United States General Accounting Office

GAO

Testimony

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

For Release on Delivery
Expected at
10:00 a.m. EDT
Tuesday
May 12, 1998

GOVERNMENT MANAGEMENT

Observations on OMB's Management Leadership Efforts

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GAO/T-GGD/AIMD-98-148

Government Management: Observations on OMB's Management Leadership Efforts

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our observations on the Office of Management and Budget's (OMB) efforts to carry out its responsibilities to set policy and oversee the management of the executive branch.

Today, we will cover three major points. First, we will provide an outline of OMB's wide-ranging management responsibilities and note that the question of whether to integrate or separate management and budget functions has been long debated. Second, we will discuss the effectiveness of OMB's management leadership which, in our view, has been uneven. Finally, we will discuss the factors that appear to contribute to progress in sustaining improvements in federal management. Our observations are made on the basis of work we are currently doing and have done at federal agencies and at OMB.

As you know, OMB supports the president by preparing the president's budget, coordinating the president's legislative agenda, leading efforts to improve the management of the executive branch, and providing policy analysis and advice. Congress has also enacted many statutes that have assigned to OMB a leadership role for a variety of governmentwide policy and oversight responsibilities in areas such as financial management, information resources, and general management, as well as for regulatory and procurement issues.

OMB Has Wide-Ranging Management Responsibilities

OMB was established under presidential reorganization authority in 1970, in large part to increase the attention given to management issues in the federal government. OMB is the lead agency for overseeing a framework of recently enacted financial, information resources, and performance planning and measurement reforms designed to improve the effectiveness and responsiveness of federal agencies. This framework contains as its core elements financial management improvement legislation, including the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996; information technology reforms, including the Paperwork Reduction Act (PRA) of 1995 and the Clinger-Cohen Act of 1996; and the Government Performance and Results Act of 1993 (the Results Act).

The CFO Act mandated significant financial management reforms and established the Deputy Director for Management (DDM) position within

OMB. In addition to serving as the government's key official for financial management, the DDM is to coordinate and supervise a wide range of general management functions of OMB. These functions include those relating to managerial systems, such as the systematic measurement of performance; procurement policy; regulatory affairs; and other management functions, such as organizational studies, long-range planning, program evaluation, and productivity improvement.

OMB is responsible for providing guidance and oversight for various other laws and executive orders as well. For example, the Federal Acquisition Streamlining Act (FASA) requires that executive agency heads set cost, performance, and schedule goals for major acquisition programs and that OMB report to Congress on agencies' progress in meeting these goals. Executive Order 12866 directs OMB to coordinate the review of agencies' rules and regulations to ensure that they impose the least burden, are consistent between agencies, focus on results over process, and are based on sound cost/benefit analysis. OMB also has been responsible since 1967, through its Circular A-76, for carrying out executive branch policy to rely on competition between the federal workforce and the private sector for providing commercial goods and services.

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

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

During the past 50 years, a number of presidential advisory groups have recommended changes designed to strengthen the Office's central management leadership. In response to the recommendations of one of these groups, the Ash Council, the Bureau of the Budget was reorganized in 1970 and renamed OMB, thereby signaling the intent to heighten the management focus in the agency. However, the creation of OMB did not ensure that an institutionalized capacity for governmentwide management leadership would be sustained, nor did it establish how OMB should balance its budget and management responsibilities. As a result, observers have continued to debate how to best ensure that management issues can be effectively considered within the context of—yet without being overwhelmed by—the budget process. Some observers have advocated integrating the two functions, while others have proposed the creation of dedicated offices or a separate agency to provide governmentwide management leadership.

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

In 1994, OMB reorganized to integrate its budget analysis, management review, and policy development roles, in an initiative called "OMB 2000." This reorganization was the most recent of a series of attempts to bolster OMB's management capacity and influence. To carry out its responsibilities, OMB's Resource Management Offices (RMO) are responsible for examining agency budget, management, and policy issues. Linking management reforms to the budget has, at a minimum, provided the opportunity to include management issues as part of the president's yearly budget reviews—a regularly established framework for making decisions.

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

[1]OIRA retained its oversight responsibilities for regulatory and paperwork issues.

coordinate their activities with the statutory offices.[2] In fiscal year 1997, OMB obligated $56 million and employed over 500 staff.

The Effectiveness of OMB's Management Leadership Has Been Uneven

During the past 3 years, OMB has focused increased attention on management issues, but there is much more that needs to be done. Today, we will highlight some of those issues that have been both of particular concern to this Committee and the subject of our recent work.

Greater Attention to Financial Management Issues

OMB's DDM and the OFFM, in concert with the CFO Council, have led governmentwide efforts to focus greater attention on financial management issues. OMB has played a pivotal role in fostering ongoing financial management reforms ranging from improved financial systems and reporting to new accounting standards. We are seeing positive results from OMB's efforts. For example, eight agencies obtained unqualified opinions on their fiscal year 1997 audited financial statements, and OMB set a performance goal for it to assist 21 of the 24 CFO Act agencies to obtain unqualified and timely audit opinions on their annual financial statements for fiscal year 1999. In the 1997 Federal Financial Management Status Report and Five-Year Plan, OMB and the CFO Council discussed accomplishments and future plans in eight priority areas, such as improving financial management systems and implementing the Results Act. OMB also worked with the Department of the Treasury and GAO as part of the Federal Accounting Standards Advisory Board to create a comprehensive set of accounting and cost accounting standards that establish a framework for financial reporting and accountability. In addition, as we reported on March 31, 1998, the federal government prepared consolidated financial statements that have been subjected to an independent audit for the first time in the nation's history.[3]

Despite this progress, we were not able to form an opinion on the reliability of the consolidated financial statements because of serious deficiencies such as the inability to properly account for and report billions of dollars of property, equipment, materials and supplies. These deficiencies are the result of widespread material internal control and financial systems weaknesses that significantly impair the federal

[2]See Office of Management and Budget: Changes Resulting From the OMB 2000 Reorganization (GAO/GGD/AIMD-96-50, Dec. 29, 1995) and OMB 2000: Changes Resulting From the Reorganization of the Office of Management and Budget (GAO/T-GGD/AIMD-96-68, Feb. 7, 1996).

[3]Financial Audit: 1997 Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, Mar. 31, 1998).

government's ability to adequately safeguard assets, ensure proper recording of transactions, and ensure compliance with laws and regulations. With a concerted effort, the federal government as a whole can continue to make progress toward generating reliable financial information on a regular basis. Annual financial statement audits are essential to ensuring the effectiveness of the improvements now under way.

Streamlining the Procurement Process

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

Improving Capital Decision-Making

OMB's efforts to improve capital decision-making are a third example of where OMB's leadership efforts are yielding some results. For example, OMB has required agencies to submit 5-year capital spending plans and justifications—thus encouraging the use of flexible funding mechanisms—and also held the first OMB Director's review on this issue.[4] OMB added a new section to its fiscal year 1998 budget preparation instructions that outlined several broad principles for planning and monitoring acquisition and required agencies to develop baseline cost schedules and performance measurement goals. OMB has also implemented other policy and guidance changes to support new management decision-making requirements and the Chief Information Officers (CIO)

[4] Capital Programming Guide, Version 1, July 1997 (Executive Office of the President, OMB). OMB's Capital Programming Guide provides a range of guidance, from linking capital decisions to strategic goals and objectives to analyzing and ranking potential investments. We provided input to OMB's latest guidance on capital program planning. Also see Executive Guide: Leading Practices in Capital Decision-Making Exposure Draft (GAO/AIMD-98-110, Apr. 1998).

Council has adopted the establishment of sound capital planning and investment management practices as one of its strategic goals. The development of the "Raines' Rules"—requiring agencies to satisfy a set of investment management criteria before funding major systems investments—can potentially serve to further underscore the link between information technology management and spending decisions. These investment management practices are also required under the PRA and the Clinger-Cohen Act. The extent to which the Raines Rules make a difference will depend on how well and how consistently they are applied.

Enhancing Information Security

To address widespread weaknesses in federal information security, the CIO Council, under OMB's leadership, has taken some significant actions, which include designating information security as one of six priority areas and establishing a Security Committee. The Committee, in turn, has developed a preliminary plan for addressing various aspects of the problem and taken steps to increase security awareness and improve federal incident-response capabilities. However, much more needs to be done to monitor agency performance in this area and to ensure that the various management, policy, technical, and legal aspects of information security are effectively addressed. Continuing reports of information security problems are disturbing because federal agencies rely on automated systems and related security controls to support virtually all of their critical operations and assets and to ensure the confidentiality of enormous amounts of sensitive data. Our recent audit of the government's fiscal year 1997 financial statements identified serious information security weaknesses at all 24 CFO agencies. Moreover, we are finding that most agencies have not addressed enhancing information security in their fiscal year 1999 performance plans.

Increasing Year 2000 Compliance

Agencies' computer systems' Year 2000 compliance remains a concern, and serious vulnerabilities remain, although OMB, the President's Council on Year 2000 Conversion, and the CIO Council all have focused attention on increasing compliance. Ensuring that computer systems are Year 2000 compliant represents the widest-scale system and software conversion effort ever attempted.[5] As the year 2000 grows closer and the breadth of the work that remains has become known, OMB has shed its initial optimism and the federal government's response to the crisis has increased. For example, at the urging of Congress, OMB issued guidance requiring agencies to develop contingency plans for critical core business

[5] Year 2000 Computing Crisis (GAO/T-AIMD-98-101, Mar. 18, 1998).

processes and supporting systems.[6] More recently, OMB provided additional guidance stating that these contingency plans can be carried out in accordance with GAO's contingency planning guide.[7] The establishment of the President's Council on Year 2000 Conversion provides an opportunity for the executive branch to take further key implementation steps to avert disruptions to critical services, as we outlined in our recent report.[8] To date, however, progress has been slow, and agencies' schedules often leave no room for delay. Many major departments have already missed earlier deadlines. At the current pace, it is clear that not all mission critical systems will be fixed in time, and additional attention therefore needs to be given to those systems that serve the highest priorities.

Reviewing Regulations

We also have found that improvements are needed in the process used to review and clear regulations. We have testified on the inadequacies of OMB's efforts to meet congressional paperwork reduction goals.[9] Also, OIRA does not attempt to set priorities for agencies' regulations on the basis of risk (e.g., the number of lives saved or injuries avoided). Concerns have been raised by experts in regulatory issues that federal regulations are not sufficiently focused on the factors that pose the greatest risk and that, as a result, large amounts of money may be spent to accomplish only a slight reduction in risk.[10] Using these same resources in other areas that pose higher risks could yield significantly greater payoffs.

Implementing OMB's Circular A-76

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

[6]Progress on Year 2000 Conversion, U.S. Office of Management and Budget, as of February 15, 1998.

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

[8]Year 2000 Computing Crisis: Potential for Widespread Disruption Calls for Strong Leadership and Partnerships (GAO/AIMD-98-85, Apr. 30, 1998).

[9]Paperwork Reduction: Governmentwide Goals Unlikely to Be Met (GAO/T-GGD-97-114, June 4, 1997); Paperwork Reduction: Burden Reduction Goal Unlikely to Be Met (GAO/T-GGD/RCED-96-186, June 5, 1996).

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

limited efforts to monitor or enforce compliance with its A-76 guidance or evaluate the success of this process.

Analyzing Crosscutting Issues

Finally, OMB's oversight role across the government can provide the basis for analyzing crosscutting program design, implementation, and organizational issues. We have pointed to the need to integrate the consideration of the various governmental tools used to achieve federal goals, such as loans, grants, tax expenditures, and regulations. Specifically, we recommended that OMB review tax expenditures with related spending programs during their budget reviews. In addition, our work has provided numerous examples of mission fragmentation and program overlap within federal missions, and we have suggested that OMB take the lead in ensuring that agency Results Act plans address fragmentation concerns.[11] This effort may be hampered if efforts to resolve problems of program overlap and fragmentation involve organizational changes, because OMB lacks a centralized unit charged with raising and assessing government-organization issues. OMB has not had such a focal point since 1982 when it eliminated its Organization and Special Projects Division.

Sustaining Improvements in Federal Management

Mr. Chairman, the record of OMB's stewardship of management initiatives that we have highlighted today suggests that creating and sustaining attention to management improvement is a key to addressing the federal government's longstanding problems. In the past, management issues often remained subordinated to budget concerns and timeframes, and the leverage the budget could offer to advance management efforts was not directly used to address management issues.[12] The experiences to-date suggests that certain factors are associated with the successful implementation of management initiatives, regardless of the specific organizational arrangement.

First, top management support and commitment within both OMB and the White House is often critical to providing a focus on governmentwide management issues throughout both the budget process and the executive agencies themselves. As our study of OMB 2000 pointed out, management

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

[12] Managing the Government: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-89-65, May 4, 1989).

and performance measurement issues gained considerable attention in the budget formulation process initially because of the clear commitment of OMB's leadership. However, top leadership's focus can change over time, which can undermine the follow-through needed to move an initiative from policy development to successful implementation. Thus, although top leadership's interest is an important impetus for the initiation of management policies, it alone is not sufficient to sustain these initiatives over time.

Second, a strong linkage with the budget formulation process can be a key factor in gaining serious attention for management initiatives throughout government. Regardless of the location of the leadership, management initiatives need to be reflected in and supported by the budget and, in fact, no single organizational arrangement by itself guarantees this will happen. Many management policies require budgetary resources for their effective implementation, whether it be financial management reform or information systems investment. Furthermore, initiatives such as the Results Act seek to improve decision-making by explicitly calling for performance plans to be integrated with budget requests. We have found that previous management reforms, such as the Planning-Programming-Budgeting-System and Management By Objectives, suffered when they were not integrated with routine budget presentations and account structures.[13]

Third, effective collaboration with the agencies—through such approaches as task forces and interagency councils—has emerged as an important central leadership strategy in both developing policies that are sensitive to implementation concerns and gaining consensus and consistent follow-through within the executive branch. In effect, agency collaboration serves to institutionalize many management policies initiated by either Congress or OMB. In our 1989 report on OMB, we found that OMB's work with interagency councils were successful in fostering communication across the executive branch, building commitment to reform efforts, tapping talents that exist within agencies, keeping management issues in the forefront, and initiating important improvement projects. One example of this collaboration is the continuing success of CFOs and the CFO Council in leading agencies in addressing a wide range of financial and related management issues, such as their work, in concert with OMB, on a strategic plan to upgrade and modernize federal financial management systems.

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

Finally, support from the Congress has proven to be critical in sustaining interest in management initiatives over time. Congress has, in effect, served as the institutional champion for many of these initiatives, providing a consistent focus for oversight and reinforcement of important policies. For example, Congress'—and in particular this Subcommittee's—attention to the Year 2000 problem, information management, and financial management, has served to elevate the problem on the administration's management agenda.

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

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

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