget of the United States Government, Fiscal Year 2003, Governing with Accountability. (*www.whitehouse.gov/omb/budget/fy2003/bud08.html*)
3. Analytical Perspectives, the Budget of the United States Government Fiscal Year 2003, at page 409. (*www.whitehouse.gov/omb/budget/fy2003/pdf/spec.pdf*)
4. U.S. Office of Management and Budget, "E-Government Strategy: Simplified Delivery of Services to Citizens," February 27, 2002. (*www.whitehouse.gov/omb/inforeg/egovstrategy.pdf*)
5. The Hackett Group, *1998 Government Finance Benchmarks Results*, Presented at the Sixth Annual Government CFO Retreat, April 20, 1999. Participating federal agencies included the U.S. Department of the Interior, the U.S. Department of the Treasury, the U.S. Department of Veterans Affairs, the General Services Administration, the Nuclear Regulatory Commission, the National Science Foundation, the Environmental Protection Agency, the Defense Finance and Accounting Service- Indianapolis, the Kansas Department of Transportation, the Bureau of Worker's Compensation and the Coast Guard Finance Center.
6. Hackett Benchmarking and Research, *2001 Book of Numbers*. (*www.hackettbighway.com/findings/*)

Mark W. Everson is controller of the Office of Federal Financial Management at the U.S. Office of Management and Budget (OMB). At press time, his nomination to the post of deputy director for management at OMB was pending.

The following are slides used to discuss the President's Management Agenda and the associated management scorecard.

Management Priorities Facing the Bush Administration

President's Management Agenda

- Objective: To improve the management and performance of the Federal Government
- President Bush: The areas "...we have targeted address the most apparent deficiencies where the opportunity to improve performance is the greatest"
- Five Government-wide and nine agency-specific initiatives

Government-wide Initiatives

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government
- Budget and Performance Integration

Agency-Specific Initiatives

- Faith-Based and Community Initiative
- Privatization of Military Housing
- Better Research and Development Investment Criteria
- Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management

Agency-Specific Initiatives

- Housing and Urban Development Management and Performance
- Broadened Health Insurance Coverage through State Initiatives
- A "Right-Sized" Overseas Presence
- Reform of Food Aid Programs
- Coordination of Veterans Affairs and Defense Programs and Systems

Strategic Management of Human Capital

- Looming retirements; skill imbalances; cumbersome personnel policies
- Reduce layers between citizens and decision-makers; better align skills
- Greater flexibility to acquire and develop talent and leadership

Competitive Sourcing

- Public-private competition improves business processes and reduces costs; generally saves 20% or more
- Nearly half of Federal jobs perform tasks readily available in commercial marketplace
- Simplify procedures for competition and evaluation

Improved Financial Performance

- Accurate and timely information needed to support decision-making; Government has neither
  - Accelerated financial reporting deadlines
  - Track and reduce erroneous payments

Expanded Electronic Government

- Create easy-to-find single points of access to Government services
- Provide high quality customer service
- Reduce reporting burden on businesses by sharing electronic information
- Automate internal processes to reduce costs
- Increase access for persons with disabilities

Budget and Performance Integration

- Provide greater focus on performance and accountability
- Depict full costs of programs and associated outcomes
- Reinforce high-performing programs and reform or terminate non-performing activities

Accounting for Employee Retirement Costs

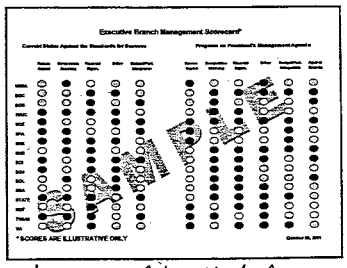
- Show full cost of budgetary resources where and when they are used
- FY 2003 Budget corrects long-standing understatement of true costs of programs by allocating retirement and retiree health and expense accounts from central accounts to affected salary and expense accounts

How Will We Manage?

- President's Management Council
  - Charged with implementing President's Management Agenda
  - COOs of Cabinet departments and major agencies
  - Meets monthly; reports and monitors results
- Executive Branch Management Scorecard

Executive Branch Management Scorecard

- Tool to measure progress toward achieving President's Management Agenda
- Standards for success in each initiative
- Summarize current status and progress
- Provide baseline as of September 30, 2001



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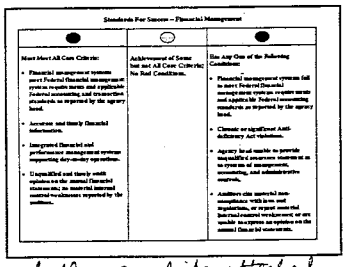

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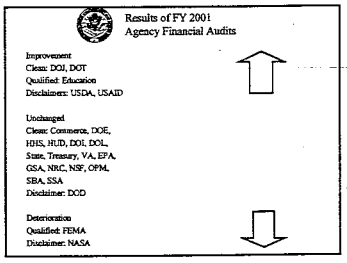


JFMIP Principals

- Met in August 2001 for first time!
- Subsequent meetings in October, January
- Next meeting April 11
- Strategic discussion of financial management issues

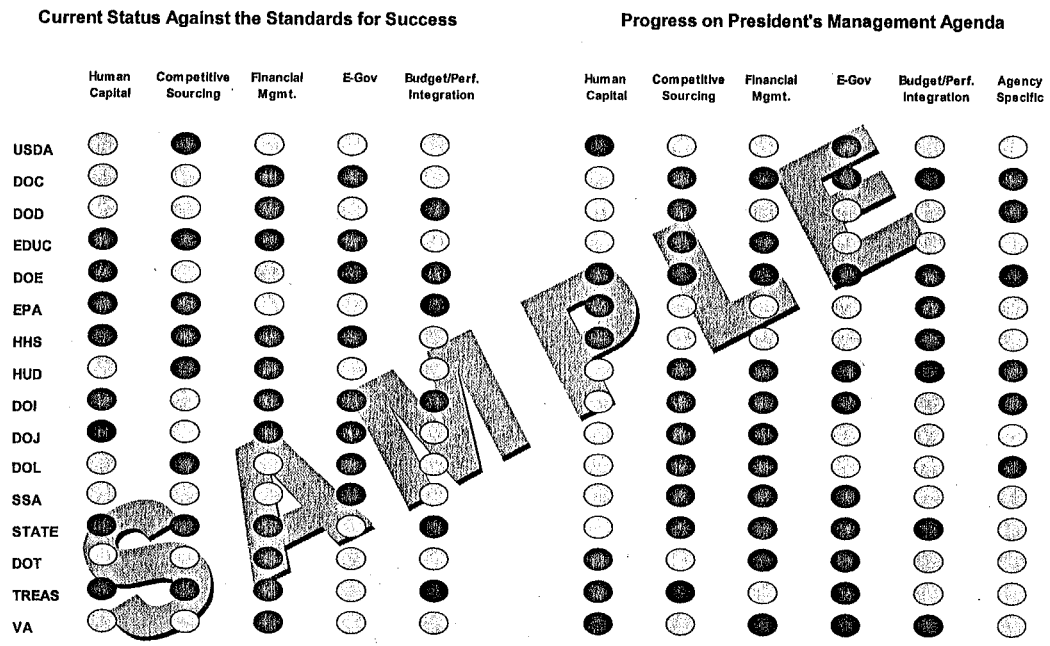
FASAB Reconstitution

- Signed MOU to reverse FASAB membership from 6 Federal and 3 non-federal members to 3 Federal members and 6 non-Federal members; permits terms up to 10 years
- Shift addressed independence issues raised by AICPA when GAAP status granted

Restructured CFOC Committees

- Human Capital
- Systems/E-Government
- Erroneous Payments (joint with PCIE)
- Financial Statement Acceleration
- Best Practices
- Budget and Performance
- Financial Asset Management

Executive Branch Management Scorecard*



* SCORES ARE ILLUSTRATIVE ONLY

October 29, 2001

Standards For Success – Financial Management

Must Meet All Core Criteria: • Financial management systems meet Federal financial management system requirements and applicable Federal accounting and transaction standards as reported by the agency head. • Accurate and timely financial information. • Integrated financial and performance management systems supporting day-to-day operations. • Unqualified and timely audit opinion on the annual financial statements; no material internal control weaknesses reported by the auditors.	Achievement of Some but not All Core Criteria; No Red Conditions.	Has Any One of the Following Conditions: • Financial management systems fail to meet Federal financial management systems requirements and applicable Federal accounting standards as reported by the agency head. • Chronic or significant Anti-deficiency Act violations. • Agency head unable to provide unqualified assurance statement as to systems of management, accounting, and administrative controls. • Auditors cite material non-compliance with laws and regulations, or repeat material internal control weaknesses; or are unable to express an opinion on the annual financial statements.

Questions for the Record
Submitted by Senator Daniel K. Akaka
Committee on Governmental Affairs
Nomination Hearing for Mark Everson
Deputy Director for Management, OMB
July 17, 2002

Question No. 1 As you know, OMB Statistical Policy Directive 15, which governs the racial and ethnic data collection by federal agencies, was revised in 1997. Native Hawaiians were disaggregated from the Asian Pacific Islander category and a new category entitled, "Native Hawaiians and Other Pacific Islanders" was created. The Directive gives agencies until January 1, 2003 to make all existing recordkeeping or reporting requirements consistent with its standards.

What steps will you take as OMB Deputy Director for Management to ensure proper implementation of the directive by all federal agencies by 2003? Also, how would you ensure that all agencies are informed of the new standards and understand its requirements?

Given the 2003 implementation date, how do you propose ensuring full compliance with the requirements in the Directive? Moreover, provisions of the directive took effect immediately in 1997 for all new and revised recordkeeping or reporting requirements that include racial and/or ethnic information. What action will you take to ensure compliance with these requirements?

Answer: Since the initial release of the Standards for Federal Data on Race and Ethnicity (formerly known as OMB Statistical Policy Directive 15), which set out the change in policy requiring the disaggregation of Native Hawaiians from the Asian or Pacific Islander category, OMB has continued to reach out to agencies to ensure that they are aware of the changes to the standards. Moreover, OMB has continued to work with an interagency group to address implementation issues. In addition to issuing substantial related guidance, all agency information collections submitted to OMB under the Paperwork Reduction Act have been checked to make sure that questions on race and ethnicity conform to the 1997 standards. I am unaware of any instances where agencies have failed to comply with OMB's Standards for Federal Data on Race and Ethnicity. If confirmed as Deputy Director for Management at OMB, I will make every effort to ensure that agencies that collect such information are aware of the change in policy and have made the appropriate changes to recordkeeping or reporting requirements that include racial and/or ethnic information. I will work with Senator Akaka's office to make sure that whatever concerns he or other members of the Committee have with regard to implementation of this policy are addressed.

Question No. 2 Last November, the Office of Federal Procurement Policy cautioned that some federal agencies have outsourced too many functions and should consider

bringing work back into the government. **Do you agree with this assessment? And if not, why?**

Answer: OMB is currently assessing whether agencies have struck the right balance in their sourcing decisions. Some departments, such as the Department of Housing and Urban Development, have outsourced a high level of activities over the past decade. The overall problem that the President has asked OMB to address is the lack of competition in the federal government when it comes to providing services that can be found in the "Yellow Pages." We are engaged in an agency-by-agency assessment of competitive sourcing plans, which includes consideration of the extent to which functions have already been outsourced. As we update our scorecard, agencies will be required to assess whether they have current contracts that should be competed with existing in-house staff.

Question No. 3 As OMB Controller, you have worked to improve visibility in the cost of government functions. According to the General Services Administration, the federal government procures more than $200 billion annually for goods and services, **As Deputy Director of Management, what additional actions would you ensure that OMB has accurate information on the total number and cost of federal contractors?**

Answer: We need more accurate and cost-effective data collection processes to track our acquisition efforts. We must transform our outmoded data collection system (i.e., the Federal Procurement Data System), which has remained largely unchanged in its 28-year existence, into a modern management information system to support critical agency business decision-making. I will look to OMB's Office of Federal Procurement Policy to continue working with the General Services Administration, the Department of Defense and other procuring agencies in the development of a new system that takes better advantage of current technological capability, is easily accessible, and provides timely, relevant, and reliable acquisition information to help members of the acquisition community gain better insight into federal acquisition activities.

Would you recommend new accountability standards for federal contractors? And if not, why?

Answer: The government already has effective accountability standards for federal contracts in the form of Cost Accounting Standards. These standards are designed to bring uniformity and consistency in the measurement, assignment, and allocation of costs to Government contracts. These accounting principles apply to negotiated, non-commercial, fixed-price contracts where competition is lacking; and, also to all flexibly priced contracts where payment to the contractor is made based upon incurred or claimed costs that exceed certain dollar thresholds.

All contracts should be well structured to produce cost-effective quality performance. This is the essence of performance-based government. In this regard, I expect to rely heavily on the Office of Federal Procurement Policy, which is currently working with agencies to shape contracts, whenever possible, around desired mission-related outcomes as opposed to how work is performed.

Question No. 4 Last year Director Daniels stated that federal agencies - especially those agencies with homeland security missions - can expect funding increases. This year OMB announced that it will provide a framework for agencies to assess how their programs contribute to homeland security.

As Deputy Director of Management, how would you guide agencies to continue to fulfill the essential functions which are not directly-related to homeland security? How do you believe agencies should achieve the proper balance between homeland security and non-homeland security missions?

Answer: The primary missions of the new department are identified in the President's proposal and include preventing terrorist attacks within the United States, reducing the vulnerability of the United States to terrorism at home, and minimizing the damage and assisting in the recovery from any attacks that may occur. This is a consequence of the terrorist attacks of September 11th, and the enhanced understanding that we need strong measures to prepare for, protect against, and recover from terrorist attacks. However, other missions of the components being transferred to the new Department of Homeland Security are very important, required under statute, and must continue. The challenges facing the new Department will require a renewed focus on performance management. The Department of Homeland Security must set clear performance goals and measures for its various missions and work to get the tools and resources it needs to accomplish them. Like other agencies and programs, OMB will assess agency performance against those clearly articulated performance goals. I will pay particular attention to the performance of the new Department and work to see that the Department's management strikes the right balance between ensuring security of the homeland and addressing the other missions of the Department.

Question No. 5 OMB plans to improve the A-76 process by including a number of recommendations from the Commercial Activities Panel. One of the Panel's more controversial recommendations is to change the standard that agencies use to decide competitions from "lowest cost" to "best value.'

Does OMB plan to test the new process before agencies are required to use it? And if so, how?

Answer: Every public-private competition should result in the best value for the taxpayer. In many cases, the best value will be provided by the lowest cost source.

There are factors, like technical proficiency or reliability, that may also be considered when making sourcing decisions.

Any revision to A-76 issued by OMB will be published in the Federal Register for public notice and comment. Once issued, implementation of the guidance will be studied and needed changes will be made to the Circular.

As Deputy Director of Management, how would you ensure that public-private competitions use objective cost-measures?

We want agencies to be able to use the range of options that are presented in the FAR. Agencies must be objective and ensure the taxpayer receives the best deal possible. We should be careful, however, not to introduce non-cost factors into every activity subject to public-private competition. We are not, for example, going to have best value competitions for mowing the lawn. Nonetheless, we are just as mindful of the problems when the selection of an entity providing complicated professional services is made based strictly on low-cost, not taking into account factors that in the long-run would lead to better performance at a lower lifecycle cost.

Question No. 6 In responses to pre-hearing questions, you noted the systemic challenges that government faces in acquiring goods and services in a cost effective manner. You also noted that the growing number of service contracts can be more difficult to mange since they involve a greater degree of judgment in the contracting process.

Do you believe that the use of the "best value" standard would add to the challenge that agencies currently experience in controlling contractor costs?

How would you make certain that agencies have the resources they require to manage contracts in a cost-effective manner?

Answer: Contract oversight is a critical responsibility of procuring agencies. I will work with the Office of Federal Procurement Policy to ensure agencies have adequate resources to administer their contracts. However, the key to controlling contractor costs is to ensure that contracts are properly structured to incentivize high performance at reasonable cost. Applying performance-based contracting principles, such as tying payment to performance, establishing objective measures of performance, and utilizing incentives where appropriate, encourages contractors to maximize performance. These principles should apply regardless of what factors are used to make contracting decisions. But they are especially important where factors other than cost are taken into account.

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