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MANAGING THE GOVERNMENT

Revised Approach Could Improve OMB's Effectiveness

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**Comptroller General
of the United States**

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To the President of the Senate and the
Speaker of the House of Representatives

This report is one in a series of GAO management reviews of major departments and agencies. It assesses OMB's recent and long-term performance in providing leadership and prompting improvements in the management of the executive branch.

Preoccupation with budget decisions and the short-term consequences of policy decisions have limited OMB's efforts to help effectively resolve major problems affecting the delivery of government services. To enhance future management improvement efforts, the report offers recommendations to the Director of OMB as well as some matters for congressional consideration. OMB has responded positively to our recommendations.

This report is being sent to the Director of OMB and to interested congressional committees and subcommittees.

The work was done under the direction of Gene L. Dodaro, Director, General Management Issues. Major contributors are listed in appendix III.

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Executive Summary

Purpose

The Office of Management and Budget (OMB) plays a pivotal role in deciding how the President allocates federal resources. In addition, the President and Congress look to OMB for leadership in improving government operations.

But how realistic is it to expect OMB to provide broad management leadership while confronting the increasing demands of formulating and defending the President's budget? OMB's management leadership efforts have generally produced limited results, primarily due to a lack of sustained direction, poor implementation strategies, and limited integration with the budget process.

During the last 6 years, OMB has tried to reverse this trend through a sustained management improvement effort—Reform '88. GAO has reviewed OMB's current efforts from two perspectives: (1) how effective Reform '88 has been in light of OMB's historical record in the management improvement area and (2) how effective Reform '88 has been given what GAO sees as the critical federal management problems facing a new administration as we move into the 1990s. GAO's purpose was to identify ways to help OMB's management improvement efforts.

Background

OMB's 378 professional staff play a key role in assisting the President oversee the activities of the government's 5 million employees and over $1 trillion budget. OMB's institutional culture has been dominated by its budget responsibilities, which consume most of its resources and top management attention. Currently, about 230 of OMB's professional staff compile, examine, and produce the federal budget.

OMB's preoccupation with the budget has been growing. It is increasingly involved in congressional budget deliberations and is under constant pressure to meet deficit reduction mandates. However, while OMB's budget workload has intensified and federal management has become more challenging, OMB is about 15 percent smaller now than it was in 1970.

In the management area, resources devoted to management divisions have been cut almost in half during the last several years. Moreover, OMB's management improvement efforts have been affected over the years by continually changing initiatives and approaches.

The Reagan Administration tried to define OMB's management role through a series of management improvement initiatives under its

Reform '88 banner. Key initiatives addressed debt and credit management, financial management, productivity, information technology, procurement management, and contracting out of commercial activities.

Results in Brief

In comparing Reform '88 initiatives to earlier OMB management improvement efforts, GAO found that OMB has achieved some success. However, in terms of basic management issues directly affecting the delivery of government services to millions of people, OMB's efforts, past and present, have been much less successful.

Progress in the administrative areas of debt and credit management and financial management was achieved because there was broad agreement among the White House, Congress, and agencies on the need for reform. OMB directly involved key line agency officials in developing approaches and solutions and in managing the efforts. But even in these areas, much remains to be accomplished. Other Reform '88 initiatives, such as contracting out and procurement reform, were unsuccessful. Inconsistent leadership, limited resources, implementation strategies that failed to recognize unique agency environments, and insufficient efforts to gain congressional support were all factors.

While administrative management processes and structures are important, the essence of federal management is policy implementation and delivery of program service. Within this context, more basic criteria must be applied when judging OMB's management leadership accomplishments.

For example, did OMB play the role it could have or should have, given that we will have to pay over $100 billion to rescue the savings and loan industry; it will cost us about $100 to $150 billion to repair and replace our aging nuclear weapons facilities; after spending over $500 billion, we still lack measurable objectives to gauge our progress in dealing with a host of environmental problems; after spending over $30 billion, B-1 bombers do not work satisfactorily; and neither the Internal Revenue Service nor Social Security have up-to-date computer systems after more than a decade of work and expenditures?

None of these problems happened overnight. Some, such as the savings and loan crisis and the B-1 bomber, emerged during the 1980s. But other problems have existed for years and have been poorly addressed by several administrations. Something is basically wrong with our approach to making budget and management decisions to have allowed these and other basic problems with our delivery of vital government services to have persisted for so long.

In reality, OMB's decisionmaking reflects the way the entire government looks at problems and issues. Presidents, Congress, and agencies have to share the responsibility. The budget deficit and our reluctance to deal effectively with it have resulted in too many short-sighted decisions.

While individual agencies bear primary responsibility for managing their programs, OMB should have had the foresight to understand the long-term implications of inadequately addressing major problems. Unfortunately, OMB's history has worked against its taking that perspective. This has contributed to poor decisions. Focus on the short-term consequences of actions has too often resulted in serious long-term problems.

OMB needs to change. It needs to understand much better the problems agencies have and what it takes to solve them. It needs to work closer with the agencies to develop a longer term financial and management strategy and better explain to the President and Congress the consequences of not following the longer term strategy. It needs more professionals to do this job well. Teams comprised of budget examiners and management staff blending program and management expertise during the budget process are critical to successfully changing OMB's approach. Equally important, however, is the commitment of the President and OMB leadership to such efforts.

Another key to management progress is not to use just OMB, with its limited staff, to impose change or attempt to manage agency operations. Rather, the administration must enlist the commitment of the line agency executives to address difficult problems. OMB's efforts should not be seen as alleviating the accountability of agency heads for addressing agency problems and successfully carrying out long-term plans and programs within fiscal guidelines.

Principal Findings

Reform '88 Progress Varies by Initiative

Some progress was made under the credit and financial management initiatives to address serious problems that GAO and others have consistently highlighted. Over the past 7 years, efforts have been made to improve debt and credit management techniques, such as more stringent screening of applicants, offsetting of federal tax refunds, and use of private collection agencies. Congressional support through passage of such legislation as the Debt Collection Act of 1982 provided a statutory foundation for these efforts.

Agencies acknowledged that the centrally directed effort, with its specific performance goals and constant monitoring, spurred their debt collection efforts. However, the scope and complexity of debt and credit problems dictate continued improvement efforts. For example, nontax delinquencies have grown from $15 billion in fiscal year 1982 to $32 billion in fiscal year 1988. (See pp. 41 to 45.)

After years of decline, some progress has been made toward improving the government's financial management systems. Important legislation, such as the Prompt Payment Act and the Federal Managers' Financial Integrity Act, underscored congressional support for reform. This legislation, in tandem with concerted efforts by OMB and Treasury, led to progress in implementing more effective cash management techniques, such as electronic fund transfers and use of credit cards, and in continuing efforts across government to address persistent internal control problems.

Additionally, efforts to establish a standard general ledger provide an important component of a plan to modernize federal accounting systems. In 1987, at OMB's recommendation, Chief Financial Officers were established within the agencies. However, serious internal control problems, such as continued late bill payments, remain and years of diligent effort will be required to complete financial systems modernization. (See pp. 35 to 41.)

Other initiatives achieved less progress. The most recent attempt at a quality and productivity program, which started in 1986, had a good beginning, but results thus far have been limited. This is understandable given the long-term nature of such an undertaking. Prospects for this initiative are uncertain unless more attention is given to developing measures of program output and quality as well as unit cost. OMB management analysts also need to work more with examiners to ingrain quality and productivity issues into normal budget decisionmaking. (See pp. 45 to 48.)

The information technology initiative has produced mixed results. Through intensive reviews of presidential priority systems, Office of

Information and Regulatory Affairs analysts have improved their capability for advising the budget examiners, providing meaningful feedback to agency decisionmakers, and developing needed policy. In contrast, the OMB requirement that agencies report on selected aspects of their information technology planning appears less useful because the information provided offers little insight into the agencies' progress in acquiring and using information technology. The reported information may not be closely linked to agencies' planning processes and is not systematically analyzed by OMB staff. (See pp. 48 to 51.)

The least effective initiatives were contracting out and procurement reform. Following issuance of an executive order intended to create the uniform and comprehensive procurement system called for by Congress, procurement reform received limited OMB attention. The Office of Federal Procurement Policy remained leaderless for nearly 2 years and its staff declined. Seventy-five percent of government procurement executives and 87 percent of industry officials GAO surveyed generally found the Office's leadership lacking. (See pp. 52 to 54.)

OMB's contracting-out initiative fell well short of achieving its objectives. Agencies rebelled against what they regarded as unrealistic goals, inflexible implementation strategies, and an initiative that faced significant congressional opposition. (See pp. 54 to 59.)

Revised Approach to Management Needed

Questions remain regarding OMB's ability to fulfill its management leadership role. The examiners are consumed with seemingly intractable budget demands that constrain their ability to focus on agency management issues.

Despite repeated efforts since 1970, OMB has not been able to establish an enduring process to integrate management and budget operations. Continual changes in approach resulting primarily from turnover at the policymaking levels have disrupted OMB's efforts. As a result, the budget and management staffs generally function independently. The budget and management staffs must work together as a team if OMB is to more effectively oversee agency efforts to deal with long-term management issues. (See pp. 63 to 82.)

Addressing Key Implementation Issues

The agencies should actively participate in identifying crosscutting management issues and establishing the policies within which they will operate. OMB serves a useful purpose in (1) raising issues relative to the policy, program, and administrative management of the agencies; (2) challenging the agencies to choose the most effective solutions to their management problems; (3) providing the necessary policy framework to guide agencies' efforts; (4) providing the external influence and support useful to agency officials in overcoming opposition to change within agencies; and (5) coordinating those issues that cross agency boundaries.

Presidential councils comprising the Assistant Secretaries for Administration and the Inspectors General should be continued, and a council of Deputy Secretaries should be established to better focus on program management and service delivery. Also, OMB should expand the lead agency concept used with Treasury in the financial management area. Calling for the Office of Personnel Management to increase its support of agency training and outreach needs under the quality and productivity initiative is such an opportunity.

History shows that progress is most likely when the President and Congress agree on broad reform objectives. This occurred most recently in debt and credit management. However, OMB has generally opposed management legislation proposed by Congress and has had limited success in generating congressional support for its own proposed management legislation. For example, OMB initially resisted proposals to enact the Financial Integrity Act and has been unable to generate wide acceptance of its contracting-out initiative.

OMB should hold early and continuing discussions with Congress about its management plans and should respond to congressional calls for OMB leadership. Congress should use hearings to explore and obtain OMB's commitment to pursuing key management issues.

Recommendations

GAO makes a number of specific recommendations to the Director of OMB aimed at improving OMB's leadership on management issues. These include

- establishing within the annual budget cycle a systematic process for identifying and overseeing agency progress in achieving a select number of presidentially supported policy implementation and program service delivery objectives;
- making the budget divisions explicitly responsible for successful implementation of this process and providing them with the needed resources;
- charging the management staff to (1) work as a team with the budget divisions to identify agency management issues and assess progress and

(2) identify the most important crosscutting management issues and the policies needed to address them; and

- considering whether a second Deputy Director would enhance the top management team's ability to carry out this revised approach and work more closely with agency and congressional leaders. (See pp. 98 to 99.)

Matters for Congressional Consideration

As part of its oversight, Congress should engage OMB in a dialogue on approaches to its management responsibilities with a view toward building consensus on actions needed to ensure that results are achieved in resolving critical management problems. To facilitate discussion, Congress should consider statutorily requiring that OMB continue its practice of submitting an annual report on the state of federal management. (See p. 99.)

Agency Comments

OMB stated that the report makes an important contribution in addressing the major issues involved in managing the government and agreed with the essence of GAO's recommendations. OMB cited a number of actions it had underway in response to them. OMB's comments are in appendix I.

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Figures

Abbreviations

ADP	Automated Data Processing
ASA	Assistant Secretary for Administration
BLS	Bureau of Labor Statistics
BOB	Bureau of the Budget
BRD	Budget Review Division
CBMS	Central Budget Management System
CFO	Chief Financial Officer
DOD	Department of Defense
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FMS	Financial Management Service
FSLIC	Federal Savings and Loan Insurance Corporation
FTE	Full Time Equivalents
GRH	Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings)
GSA	General Services Administration
HUD	Housing and Urban Development
IG	Inspector General
IGR	Intergovernmental Relations
IRM	Information Resources Management
IRS	Internal Revenue Service
ITP	Information Technology Planning
MBO	Management by Objectives
NAPA	National Academy of Public Administration
OFM	Office of Federal Management
OFPP	Office of Federal Procurement Policy
OIRA	Office of Information and Regulatory Affairs
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAD	Program Associate Director
PCIE	President's Council on Integrity and Efficiency
PCMI	President's Council on Management Improvement
PIP	Productivity Improvement Program
PMI	Presidential Management Initiatives
PPS	Presidential Priority Systems
PRP	President's Reorganization Project
SBA	Small Business Administration
SES	Senior Executive Service
VA	Veterans Administration

Introduction

The Office of Management and Budget (OMB) serves as the key agent of the President and Congress in providing management leadership across the executive branch. While OMB and its predecessor, the Bureau of the Budget (BOB), have fulfilled this role for over 60 years, the institution has been subject to continuing criticism regarding its performance. During the Reagan Administration, OMB undertook the longest sustained governmentwide management improvement effort in recent history, known as Reform '88. This report reviews the Reform '88 experience and looks at the recent efforts to address long-standing constraints on OMB's performance to determine what are reasonable expectations for OMB's management leadership in the future.

The Complex Federal Management Environment

The essence of federal management is policy implementation and delivery of program services. By any measure, however, managing the federal government is one of the most complex tasks in the world. The government employs over 5 million military and civilian employees, spends over $1 trillion a year, and operates facilities throughout the United States and in over 100 foreign countries. Within this framework, about 20 major agencies, complex organizational entities in their own right, provide program services to the public.

Unfortunately, our work over the past decade has shown that too often we have not invested sufficiently in the government's capacity to provide the services the public expects. The federal government has been characterized by agencies operating in a reactive mode, consumed by crisis or implementing other short-term agendas with little or no focus on long-term planning. Frequent turnover in our political leadership—the average term for political appointees over the past 2 decades has been slightly over 2 years—and a general lack of accountability at the top levels of the agencies for day-to-day management issues associated with running large and complex organizations have complicated efforts to address long-term problems. Moreover, these problems have been exacerbated by our reluctance to deal effectively with the budget deficit.

Within this environment, we have found numerous management problems facing the agencies. Similarly, OMB budget examiners, Assistant Secretaries for Administration (ASA), and Inspectors General (IG) responding to our survey identified over 100 significant management issues affecting agencies' abilities to accomplish their missions.

Prominent examples from our work include the following:

- The Federal Savings and Loan Insurance Corporation (FSLIC), insurer of about $1 trillion of deposits in the Nation's thrift institutions, is insolvent. About 500 insolvent thrifts are losing millions of dollars each day. Part of the cause of the problem was the government's failure to invest quickly enough in a sufficient number of bank examiners to deal with the issue. Now, FSLIC's problems will cost over $100 billion, with taxpayers financing much of that. Minimizing these losses and closing or selling the insolvent institutions will be difficult.
- The Department of Energy faces the significant task of cleaning up and modernizing its aging and environmentally hazardous nuclear weapons production complex, involving 50 facilities around the country. Many of the most hazardous of these facilities were built about 30 years ago. For several years, we have voiced concerns about the effectiveness of Energy's management and safety oversight of the weapons complex. The facilities have now deteriorated so as to present serious operational, safety, and environmental problems. Given Energy's current resource levels and production goals, modernizing and cleaning up those facilities efficiently will be a major management challenge that could cost any where from $100 to $150 billion.
- The Nation has spent more than $500 billion to deal with a host of environmental problems, but much remains to be done. A critical management issue impeding progress in this respect is the Environmental Protection Agency's lack of quantitative indicators of environmental quality. Without such indicators, it is difficult to establish, and measure progress toward, specific environmental goals; assess program effectiveness in terms of results achieved; make the best allocation of scarce resources; or forge an effective relationship with the states for carrying out the Nation's pollution abatement efforts.
- Modernization of air traffic control is vital to maintaining a safe and efficient system. The Federal Aviation Administration's (FAA) modernization plan was initially envisioned as a comprehensive identification of all air traffic control capital improvements needed by FAA until the year 2000. Projected in 1983 at about $12 billion, FAA now estimates that the cost of the plan will be about $16 billion. We found that due to planning shortfalls and insufficient staffing, (1) the scope of modernization has gone beyond the plan, and actual modernization could cost about $25 billion by the year 2000 and (2) planned benefits resulting from reduced delays and more effective routing are being pushed further into the future.
- The Internal Revenue Service's (IRS) most pressing overall need is to modernize its outdated and inefficient tax processing system, which is based upon a plan approved in 1959. Returns processing, storage, and

retrieval processes are still predominantly paper-driven and labor-intensive. IRS began a redesign effort in 1968 but it never progressed beyond the conceptual design stage and was eventually killed in 1978. In 1982, IRS started anew and has since pursued four developmental approaches to modernize its system. The first three approaches also did not proceed beyond the conceptual phase, partly due to leadership changes within IRS and Treasury and partly because the initial redesign strategies were challenged as not being clearly tied to IRS' mission needs. Through fiscal year 1988, nearly $70 million had been spent in this renewed effort, and a redesigned system is now expected to cost several billion dollars and not be completed until around the turn of the century. As a result of the recurring delays, IRS will have to continue to take stop-gap measures to provide additional capacity to its antiquated systems; otherwise, problems such as those encountered in 1985 in processing tax returns and issuing refunds could recur.

- Similarly, the Social Security Administration's computer systems are critical to its ability to provide quality public service. Long described as antiquated and on the verge of collapse, its automated data processing (ADP) system is still not up-to-date despite modernization efforts that began in 1982 and have cost over $640 million. A fundamental problem at Social Security was that it lacked (1) a clear sense of how it wanted to deliver services and checks in the year 2000, when only about 20 percent of the people now receiving benefits will still be beneficiaries, and (2) adequate assurance that its modernized system would meet future service delivery needs.
- The Air Force, to date, has incurred a cost of about $31.5 billion for 100 B-1 bombers, but the planes do not operate satisfactorily. The cause of the B-1 problems started with the management challenges created by ground rules established for the program. The program included many unique but interrelated factors, such as the early delivery of initial aircraft, a cost cap, the Air Force assuming responsibility for airframe and avionics integration, multiyear contracting, and lack of some oversight normally available through milestone program reviews. Our work indicated that the high degree of concurrence between development and production was also a major contributor to the problems encountered. In essence, the fast-paced production schedule, which was driven by the need to meet an early initial operational capability date, conflicted with the orderly completion of development. These and other management-related issues have led to the aircraft's unsatisfactory performance in terms of operational availability.
- Successive administrations have tried to improve the Defense Department's (DOD) major weapons acquisition function. Various commissions have cited the need to establish clear authority for acquisition policy,

clear accountability for acquisition execution, and plain lines of command for those with program management responsibilities. DOD keeps trying to implement such recommendations, but serious problems persist.

These examples are all long-term problems. Some, such as the savings and loan crisis and the B-1 bomber situation, emerged during the 1980s. Others have persisted for years and span numerous administrations. All of these problems and more have their roots in management systems that do not work well and in difficulties attracting, retaining, or effectively using quality personnel at all levels—both military and civilian. Basically, these problems exist because of the way the government looks at problems and issues and makes budget and management decisions. The tendency has been to focus on the short-term consequences, which, in turn, has resulted in too many short-sighted decisions.

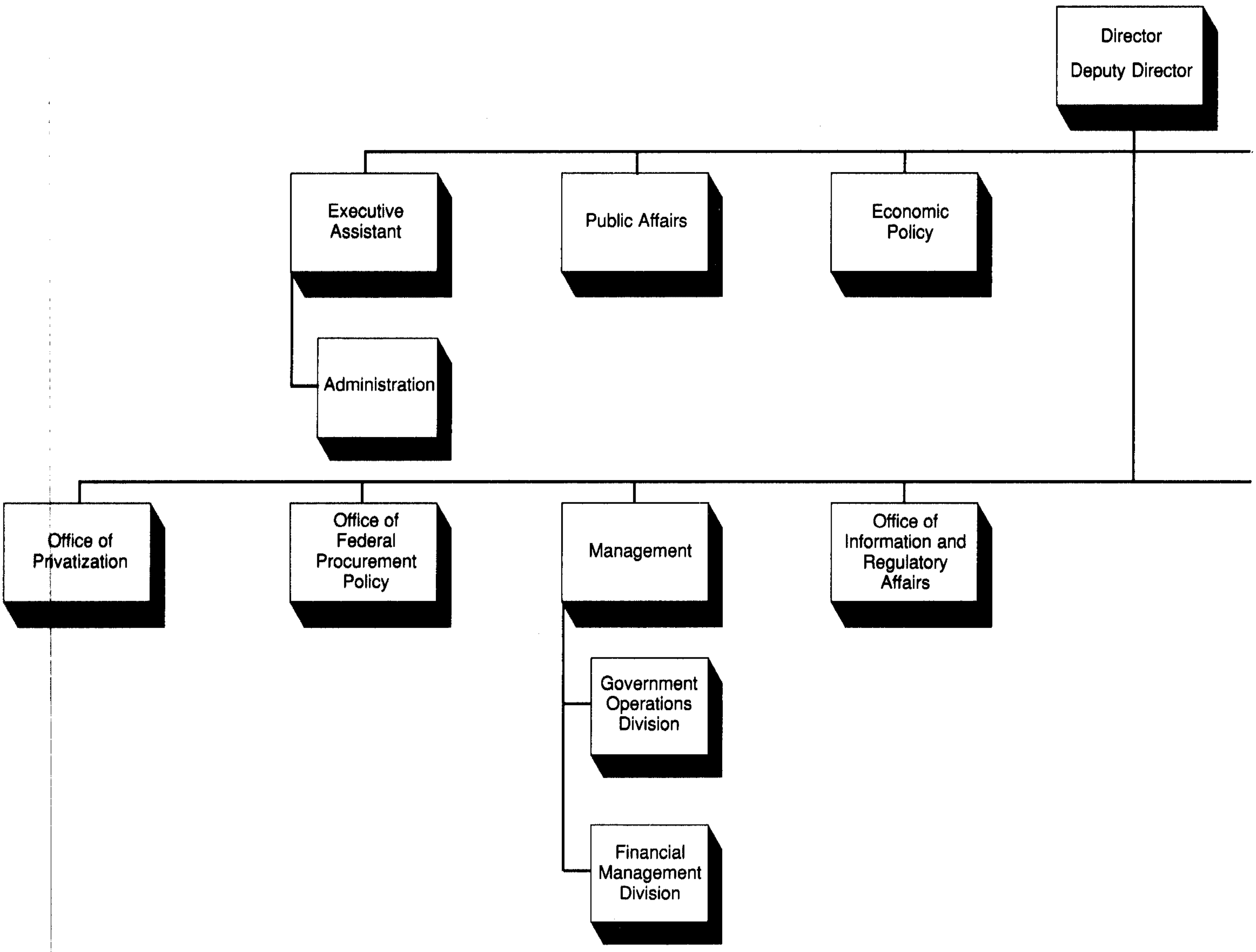
Presidents, Congress, OMB, and the agencies all have contributed to this situation. Ultimately, each agency bears primary responsibility for addressing its own management issues. But OMB is the agency in the executive branch that should have the foresight and perspective to understand the long-term implications of not addressing key problems.

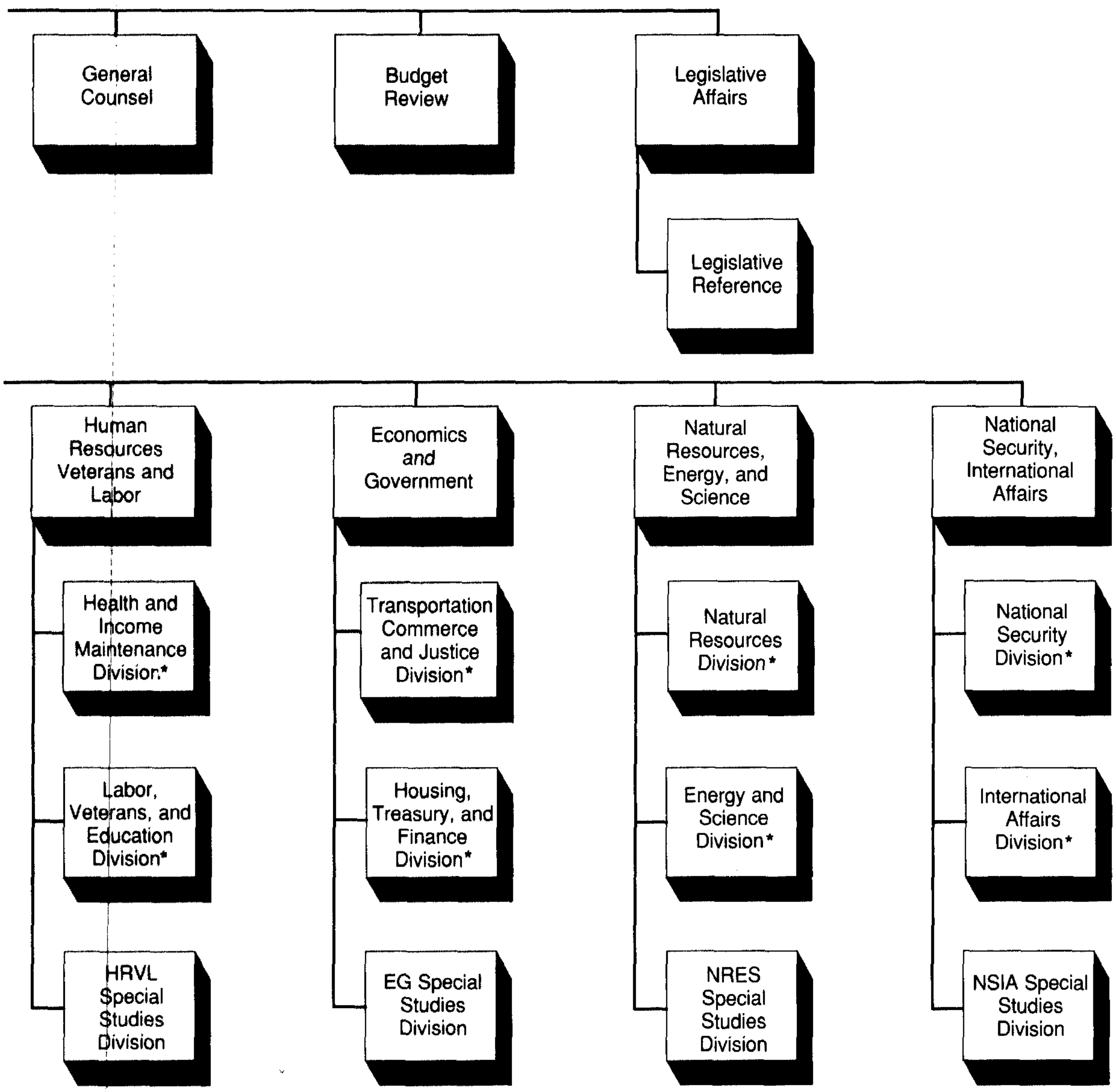
OMB's Organization and Structure

While the program agencies have primary responsibility for addressing their management issues, OMB plays a critical leadership and resource allocation role. It carries out its diverse responsibilities with a small staff of 378 professionals organized along specific functional or policy objectives, as shown in figure 1.1.

The eight budget examining or "program" divisions analyze federal program performance and spending options. Along with their accompanying special studies divisions, the program divisions are organized by budget function; for example, national defense issues are examined in one division, environmental affairs in another. In addition, the Budget Review Division (BRD), among other duties, develops budget instructions and documents and maintains OMB's budget systems.

Figure 1.1: OMB's Organizational Structure (As of January 1989)





* Eight budget examining or "program" divisions.

OMB's management functions are divided among four separate components.

- OMB's Management Divisions plan and implement governmentwide programs to improve management effectiveness.
- The Office of Information and Regulatory Affairs (OIRA) provides policy leadership and assistance to agencies in paperwork management and reduction, telecommunications policy, statistical policy, information policy, and regulatory reviews.
- The Office of Federal Procurement Policy (OFPP) is responsible for promoting economy, efficiency, and effectiveness in the procurement of property and services.
- The Office of Privatization centralizes responsibility for identifying and analyzing governmentwide privatization opportunities.

Finally, the Office of the Director provides executive direction and coordination for all OMB activities. This office includes staff support through the offices of Economic Policy, Legislative Affairs, General Counsel, Public Affairs, Administration, and Legislative Reference.

OMB's Resources Have Been Decreasing

OMB has always been fairly small, never having employed more than 688 staff. Moreover, in recent years its resources have declined. Between fiscal years 1981 and 1988, OMB's expenditures fell by $3.1 million (8.9 percent) in constant 1982 dollars.[1] Similarly, for fiscal year 1988, OMB operated with 525 staff years, a drop from the 598 staff years used in fiscal year 1981 and the 614 staff employed during fiscal year 1971.

Since 1981, the management side has absorbed a much greater decrease in resources than the budget divisions. Between fiscal years 1981 and 1988, expenditures on the management side decreased by almost 13 percent in constant 1982 dollars (about 18 percent including OFPP), while budget side expenditures dropped 9 percent. Over the same period, the management divisions alone lost 33 staff years, or about 42 percent of their total personnel. Considering that one of the management divisions in fiscal year 1987 assumed both the responsibility and staff for examining the Office of Personnel Management (OPM) and General Services Administration (GSA) budgets, the decline in staffing has been even greater—38 staff years, or about 48 percent.

[1] Preliminary estimate for fiscal year 1988.

Table 1.1: OMB's Expenditures by Program Area (Millions in Constant 1982 Dollars)

Program activities	Fiscal year 1981	Fiscal year 1988[a]	Change	Percent change
Budget Examining Divisions	$16.9	$15.8	($1.1)	−6.6%
Budget Review Division	$5.4	$4.6	($0.8)	−14.6%
Budget side total	**$22.2**	**$20.3**	**($1.9)**	**−8.5%**
Management Divisions	$3.9	$3.3	($0.5)	−13.9%
OIRA	$4.6	$4.1	($0.5)	−11.4%
Management side total	**$8.5**	**$7.4**	**($1.1)**	**−12.5%**
Other	$4.6	$4.4	($0.2)	−4.3%
Total expenditures[b]	**$35.3**	**$32.2**	**($3.1)**	**−8.9%**
OFPP[c]	$2.7	$1.8	($0.9)	−34.7%

[a]Fiscal Year 1988 expenses estimated with preliminary price deflators.

[b]Totals may not add due to rounding.

[c]OFPP receives an appropriation separate from OMB.

Table 1.2: OMB's Employees (Fiscal Year 1981 vs. Fiscal Year 1988)

Program activities	Fiscal years 1981	Fiscal years 1988	Change from 1981 to 1988	Percent change
Budget Examining Divisions	269	245	−24	−8.8%
Budget Review Division	66	71	5	8.0%
Budget side total	**335**	**316**	**−19**	**−5.5%**
Management Divisions	79	46	−33	−42.0%
OIRA	84	66	−18	−20.9%
Management side total	**163**	**112**	**−51**	**−31.2%**
Other	100	97	−3	−3.1%
Total OMB FTEs	**598**	**525[a]**	**−72**	**−12.1%**
OFPP	48	25[a]	−23	−47.9%

Note: Number of employees expressed in terms of full-time equivalents (FTE).
[a]Of the 550 OMB and OFPP staff in 1988, 378 were professionals, such as budget examiners, management analysts, and lawyers. The remaining employees were administrative, clerical, or other support staff.

The agency has a tradition of operating with minimal resource levels and cutting its own budget as an example to other federal agencies. For example, then-Director David Stockman testified in 1982 that OMB led federal agencies in seeking increased output for reduced dollars. OMB's $36 million fiscal year 1983 appropriation request was nearly $2 million less than the President's initial fiscal year 1982 request.

Critiques of OMB's Performance Identify Continuing Problems

Almost since BOB was created by the Budget and Accounting Act of 1921, its performance in attempting to improve federal management has been much debated. The act charged BOB with preparing the budget and studying the economy and efficiency of federal agencies' management. Over time, the institution's management responsibilities have broadened in response to the growing size and complexity of the federal environment. However, throughout the agency's history, it has struggled to fulfill these management leadership responsibilities effectively. Nevertheless, it has been continually criticized for failing to fulfill its management responsibilities, for failing to link its management and budget activities properly, for not adapting to its changing environment, and for being insufficiently responsive to the President. A brief look at OMB's history shows the impact of efforts to address these sometimes contradictory criticisms.

BOB was first located in the Treasury Department. There it developed early operating characteristics that continue to influence OMB's management performance today. The Bureau's attention was focused on the budget function. To set an economizing example to the agencies, BOB limited its staff to 45. The broader mandate of the Budget and Accounting Act of 1921 to study agency management was ignored during BOB's early years.

The increased size and scope of government under President Franklin Roosevelt's New Deal brought new challenges to federal management. In 1937, a presidential commission appointed by Roosevelt to analyze these management challenges criticized BOB for neglecting its management responsibilities. The Brownlow Report concluded that the Bureau's administrative research function was "practically undeveloped." It recommended transferring BOB to a new Executive Office of the President and strengthening BOB's administrative management capabilities to place the President in direct control of the "great managerial functions of the government"—personnel management, fiscal and organizational management, and planning management. BOB was then transferred to the presidential office in 1939 and an Administrative Management Division was established.

Under Harold Smith's leadership from 1939 to 1946, management issues gained unprecedented importance in the Bureau. The Bureau experienced a substantial increase in staffing and for the first time became a government leader in management expertise. The Administrative Management Division helped direct organization and planning for the war effort and build the administrative management capabilities of the line agencies. The war effort established a unique set of requirements that reduced the traditional budgeting emphasis on economy in favor of administrative planning and coordination.

As the management function emerged from the earlier dominance of the budget, however, problems of internal coordination surfaced. In 1949, the First Hoover Commission sharply attacked the Administrative Management Division's absence of relations with the Estimates Division and its failure to develop a "comprehensive approach" to organization and management improvement.

In 1952, partly in response to these criticisms, BOB was reorganized. A small Office of Management and Administration replaced the Division of Administrative Management. Most of the Administrative Management staff were placed in program divisions to work alongside the budget examiners. Many of these staff, however, were absorbed into budget examining work in response to President Eisenhower's emphasis on controlling spending.

By the mid-1950s, BOB's budget focus had led to the neglect of its management improvement responsibilities. In 1955, a second Hoover Commission called for substantially enlarging BOB's management staff and responsibilities. From 1957 to 1959, the President's Advisory Committee on Government Organization, headed by Nelson Rockefeller, made several proposals for augmenting the President's management capabilities outside BOB. Rockefeller believed that the Bureau's emphasis on budget analysis would keep it from providing management improvement leadership.

A 1959 BOB self-study also addressed the management-budget relationship. The study concluded that the Office of Management and Organization, unlike the Bureau's budget function, lacked a regularized process requiring close cooperation with the budget divisions. It called for building up the resources of the budget divisions and developing within BOB a more positive program of providing continuing advice and assistance to the divisions and the agencies. The study also noted staff concerns about the negative orientation that the emphasis on holding down agency budgets gave to Bureau operations. In calling for the Bureau to develop a more flexible, forward-looking role, the study foreshadowed a growing movement for fundamental BOB reform.

In the 1960s, continuing problems in coordinating BOB's internal management-budget activities became coupled with growing criticism that BOB was not adapting to the demands of a changing external environment. The problems of adaptation had two dimensions. First, the Bureau was perceived as insufficiently responsive to President Kennedy's and President Johnson's use of the government to promote economic expansion and social change. Second, BOB's management role was too narrowly focused to address the emerging management issues created by the increased size and diversity of government operations resulting from Johnson's Great Society programs.

Three studies in the late 1960s addressed these deficiencies. The Steering Group for a 1967 BOB self-study recognized BOB's "evolving role as a 'general staff agency' to the President." A second 1967 study initiated by President Johnson and conducted by the Heineman Task Force vigorously criticized the government's management of Great Society programs, especially the lack of intergovernmental coordination when programs overlapped. The Task Force recommended reorganizing BOB to expand its management responsibilities and provide program development leadership responsive to the President. The third study, done in 1969 and chaired by Roy Ash for President Nixon, reiterated the call for a major BOB reorganization to expand its management role.

The growing momentum for BOB reform led to the reorganization establishing OMB in 1970. This action signified an explicit institutional commitment to a comprehensive and coordinated approach to government management issues. Both program management and BOB's traditional administrative management functions were slated to receive greater attention and priority under this arrangement. But collateral efforts in the early 1970s to increase OMB's political responsiveness, mainly by adding more political appointees, appeared to make it harder for OMB to carry out such a broad management role.

In his second term, President Nixon determined that he could gain control over the bureaucracy only by having political appointees implement policy. OMB Director Ash modified the agency to support that goal. By merging the management and budget sides and adding political appointees as Program Associate Directors (PAD) to head the program divisions, he started a trend that still continues. Before 1970, there were five officials in BOB whose appointments were considered political. At the end of fiscal year 1988, however, the number of political appointees at OMB had risen to 14, 4 of which were Executive Schedule employees. Between fiscal years 1980 and 1988, the percent of noncareer Senior Executive Service (SES) employees increased from 11 to about 15 percent of OMB's filled SES positions.

The need for, and effect of, an increasing number of political appointees at OMB is the subject of considerable debate. Some argue that greater political influence is needed to be more responsive to the President, while others assert that OMB's politicization has eroded its analytic neutrality. While the debate has continued, OMB's political layering has increased.

OMB's closer association with the political processes contributed to an environment of rapidly shifting management priorities that changed with changing administrations and turnover in top appointees. Assessments of OMB's management leadership performance in the 1970s and 1980s reflect these patterns and also indicate that many of the problems of management leadership at BOB continue under OMB.

In 1976, a National Academy of Public Administration (NAPA) symposium concluded that it was difficult for OMB to succeed in nonbudgetary management. NAPA reported that, despite the effort to strengthen OMB's management role when it was established, OMB's management role had since deteriorated to a weak and fragmented state. The symposium also concluded that the OMB staff's professional judgment on how best to achieve presidential objectives had been politicized at the PAD level. Nonetheless, a majority of the NAPA panel participants believed that the concept of housing budget and management functions in OMB remained viable—provided the President selected an OMB Director and Deputy Director who provided leadership and support for both budget and other management processes and worked to make them mutually supportive.

By the early 1980s, NAPA's assessment of OMB's performance had become even more critical. A 1981 study concluded that OMB's management function had been downgraded to the point where staff capabilities had become inadequate in relation to need. Further, the separation between the management and budget sides was so great that they seemed to be in different worlds, with little potential for mutual support between the two functions. NAPA identified nine areas of management requiring high priority in OMB and full support by the President.[2] By 1983, NAPA concluded that the budget had proven to be so all-consuming within OMB that a new Office of Federal Management was needed to achieve broad-based and sustained management reform.

[2]The nine areas were intergovernmental management, organization policy and planning, administrative planning, agency management assistance, procurement, information and regulatory affairs, financial management, program evaluation, and leadership in interagency relations and coordination.

Another major study effort in the early 1980s, the President's Private Sector Survey on Cost Control (Grace Commission), also said that a mechanism at the top level of government was needed to provide much greater emphasis on management improvement. As part of a series of reports containing 2,478 recommendations for federal management reform, the Commission concluded that OMB had failed in its mission to provide direction and coordination of executive branch activities. The Commission called for creating a single, centralized staff agency over the entire executive branch. The responsibilities of this new Office of Federal Management would include policy development and direction over financial management, budgeting and planning, human resources, and a range of administrative matters.

We also have addressed the continuing issue of OMB's management leadership effectiveness.[3] In our 1983 study, we found that OMB's involvement in 12 governmentwide management initiatives undertaken between 1970 and 1980 was characterized by generally short and episodic attempts at reform. Factors influencing this limited success included minimal direct interest by the President and the OMB Director, turnover in executive branch leadership, lack of consensus on what constitutes good management, resource constraints, inattention to implementation strategies, and less-than-ideal working relationships between OMB's management and budget staffs.

The studies done over the past several decades indicate that the traditional challenges to exercising effective central management leadership have been compounded by the increased size, diversity, and complexity of federal government operations, as well as the increasingly political nature of presidential management. Organizationally situated between the President and the executive agencies, OMB, with very limited staff, is expected to sustain attention to a broad range of agency management concerns while also responding to the often narrow and shifting management objectives of individual presidents and their appointees. The record suggests the latter often takes precedence. Finally, the demands of budgeting in recent years have become even more intense, draining even more OMB time, attention, interest, and staff from managerial initiatives.

[3]Selected Government-wide Management Improvement Efforts—1970 to 1980 (GAO/GGD-83-69, Aug. 1983).

Reform '88: OMB's Current Management Agenda

In the face of this record, the Reagan Administration undertook a major governmentwide management improvement effort. Reform '88 was announced in September 1982 with the idea that it would be a long-term effort to achieve the Reagan Administration's objectives of reducing costs and making government operate in a more efficient manner. It began as a compilation of initiatives aimed at achieving short-term cost reductions and revenue collections in such administrative areas as travel management and printing and periodical costs. While administrative and financial management issues have remained the core of the reform effort, OMB gradually sought to expand Reform '88 to encompass improving the ability of the government to provide quality and efficient program services.

By 1988, Reform '88 encompassed six areas of emphasis: debt and credit management, financial management, productivity, information technology, procurement, and privatization. The objectives of each of these areas are discussed in chapter 3.

Interagency Councils Support Reform '88

There have been several innovations in Reform '88 implementation. One of these was the use of cabinet and interagency councils comprising agency executives to pursue the administration's management improvement goals. These councils had formal mandates to provide leadership for governmentwide management improvement initiatives. The three key councils were the

- Cabinet Council on Management and Administration (later merged into the broader Domestic Policy Council), composed of several Cabinet secretaries, agency heads, and White House officials;
- President's Council on Integrity and Efficiency (PCIE); and
- President's Council on Management Improvement (PCMI).

According to the former Executive Secretary of the Domestic Policy Council, the creation of the councils reflected the Reagan Administration's desire to establish a strong interagency management process involving executives in management policy issues and thus not permit OMB's domination of management activities.

The PCIE, for example, was established by executive order in March 1981 to obtain the commitment of the IGs to management reform. The council concentrates on governmentwide activities to combat fraud and waste. It is chaired by the Deputy Director of OMB and includes the Deputy Attorney General, the Director of the Office of Personnel Management, the Executive Assistant Director for Investigations of the Federal Bureau of Investigation, and 20 IGs.[4] The PCIE has seven standing committees that meet monthly—Audit, Computer, Inspections and Special Reviews, Legislation, Investigation/Law Enforcement, Standards, and Training.

The PCMI, established in May 1984, was also part of the Reagan Administration's efforts to involve ASAs and other senior executives in Reform '88. The council provides a forum for members to exchange ideas and approaches to common problems, work together to implement governmentwide solutions, and explore new opportunities for management improvements. The PCMI consists of the ASAs (or their equivalent) of 20 departments and agencies, the chairman of the Small Agency Council, and the Assistants to the President for Policy Development and Presidential Personnel. The PCMI chairman is the Deputy Director of OMB.

The PCMI has four standing committees with the following responsibilities:

- initiating and reviewing governmentwide improvements in human resource management;
- enhancing productivity and quality of government services;
- modernizing the delivery of government services and products through enhanced systems development; and
- promoting the goals and achievements of the council through newsletters, conferences, and annual reports.

Actions Within OMB to Focus on Management

OMB undertook several efforts to better focus attention on management issues. Recognizing that constant fluctuation in OMB management staff activities negatively affected the working relationships between the management analysts and the budget examiners, efforts were undertaken in 1982 to establish an institutional management review process. Beginning with the fiscal year 1986 budget, OMB also published an annual management report to provide additional focus on the Reform '88 program. Since the 1987 report, OMB has presented an explicit management legislative agenda to gain congressional support for Reform '88 initiatives.

[4]Before the enactment of Public Law 100-504 in 1988, the PCIE consisted of 19 statutory and 1 nonstatutory IG.

Also, in 1987 responsibility for examining the budgets of OPM and GSA was transferred to the management staff in an attempt to improve coordination among central management agencies. This was considered another mechanism for integrating OMB's management and budget functions.

The effects of these innovations are discussed in chapter 4.

Objectives, Scope, and Methodology

Our objectives were to

- assess OMB's performance in addressing management issues, with particular emphasis on Reform '88, and
- identify reasonable expectations regarding OMB's ability to exercise an effective management leadership role.

Assessing OMB's Performance in Addressing Management Issues

Under this objective, we examined OMB's performance from two perspectives: (1) how effective Reform '88 has been in light of OMB's historical record in the management improvement area and (2) how effective Reform '88 has been given what we see as the critical management problems facing the government as we enter a new administration and a new decade.

We drew upon issued GAO reports and testimony in assessing each perspective. In some Reform '88 areas, namely financial systems modernization, internal controls, creation of chief financial officers, and procurement reform, we relied largely on our prior and ongoing work as well as that of others. In addition, we reviewed five areas as specific case studies of OMB's performance: (1) cash management, (2) credit/debt management, (3) contracting with the private sector for commercial activities (A-76), (4) information technology management, and (5) productivity. We selected these initiatives because they were among the most important in the agenda and because they represented a variety of implementation strategies. We discussed this selection with OMB officials in advance of our detailed review.

Our evaluations of these initiatives included reviews of the applicable laws, legislative history, relevant documents, and OMB circulars and bulletins. We interviewed officials within both OMB and the agencies who are responsible for the development and implementation of the initiatives. Additionally, we reviewed documents and interviewed officials at the Department of the Treasury's Financial Management Service (FMS) regarding the cash and credit management initiatives.

Because of agencies' critical roles in management improvements, we sought the views of a range of agency officials involved in Reform '88 on OMB's performance in specific initiatives. We sent a questionnaire to agency focal points—those officials most directly responsible for overseeing implementation of the management improvement initiatives—and then held follow-up interviews on a judgmental basis. We also held structured interviews of department-level ASAs and IGs. Finally, we administered a questionnaire to OMB's professional staff to get their views on OMB's performance. We discuss each of these in the following sections.

Agency Focal Point Questionnaire

We surveyed focal points for four of the five initiatives that we reviewed. The other initiative, information technology, required a review of individual systems and was not suitable for a questionnaire. We sent a total of 112 questionnaires to all agencies that had been significantly involved in the initiatives--ranging from 12 agencies in credit management to 21 in contracting out. About 96 percent (or 108) were completed and returned. The response rate varied from 100 percent in productivity and contracting out to 92 percent for cash management and 97 percent in credit management.

We used the questionnaire to obtain the focal points' views on such issues as status of the initiative in their agency, importance of the initiative, approaches used by OMB, and overall effectiveness of OMB. Our selection of focal points for follow-up interviews was based upon our judgement considering the nature of the initiative and time and staff constraints. We interviewed 18 productivity and 14 A-76 focal points in the departments and major agencies. In information technology management, we interviewed the senior technical officials in 13 departments. We also interviewed responsible officials in the five agencies with the largest payments subject to the Prompt Pay Act and the five agencies that hold about 81 percent of all nontax domestic loans.

Structured Interview of Departmental ASAs and IGs

To understand how OMB coordinated the management initiatives, we did structured interviews of all department-level ASAs (or their equivalents) and IGs whose positions were filled at the time of our review. We interviewed a total of 12 ASAs and 12 IGs. Our interviews focused on assessing the (1) roles played by OMB and the PCMI and PCIE in developing and implementing management improvement initiatives and (2) effectiveness of their contributions. We also sought participants' perceptions of the strengths and weaknesses of the councils in advancing governmentwide management improvements.

Questionnaire Administered to All OMB Professional Staff

To obtain the perspectives of the OMB staff on their agency's role in providing management leadership, we sent a questionnaire to all of OMB's 378 professional employees, excluding the Director and Deputy Director. We asked OMB employees about their background; current responsibilities; views on certain approaches to integrating management and budget; and perceptions of how useful certain material, such as the examiners' handbook, is to their job. In addition, we asked about the need for, and the usefulness, accuracy, and timeliness of, information that various OMB components provided them. We inquired about potential barriers to them doing their jobs, such as staff turnover. We also asked just the budget staff a series of questions on relations with other entities in OMB and on management issues the examiners have raised in their agencies. Finally, we asked them about the major management problems facing their agencies and what assistance OMB could provide.

To ensure that the questionnaire was accurate and easily understood, we pretested it with employees in seven divisions and obtained additional comments from two senior-level OMB officials. We did pretests during June 1988 and in July and August sent the questionnaire to OMB's 378 professional staff. Of those, 58 percent responded.[1] Because we sent questionnaires to all of the professional staff, there is no sampling error. However, it is possible that employees who did not respond to our survey differed in certain ways from those who did. Our results only apply to the portion of the staff who responded.

We supplemented information obtained from the internal questionnaire by interviewing key senior-level OMB officials. Those interviews further explored the agency's management role and how it has evolved. We also asked these officials about OMB's capability to assess agencies' policy, program, and administrative problems. We explored such issues as the role of special studies divisions and the support from other components of OMB. We reviewed with them the role of the budget examiners in advancing both selected Reform '88 management issues and agency specific (program) management improvements. We also discussed different approaches used to link OMB's management and budget activities in support of its management objectives. We further reviewed these approaches by talking with staff directly responsible for

- the management review process,

[1]This represents the number of returned questionnaires that contained enough completed answers to be considered "usable" for the purposes of the survey (220) divided by the number of professional nonclerical OMB employees (378).

- OMB's tracking system,
- each of the individual initiatives, and
- working with the PCMI and PCIE.

In addition, we gathered data on OMB's internal operations regarding its resources, personnel turnover, and organization.

Identifying Reasonable Expectations for OMB's Ability to Exercise Management Leadership

We analyzed OMB's capacity to conduct management activities by reviewing OMB's past efforts, examining its traditional management functions, and assessing its leadership of five Reagan Administration management initiatives. This approach allowed us to develop both an historic perspective of OMB's leadership and a contemporary view of its recent efforts. Chapter 5 contains our view of what can be expected of OMB in addressing governmentwide management issues. That chapter draws upon all the data and analysis presented throughout the report.

To appreciate OMB's organizational culture, we undertook a thorough analysis of the agency's history. Beyond extensively reviewing the literature on OMB, we also analyzed changes in the agency's management activities over time. We also discussed OMB's management role and capabilities with outside experts; former White House and agency officials; and former OMB Directors, Deputy Directors, and former career staff. We obtained their views regarding OMB's ability to develop, coordinate, and implement governmentwide management improvements.

On the basis of an analysis of BOB/OMB's management activities since 1921, with particular emphasis on the period after 1970, we selected five traditional management functions for detailed review. They were organizational policy, intergovernmental relations, information resource management, financial management, and procurement. Through discussions with current and former OMB officials and through review of OMB documents, we analyzed the attention OMB gave to their development, implementation, and oversight over time.

We also sought to determine how OMB's relationship with Congress has influenced its role. We interviewed the heads of OMB's legislative affairs and legislative reference offices, identified the management legislation proposed and supported by the Reagan Administration, and interviewed 15 current and former majority and minority staff from key House and Senate committees who had extensive experience dealing with OMB.

Limitations of the Review

Due to constraints on our access to budgetary and policy documents, our review has certain limitations. In developing our analysis of the management-budget link, for example, we did not examine OMB budget materials because of the sensitivity of much of the information. Instead, we relied primarily on published procedures and illustrations of particular decisions provided by OMB staff and outside participants. To some extent, our sample of interviewees was judgmental, particularly for selected follow-up interviews with agency focal points and for congressional staff. We selected these officials because they had detailed knowledge of OMB's management improvement efforts and because their diverse backgrounds would provide a range of perspectives.

In addition, due to time and staffing constraints, we did not independently verify the data OMB provided on resources, staffing, and personnel turnover. Neither did we verify the budgetary savings OMB attributed to individual Reform '88 initiatives.

Our review was done at OMB and at various executive branch departments and agencies in Washington, D.C., between January and November 1988, in accordance with generally accepted government auditing standards. We obtained written comments from OMB, which are reprinted in appendix I.

Reform '88: Progress Made and Lessons Learned

OMB's Reform '88 initiative represents the longest sustained management improvement effort in recent OMB history. That effort has produced varying progress toward OMB's goals in six major areas of emphasis: debt and credit management, financial management, productivity, information technology, procurement management, and contracting out. Reform '88 progress has been most closely associated with initiatives that received

- strong presidential and OMB top-level support,
- sustained attention and adequate resources,
- agency acceptance of the validity of the initiative's objectives and goals,
- support from the budget process as the initiatives were linked by OMB to key budget decisions, and
- broad congressional support.

This chapter has two objectives. First, it provides a brief assessment of the status of each of the six areas. For each area, we briefly describe the evolution, current status, and issues facing future implementation. We also provide recommendations, where appropriate.

The second and broader purpose is to present a crosscutting analysis of OMB's experience with the initiatives. Our objective was to identify those characteristics that seem to contribute to initiative progress. These common traits, summarized briefly in the preceding paragraphs, are discussed at the end of this chapter. They are presented so that they may be considered in planning and implementing future centrally led management improvement efforts.

Serious Financial Management Reform Problems Remain

The government's financial systems are antiquated and in a general state of disrepair. They are incompatible and costly to operate and maintain. Systems fail to produce the complete, timely, and reliable financial information needed for policy-making and day-to-day operations. Hundreds of millions of dollars are spent each year on uncoordinated efforts to upgrade financial systems. This situation is further compounded by weak internal controls.

To combat this situation, the Reagan Administration made financial management a cornerstone of Reform '88. However, OMB did not seize the opportunity from the outset to make major, coordinated advances in overall financial management. Instead of providing strong central leadership and carrying out a comprehensive long-range plan, OMB's approach to financial management improvement was fragmented, concentrating until recently on more narrowly focused issues. These included better management of the government's cash flow and improvement of debt and credit management operations. While OMB made strides in each of these important areas, the government continues to rely on financial management systems that, despite agency improvement efforts over many years, are second-rate.

Financial Systems Modernization Is Years From Completion

The government's financial management problems are complex and long-standing. As the President's 1989 Management Report states, "Once a leader in the early days of automation, the Government's financial systems and operations have eroded to the point that they do not meet generally accepted standards." Our reports over the years consistently have shown that financial management concepts and practices followed by the federal government are weak, outdated, and inefficient. These problems can best be remedied through continuing centralized leadership in the executive branch, and developing and implementing a long-range, governmentwide plan to improve financial management activities and systems.

OMB did not create a centralized leadership position for financial management until July 1987, when it designated the Associate Director for Management to act as the central Chief Financial Officer (CFO) for the federal government. OMB's action was, in large measure, a reaction to congressional legislation that sought to establish a CFO position.

Until that time, OMB's financial systems improvement program centered primarily around prescribing, through Circular A-127, policies and procedures for developing and operating financial management systems. OMB also required the agencies to develop a long-range plan for a single, integrated financial management system.

Projects directed at governmentwide financial management systems modernization, such as defining systems standards, were assigned to interagency working groups. For example, developing standard reporting requirements was the responsibility of Treasury, devising a standard general ledger was delegated to the Department of Transportation, and determining core system requirements was done by the Joint Financial

Management Improvement Program[1] using a group directed by a project leader from GAO.

Leadership, policy direction, and oversight of federal financial management is now the responsibility of OMB's CFO. Further, at OMB's initiative, all major agencies administratively established CFOs, and the central CFO formed a Council of CFOs to deal with major financial management issues. Day-to-day responsibility for working with agencies to carry out the provisions of Circular A-127 has been given to Treasury.

In June 1988, we reported that since the CFO had been established, OMB's financial management improvement agenda had met with mixed results.[2] Specific initiatives were completed and targets were achieved in some cases, particularly where a single action or the completion of an ongoing effort was involved. Progress was limited in meeting target dates in a number of key areas, such as implementing a standard general ledger and agency primary accounting systems. While we would not expect the government's serious financial management systems problems to be solved in a short time, designating a CFO was a positive action toward establishing a central office dedicated to planning, implementing, and monitoring financial management reform efforts.

More importantly, the establishment of the CFO highlights the need to upgrade financial systems and financial information for managing operations. In a 1985 report,[3] we noted that the government must make a major effort to strengthen its financial systems and reporting.

Financial systems modernization also requires the development and implementation of a long-range, governmentwide financial management improvement plan that would produce integrated systems for the government and provide information needed by individual agencies. Among other advantages, the planning process would reveal opportunities for (1) reducing the number of accounting systems by use of cross-servicing arrangements where one agency performs financial services for other agencies, (2) eliminating redundant or antiquated systems, and (3) sharing systems design among agencies to avoid the all too common problem

[1] Federal Financial Management Systems: Core Financial Systems Requirements, Joint Financial Management Improvement Program, Jan. 12, 1988.

[2] Financial Management: Progress of OMB's Chief Financial Officer (GAO/AFMD-88-52, June 6, 1988).

[3] Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35 and 35A, Feb. 1985).

of "reinventing the wheel." Such a plan could provide direction and continuity when leadership changes occur centrally as well as at the agency level.

ASAs and IGs we surveyed frequently cited financial management as a major problem facing the next administration. We agree and have advised the new administration and Congress of the need to rebuild the government's financial management structure.[4] Toward this end, Reform '88's legacy has been to require agencies to establish single primary accounting systems, implement a standard general ledger, and seek opportunities to consolidate or eliminate systems. However, financial systems modernization is years from completion. Further, continuity of leadership by a CFO is not assured.

For these reasons, we believe that legislation is needed to establish a centralized CFO position. While the Reagan Administration did not initially support the need for such legislation, that view has changed. The President's 1989 and 1990 management reports called for legislation that will define and provide statutory underpinning for a permanent CFO structure throughout government. The exact location of the CFO (whether in OMB, Treasury, or another location) can be debated, but the need for the office is now widely agreed on.

Internal Controls Receiving Increased Attention

Another problem is that government agencies do not have the necessary internal controls to operate programs effectively and safeguard the government's assets. Unless programs are continuously monitored, internal control weaknesses can impede agencies' ability to carry out their responsibilities; hamper crucial programs; and result in losses, wasteful spending, and poor management. Seemingly never-ending reports of fraud, waste, abuse, and mismanagement only serve to reinforce a perception that the federal government is poorly managed, with little or no financial control.

OMB has therefore emphasized strengthening agency internal controls. In October 1981, OMB issued Circular A-123, "Internal Control Systems," which required executive branch agencies to develop and maintain adequate internal control systems. In early 1982, OMB established a task force to aid in implementing the circular.

[4]Financial Management Issues (GAO/OCG-89-7TR, Nov. 1988).

Subsequently, Congress passed the Federal Managers' Financial Integrity Act of 1982 with the goal of strengthened government internal control and accounting systems. The act requires agency managers to evaluate and report annually to the President and Congress on (1) the adequacy of their internal controls and accounting systems and (2) efforts to correct the problems. The annual report is based on OMB guidelines, which detail how agencies are to evaluate their systems.

Initially, OMB resisted passage of the act, asserting that Circular A-123 provided adequate guidance to the agencies. Once the legislation was passed, however, OMB played an active role in its implementation by providing guidance and central direction to the program. In 1986, OMB required each agency to develop and annually update a 5-year plan for evaluating and improving internal controls.

Since passage of the act, we have seen some good results in correcting weak internal controls. However, serious and long-standing problems remain, affecting a broad range of government programs and operations.[5] Because of constant changes in systems, people, and procedures, evaluating internal controls is an ongoing process. Identification and correction of internal control problems is a continuous objective of well-managed programs. If internal controls are to be strengthened, successive administrations must continue these efforts.

Some Progress in Cash Management Being Made

In the late 1970s, Carter Administration officials became increasingly aware that limited attention was being given to managing the government's trillion dollar annual cash flow. GAO and OMB studies had found serious problems with the government's bill payment performance and had identified the need for greater use of electronic funds transfer technology to reduce interest costs and improve cash flow forecasting.[6] In the early 1980s, the Reagan Administration continued this emphasis through a Reform '88 initiative to strengthen cash management by applying modern techniques to the collection and disbursement of funds.

Congress greatly aided the effort by passing the Prompt Payment Act (Public Law 97-177), which provides criteria for determining when bills

[5]Financial Integrity Act: Continuing Efforts Needed to Improve Internal Controls and Accounting Systems (GAO/AFMD-88-10, Dec. 30, 1987).

[6]The Federal Government's Bill Payment Performance Is Good, But Should Be Better (GAO/FGMSD-78-16, Feb. 24, 1978); Electronic Funds Transfer—Its Potential For Improving Cash Management (GAO/FGMSD-80-30, Sept. 19, 1980); and President's Reorganization Program, "Report on Strengthening Cash Management," (OMB, Aug. 1980).

to vendors should be paid. It also requires interest on payments made after prescribed grace periods. In 1984, Congress also enacted deposit and collection provisions within the Deficit Reduction Act[7] to accelerate revenue collections and deposits, thereby reducing associated interest costs. This legislation strengthened Treasury's long-standing role in cash management, giving it the authority to set cash management standards, develop and encourage the use of such new techniques as electronic funds transfer, and monitor implementation.

Treasury has the lead role for all cash management techniques except for prompt pay, which OMB monitors. Some progress has been made toward implementing cash management techniques. For example, by fiscal year 1988, direct deposit was being used for almost two-thirds of all federal salary payments, credit cards were routinely used instead of cash travel advances, and advanced telecommunications systems were installed governmentwide to speed collections and control disbursements. All of these techniques contributed to speedier collections and improved disbursement controls.

Agency officials believe that the governmentwide effort to improve cash management has been worthwhile. About 80 percent of the ASAS, IGS, and initiative focal points we surveyed were satisfied with the progress of the cash management initiative. Also, about 91 percent of the ASAS believed that the initiative had had a positive effect on their department's management. The officials felt that the initiative was successful because the agencies, OMB, and the Department of the Treasury's FMS were committed to improving cash management, and Reform '88's cash management agenda sufficiently addressed all major components of the problem.

Overall, cash management improvements have been made, but agencies need to continue improving bill-paying practices. A 1986 GAO report disclosed that although agencies have improved their bill-paying practices, they did not fully comply with the Prompt Payment Act. Our report also noted that OMB lacked the essential information needed to monitor the timeliness of agency bill payments.[8] The untimely payment of bills continues to concern Congress. Recently, Congress passed the Prompt Pay Act Amendments to better define agency bill payment and to increase

[7]Section 2652, Public Law 98-369.

[8]Prompt Payment Act: Agencies Have Not Fully Achieved Available Benefits (GAO/AFMD-86-69, Aug. 28, 1986).

the interest penalties agencies must pay to vendors if payments are not made on time.

Conclusions

The government's financial systems are old and in poor condition. As costly as they are to operate and maintain, they do not produce complete, timely, and reliable financial data. Further, expensive but uncoordinated projects to upgrade financial systems are ongoing.

Progress in overcoming these problems through Reform '88 financial management initiatives has resulted in increased attention to and some success in specific areas, such as correcting internal control weaknesses and improving cash management practices. However, serious problems in the government's financial management structure remain. There is a great need to strengthen financial systems and financial reporting, as well as to ensure continuity of financial management leadership. Because of the size of the federal government, the complexity of its operations, and the magnitude of its problems, financial management reform is and will continue to be a long-term endeavor.

Legislatively establishing central leadership in the executive branch that is responsible for financial management is critical to reform. Corresponding financial management leadership in the major executive branch departments and agencies is equally necessary. Finally, continuation of the Council of CFOs also is important to continued progress in addressing major financial management issues.

Some Progress Being Made Under Debt and Credit Management Initiative

By 1981, both we and OMB had issued public reports detailing serious, long-standing problems with the quality of the government's credit management and debt collection practices.[9] Billions of dollars in loans were delinquent and billions more were written off annually as uncollectible. Among the problems identified were poor documentation, incomplete accounting records for accounts receivable, and inadequate legal authority to collect debts efficiently.

Beginning in the early 1980s, a series of actions were taken to address the debt and credit management problems. Following issuance of OMB's 1981 Debt Collection Project report, the Reagan Administration made

[9] The Government Needs to Do a Better Job of Collecting Amounts Owed by the Public (GAO/FGMSD-78-61, Oct. 20, 1978); The Government Can Be More Productive in Collecting Debts by Following Commercial Practices (GAO/FGMSD-78-59, Feb. 23, 1979); and Debt Collection Project: Report on Strengthening Federal Credit Management (OMB, Jan. 1981).

debt collection a management priority, requiring each executive agency to develop and implement a debt collection program. OMB recognized that additional legal authority, such as that recommended by us and in its own report, was needed to improve debt collection. Thus, the administration worked with Congress in passing legislation to provide agencies with more effective tools, and Congress responded by passing the Debt Collection Act of 1982 (Public Law 97-365). The act provides the legal basis for several key debt and credit management activities, including the authority to use private collection agencies and to offset salaries of government employees.

In late 1982, the administration included an initiative within Reform '88 to further focus agency attention on debt and credit management. Working with study groups composed of representatives from major debt and credit agencies, OMB developed policies to implement this initiative and in May 1985 issued Circular A-129, "Managing Federal Credit Programs." The Circular contains guidance on extending credit, servicing accounts, collecting delinquent receivables, and writing off uncollectible accounts. However, as we reported in early 1986, agencies were slow in adopting the debt collection practices authorized by the Debt Collection Act of 1982.[10]

To implement the operational aspects of the debt and credit management initiative, OMB enlisted the Department of the Treasury in 1986 to act as the lead agency. Treasury designated its FMS to provide the necessary expertise and staff to oversee implementation. The FMS staff develops operational procedures, participates in setting performance goals, and provides the sustained assistance needed for long-term improvement. Also, OMB and FMS have jointly conducted credit reviews at selected agencies.

In August 1986, OMB announced a Nine Point Credit Program to focus attention on problems contributing to the high level of delinquent debt, such as limited use of information in the credit granting process, inaccurate receivables information, and weak debt collection practices. The program evolved from a recognition that certain universally accepted debt and credit management techniques must be simultaneously adopted to achieve long-term results. Table 3.1 shows the nine specific components of the program.

[10]Debt Collection: Billions Are Owed While Collection and Accounting Practices Are Unresolved (GAO/AFMD-86-39, May 23, 1986).

Table 3.1: OMB's Nine Point Credit Program

Credit cycle phases	Nine Point Credit Program
Loan award	1. Prescreening of loan applicants to determine creditworthiness, financial responsibility, and delinquent debts owed to the federal government.
Loan servicing	2. Reporting to private sector credit bureaus information on commercial and delinquent consumer accounts.
	3. Upgrading and automating loan servicing, and accounting for receivables, management reports, and other collection operations either through in-house efforts or through contractors.
Loan collection	4. Using private collection services to recover delinquent accounts.
	5. Submitting information on delinquent debt to IRS so that federal tax refunds may be offset.
	6. Offsetting federal salaries against delinquent accounts so that debt may be recovered.
	7. Referring delinquent accounts for litigation when debt collection efforts are unsuccessful.
	8. Writing off delinquent debt accounts that are uncollectible.
	9. Selling portions of the government's existing loans on the open market or allowing borrowers to prepay loans.

The Nine Point Credit Program was considered worthwhile by ASAS, IGS, and credit management focal points in the agencies where we did interviews. Eighty-five percent of the ASAS and IGS thought that the initiatives had a positive effect on improving their agencies' management. About 80 percent of the focal points were also satisfied with their agencies' progress and believed that the initiatives addressed an important overall management issue. The consensus of the ASAS, IGS, and focal points was that a centrally directed debt initiative with specific performance goals and constant emphasis and monitoring by OMB and FMS gave them the visibility and incentives to make significant efforts to address debt and credit problems.

Although the Nine Point Credit Program is applicable governmentwide, OMB and FMS consider its implementation crucial in five agencies: the Department of Agriculture, the Department of Housing and Urban Development (HUD), the Department of Education, the Small Business Administration (SBA), and the Veterans Administration (VA). OMB and FMS have targeted these agencies for review because as of September 30, 1987, they held about 81 percent of all nontax domestic loans. No other single agency held more than 1.6 percent of the loans. In addition, the five agencies together held over 74 percent of the delinquent nontax debt.

Overall, OMB/FMS' assessment found that the five key agencies are making uneven progress in implementing the Nine Point Credit Program. OMB/FMS' 1988 annual credit review found that in three of the five agencies—HUD, VA, and SBA—each of the nine points was either implemented or being implemented. In the other two agencies, Agriculture and Education, several program components remained in the planning stage. The review indicated that implementation delays typically were caused by the complexities of developing automated information systems and the need to change forms and regulations. In addition, implementation of some initiatives was being delayed as agencies grappled with legal and policy concerns.

Since the initiation of the Nine Point Program, several of our reports and testimonies have shown that progress has been made in implementing some initiatives while others need further improvement. For example, a recent report[11] found that the Tax Refund Offset Initiative, a practice that we have long advocated, helps collect delinquent nontax debts owed to the government by offsetting tax refunds and generates additional revenues with minimal costs. OMB reported that the initiative collected $841 million between January 1986 and December 16, 1988. In May 1987, we found that agencies were slow in referring accounts to private collection agencies.[12] An OMB/FMS assessment also found that the litigation initiative, intended to provide legal recourse for collecting federal debt, had been implemented in four agencies.

However, as we also recently reported, more remains to be done. Improving the collection of federal debt through litigation is a complex problem due to such impediments as the quality and timeliness of agency referral packages to the Justice Department and the lack of sufficient U.S. Attorney staff.[13] We testified in April 1988 that one of the most serious problems facing debt collection is a backlog of litigation, with 92,000 cases worth about $8.5 billion pending as of September 30, 1987.[14] Similarly, we note that in aggregate terms, nontax delinquent

[11] Tax Administration: Collecting Federal Debts by Offsetting Tax Refunds, (GAO/GGD-87-39BR, Feb. 9, 1987).

[12] Debt Collection: First Year Collection Efforts Under the GSA Contracts (GAO/AFMD-87-23, May 15, 1987).

[13] Justice Department: Impediments Faced in Litigating and Collecting Debts Owed the Government (GAO/GGD-87-7BR, Oct. 15, 1986).

[14] Statement of Arnold P. Jones, Senior Associate Director, General Government Division, before the Senate Judiciary Subcommittee on Courts and Administrative Practice, April 15, 1988.

debt has increased from $15 billion in 1982 to $32 billion as of September 30, 1988.

Productivity Program: A Good Start, But Uncertain Prospects

Concern for overall federal productivity is not new. Nearly 19 years ago in 1970, a joint GAO, OMB, and Civil Service Commission project recommended that a permanent productivity measurement system be established. Since then, productivity efforts have been characterized by a series of short-lived programs. Our 1983 assessment[15] noted that little progress had been made in either productivity measurement or productivity improvement initiatives. The current federal Productivity Improvement Program (PIP) was initiated in 1986 and represents the latest attempt to rejuvenate this effort. This initiative was a major part of OMB's effort to expand Reform '88 beyond administrative management issues and into service delivery.

PIP objectives are twofold: (1) to make continuous, incremental improvements in quality, timeliness, and efficiency of services and (2) to implement quality and productivity management practices in every federal agency. A goal for the first objective is to achieve an average annual productivity increase of 3 percent in appropriate government activities, such as processing Social Security claims for retirees or issuing passports for travelers. To achieve the second objective, OMB attempted to institute a structure within each agency for focusing on productivity improvement and to work with other central agencies, such as OPM and Bureau of Labor Statistics (BLS), to provide overall policy guidance and technical support to the agencies.

Results of productivity improvement in PIP's first year were mixed, with most of the productivity initiatives selected not meeting OMB's 3-percent improvement goal. OMB reports that, on the average, productivity computed in terms of unit cost improved by 1.6 percent in the first year, and 0.01 percent in the second. However, the data for the most recent year, fiscal year 1988, showed changes that ranged from a 37-percent decrease to a 62-percent increase in unit costs. Twenty-seven activities reported that unit costs decreased, thereby showing productivity improvement; 23 of the 27 met or exceeded OMB's 3-percent goal. Thirty activities reported that unit costs increased or remained the same, and 37 activities failed to report program progress. These mixed results are

[15] Increased Use of Productivity Management Can Help Control Government Costs (GAO/AFMD-84-11, Nov. 10, 1983).

supported by our structured interviews with ASAs and IGs. Of the 21 officials answering the question, 12 believed that the productivity initiatives had a positive effect, while 9 believed that the initiative had either no effect or a negative effect.

Such limited results from early efforts are understandable. Private sector experience shows that institutionalizing productivity is a long-term effort, often requiring a change in organizational culture. Program results may not show up for several years. Further, 17 of the 36 fiscal year 1987 PIP functions are using strategies to improve productivity that involve introducing new technology or human resource management improvements, such as increasing employees' roles in decisionmaking. These approaches, in particular, often require long-term efforts.

We identified four specific areas where we believe significant improvements can be made to the productivity program implementation efforts:

- Agencies want more outreach activities. For example, 13 of 18 productivity managers said that their program could be helped through more workshops and conferences dealing with productivity issues. OMB's six-person productivity staff has been conducting such activities and agencies credit these efforts in improving the awareness of and the environment for productivity improvement. In contrast, OPM, which has similar program responsibilities, has not actively worked with agencies' productivity managers. OPM formerly conducted such activities from the late 1970s to the early 1980s, but terminated its assistance efforts because the Director wished to focus on more traditional personnel areas.
- Agencies need more assistance in measuring productivity and quality. As of June 1988, only 12 agencies had 40 percent or more of their total inventory of activities covered by productivity measures. Both OMB and BLS report that many of the existing productivity measures are inadequate.
- Agencies believe that reporting requirements are too burdensome. Currently, formal reporting on progress is required on a quarterly, semiannual, and annual basis. In addition, informal reports are required on an unscheduled basis. Over 75 percent of the productivity managers we surveyed believed that the burden is causing line managers to resist participation in the program.
- Agencies believe that PIP would be better supported by program management if it were tied more closely to the budget process. About half of the productivity managers we surveyed believed that better use could be made of productivity information in the budget review process. Several pointed out that unless agencies are held accountable for productivity

improvements through the budget review process, little attention is given to the issue.

Conclusions

We believe that it is too early to tell if the 3-year-old PIP program will succeed in meeting its objectives. Progress in improving productivity in the activities within PIP has been limited, as would be expected given the long-term process for improvement. At present, agency productivity managers credit OMB's training and awareness outreach efforts with improving the environment and creating a renewed emphasis. To ensure the program's long-term success, we believe that key changes are needed in the way OMB and OPM provide support and oversight. Unless such changes are made, the program will likely repeat the failures of past efforts.

First, OPM should assert more leadership in ensuring that agencies receive the assistance they need. In particular OPM should provide agencies with needed training and should support agencies' efforts to develop measures of productivity, quality, and timeliness.

Second, OMB should make better use of agency productivity information in the budget review process. OMB should also phase out reporting requirements that do not directly support the oversight of agencies' productivity improvements. By streamlining reporting requirements and transferring outreach activities to OPM, OMB's productivity staff can better assist budget examiners in integrating productivity data into OMB's budget oversight activities. They also can help budget examiners raise questions concerning agency use of productivity improvements as a tool for controlling costs.

Recommendations

We recognize that making major improvements in federal productivity, quality, and service to the public is a long-term effort requiring significant central management guidance and support. Because of the need to assure that such support is provided, we recommend that the Director of OMB

- work with the Director of OPM to reinstate OPM's leadership role and outreach efforts. OPM needs to provide agencies with training and to support agencies' efforts to develop measures of productivity, quality, and timeliness.

- phase out the multiple agency reporting requirements for productivity improvement information and concentrate the monitoring of the agencies' initiatives through the use of productivity information in the budget review process.
- better link productivity improvement with the budget process by having the management staff's productivity specialists provide increased assistance to examiners.

Mixed Results From Approaches to Information Technology Initiative

Under Reform '88, OMB has focused on selected aspects of information resources management, particularly on planning and acquisition of information technology. The initiative is not a single program, but rather a set of subinitiatives, or specific actions, related to improving the acquisition and use of technology.[16] OMB has used two principal approaches in overseeing agency implementation of this initiative: an intensive review of a limited number of major information systems, identified as Presidential Priority Systems (PPS), and a more general review of Information Technology Planning (ITP) in all agencies.

OMB's current role is prescribed by legislation. In response to growing awareness of the government's information management problems, Congress passed the Paperwork Reduction Act of 1980. The act makes federal agencies responsible for effectively and efficiently managing those information resources required to carry out their missions. Additionally, the act assigns OMB a leadership role in establishing governmentwide policy and guidance in the area of information resources management and for overseeing agency information resources activities.

The act mandated that an OIRA in OMB serve as a focal point for information resource management issues. Of OIRA's staff of approximately 50 professionals, 10 are involved with information policy or information technology activities. Most of the remaining staff are dedicated to regulatory review and paperwork clearance.

[16]The particular activities or subinitiatives have changed somewhat from year to year. Between fiscal years 1986 and 1990, OMB has identified subinitiatives designed to lead to improvements in investment decisionmaking, telecommunications, software management, information systems and technology planning, end-user computing, the information technology work force, privacy, and other information management policies. Some of these improvements, such as developing telecommunications standards, are to be made by central management agencies. Others specify required agency actions, such as developing 5-year plans for major systems.

PPS Review Seen as Useful

OMB reviews of PPS have shown promise as a management tool in achieving the objectives of the information technology initiative. By concentrating its energy and scarce resources on a limited number of high priority information technology systems that involve large investments of public funds, OMB has been able to address the objectives of the Reform '88 initiative and partially satisfy its leadership responsibilities under the Paperwork Reduction Act.

OMB selected a number of major information technology systems for intensive review on the basis of their size, complexity, or sensitivity. OMB believed that these systems needed special centralized planning and scrutiny. Eight major systems—including the air traffic control system, social security modernization, and tax system redesign—were initially identified in fiscal year 1986. For fiscal year 1990, 10 systems are subject to PPS review. Table 3.2 presents a summary of the presidential priority systems.

Table 3.2: Summary of Presidential Priority Systems

Dollars in millions

Major System	1990 request	System life cost
Commerce's Patent and Trademark Automation Plan	$52	$828
GSA's Federal Telecommunications System 2000	12	4,500
Social Security Strategic Plan	56	a
Transportation's Airspace Modernization Plan	594	5,000
Treasury's Tax System Redesign	234	a
Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval System	17	60
Commerce's Advanced Weather System	5	a
Defense's Logistics Modernization Program	56	2,800
Governmentwide Financial Management System	326	a
Agriculture's Loan Pilot Program	2	21
Total	**$1,354**	**$13,209**

Note: Source of data is OMB's fiscal year 1990 report entitled Management of the United States Government.

[a]Cost-benefit analysis not completed.

OMB and departmental decisions (for the PPS systems) affecting funding requests, system planning and development, and acquisition strategies have been enhanced recently through the PPS review process, which involves both OMB and agency top management. Through the review process, OMB has obtained a more detailed understanding of the agencies' activities in developing and justifying these complex systems. By actively overseeing an agency's progress on these priority systems, OMB has a means of identifying potential problems and suggesting alternatives to deal with them in advance of committing funds. OIRA analysts are able to assist OMB's budget examiners by serving as consultants on technical issues. By generalizing the lessons learned, OMB's review process provides the basis for broader policy initiatives and identifies successful management practices for implementing large systems.

ITP Review Has Not Been as Useful

The second OIRA effort, the ITP review, appears to be less useful than PPS in improving information technology planning in federal agencies. OMB requires that the agencies report on selected aspects of information technology planning, including activities on information technology subinitiatives such as software management. However, OMB has neither developed criteria for measuring overall progress nor produced clear, consistent definitions regarding the information needed from the agencies. The information provided offers little reliable insight into the agencies' progress in improving information technology planning since it may not be linked with the agencies' planning processes and may not have received high-level attention within the agencies. As a result, while this review produces some useful governmentwide data, agency managers view the ITP process as an annoying reporting requirement and believe that it produces data of questionable quality that are neither needed nor wanted. The majority of agency Information Resources Management (IRM) officials covered by our review see little meaningful use by OMB of the information submitted, and many do not find the process of compiling the data to be a meaningful management tool within their departments.

Much of the information collected from the agencies by OMB is published in an annual governmentwide 5-year ADP and telecommunications plan. Information presented in the plan shows current agency obligations and anticipated future spending on information technology. The plan also presents overviews of agencies' strategic plans for using information technology to support mission objectives as well as detailed information on proposed new systems. However, the scope of the information requested does not permit OMB to make a comprehensive analysis of the agencies' planning processes or to judge the agencies' progress in improving their information technology planning. Further, comments made by department IRM officials as well as our own analysis indicate that OIRA's analysis of this information is very limited. OMB publishes information virtually in the form submitted by the agencies.

Agencies have identified a variety of problems that adversely affect the quality and utility of the data, including inadequate guidance on what planning information is needed, unclear definitions, and both their and OMB's inability to link related planning and budgeting information. Department IRM officials pointed out that OMB rarely provides substantive feedback or questions the quality or reliability of the information submitted. While OIRA has tried to link its reviews of agency planning to the budget review process, we believe that these efforts are hindered by the type and quality of the information it collects and by the limited analysis of agency activities.

Some specific reporting requirements caused department IRM officials more problems than others. Virtually all of the officials questioned the specific requirement to report on software maintenance costs. While some acknowledged that software maintenance costs were a legitimate concern, a number of officials believed that few agencies are able to track these costs and that reporting on them, therefore, does not produce meaningful information. Agency accounting systems generally do not identify software maintenance costs as separate items. OMB did not provide guidance or standards to help agencies identify what costs are to be included. Agency officials credit OMB for dropping the reporting requirements after 2 years experience. They believe that OMB has made progress in identifying essential information requests and dropping others.

We believe that the effectiveness of the review could be significantly enhanced by a major redesign. OMB should identify information needed to assess agency information technology planning efforts and to measure overall progress in improving the acquisition and use of information technology. Without such measures, overall progress remains uncertain. Where there is a clear need for specific types of information, OMB should develop appropriate procedures to ensure that the data are accurate, complete, and efficiently collected. The process used to develop these measures should emphasize agency participation in setting reasonable goals. OMB's oversight of agency progress should also be linked to the budget process.

Inconsistent Leadership and Support for Procurement Reform

The Reagan Administration committed itself to pursuing procurement reforms administratively through the Office of Federal Procurement Policy (OFPP), an independent office Congress established within OMB in 1974 to provide procurement policy leadership across the executive branch. OFPP's initial reform efforts centered upon implementing Executive Order 12352, which was signed by President Reagan on March 17, 1982. The order was based upon a procurement reform proposal OFPP submitted to Congress in February 1982 in response to a 1979 congressional directive to develop a uniform, comprehensive, and innovative procurement system for use by federal agencies. The requirement represented a congressional effort to redirect OFPP because of concern that the Office had "assumed the role of central Governmentwide manager of the existing procurement activities, at the expense of basic fundamental procurement reform. . . ."[17]

The executive order sought to make procurement more effectively support agency mission accomplishment by 1) establishing a system in each agency to manage procurement, 2) simplifying the procurement process, 3) increasing competition, and 4) developing a professional procurement work force.

OFPP initially adopted a broad-based, participatory approach to implementing the executive order's objectives. OFPP established interagency task groups to develop policy guidance for system design and implementation. Procurement executives were appointed in each agency. Under OFPP leadership, DOD, GSA, and the National Aeronautics and Space Administration jointly issued the first governmentwide procurement regulation, the Federal Acquisition Regulation (FAR), in April 1984. The FAR is an attempt to simplify the procurement system by consolidating common regulations.

In a preliminary assessment of procurement reform progress under Executive Order 12352, we were cautious about the prospects for procurement reform.[18] While agreeing that OFPP's participatory approach was basically sound, our report questioned the interest of and support by the agency heads and their commitment to providing the newly appointed procurement executives with sufficient authority to implement the executive order. Because agencies widely believed that they

[17]House Report No. 96-178 accompanying H.R. 3763, p. 3.

[18]Progress of Federal Procurement Reform Under Executive Order 12352 (PLRD 83-88, June 17, 1983).

did not have to implement the executive order's policy guidance, we called for strengthening OFPP's leadership and decisionmaking authority.

Despite this call for a stronger OFPP to ensure implementation of the reforms, its support from OMB deteriorated. In the mid-1980s, a leadership vacuum developed in OFPP. The administration attempted to dismantle the office through the budget process. Staffing declined. In contrast to fiscal year 1982, when the office had a full-time equivalent of 45 personnel and 41 full-time permanent positions, by October 1986, only 13 of 25 authorized positions were filled. After the first OFPP Administrator selected by President Reagan resigned in December 1984, OFPP operated without an appointed leader for the next 23 months.

This environment adversely affected OFPP's performance. In a 1987 review of OFPP, we obtained a broad range of views from the procurement community regarding OFPP's performance.[19] We found that 75 percent of the government procurement executives and 87 percent of the industry officials surveyed believed that OFPP had been no more than marginally effective at providing overall policy direction and leadership during OFPP's 1983 to 1986 authorization period. Only 25 percent of procurement executives and 13 percent of industry officials believed that OFPP had been either very effective or generally effective. The experts surveyed cited the lack of strong management and leadership at OFPP and inadequate support from OMB as the primary factors contributing to OFPP's uneven performance.

OFPP's unstable leadership and OMB's inconsistent support during the Reagan years also appear to represent a continuation of longer-term patterns. The pattern of inconsistent support from OMB top management began when OMB opposed the concept of a statutory procurement policy office prior to OFPP's creation in 1974. And when the period from 1974 through 1980 is added to the Reagan era, OFPP has had five administrators with tenures ranging from less than 1 year to 3 and one-half years. Moreover, during four periods totalling 3 and one-half years, OFPP operations have been directed by acting Administrators. When a new Administrator was appointed in November 1986 and staff levels were increased from 21 in fiscal year 1987 to an estimated 32 for fiscal year 1988, observers suggested that these changes indicated increased OMB support for OFPP. But the Administrator left in May of 1988 after 19

[19] Procurement: Assessment of the Office of Federal Procurement Policy (GAO/NSIAD-88-35, Nov. 20, 1987).

months in office, and since then OFPP has again been headed by an acting Administrator.

Under the acting Administrator's management, OFPP staff have concentrated on (1) implementing the recommendations of the President's Blue Ribbon Commission on Defense Management (the Packard Commission), which have served as OFPP's agenda since 1986, and (2) responding to the provisions of the Office of Federal Procurement Policy Amendments of 1988 (Public Law 100-679). This legislation established 11 tasks for OFPP, including

- developing a consistent methodology for contractor profits,
- reporting on the paperwork burden associated with procurement,
- creation of the Cost Accounting Standards Board within OFPP, and
- reviewing the adequacy of the Federal Procurement Data System.

The OFPP Associate Administrator for Management Controls said that the OFPP staff have pursued a wide range of activities. In particular, the staff have spent a lot of time reviewing agency procurement regulations. He reported that they have reviewed over 400 regulations since 1987. The Associate Administrator noted that while the staff can continue to implement the OFPP agenda without an Administrator in place, OFPP is in a weak position to forge new policy agreements among the political leadership in the agencies.

We believe that the conclusions and recommendations from our 1987 review of OFPP are still valid. There is a need for a centralized governmentwide procurement policy office, and we agree with the recent congressional action to permanently reauthorize OFPP. Both government and private sector procurement experts believe that a central policy-making office is needed to oversee the government's procurement system. Past actions, such as the creation of the FAR system, are indicative of OFPP's potential to bring about positive change. We continue to believe that active involvement of OFPP with assertive leadership and linkages to the Director of OMB and the procurement community can only enhance federal government procurement operations.

Contracting-Out Program Needs Revised Approach

A key objective of Reform '88 was to seek efficiencies in government operations, including identifying opportunities to use the private sector when it was cost beneficial to do so. A primary method for accomplishing this was to make greater use of OMB Circular A-76, which requires agencies to procure commercial goods and services, such as data processing and facilities maintenance, from private sector sources when they can accomplish the same quality job at less cost than could a government source. To decide whether the work should be done in-house or by a contractor, agencies study and determine the cost of the most efficient way to do the work using a federal workforce and compare that cost with private sector bids. The most economical way of doing the work is selected. OMB estimates that 750,000 federal positions are subject to the A-76 program.

The federal government began formalizing procedures for contracting out in 1955, when BOB Bulletin 55-4 was issued. The policy was meant to discourage agencies from competing with the private sector. In 1966, BOB issued Circular A-76 to introduce cost competitions between the government and the private sector. This policy directed that the cost of the function being accomplished by agency employees be compared with the costs of contracting with the private sector. Thus, costs were to be factored into the decision to retain the function in-house or contract out, thereby modifying the initial concept that it was inappropriate for the federal government to compete with private enterprise. This policy, however, lacked detailed guidance on how agencies were to compare costs.[20]

Although this policy has been publicly endorsed by every administration since 1955, the principle has not been applied effectively. Rather, each succeeding administration has expressed its commitment to the principle and has ended up accomplishing little. However, the executive branch did not have a centrally managed program during this time. Over the years, agencies occasionally used the circular when faced with personnel or dollar reductions. In the mid 1970s, DOD began to experiment with the competition concept. Since that time, we have reviewed various facets of the A-76 program.[21]

The A-76 program was included as a Reform '88 initiative because it was seen as a program that would encourage agencies to manage their activities more efficiently. OMB's strategy to implement A-76 as part of Reform '88 included several actions to promote greater use of contracting-out concepts.

[20]Circular revisions in 1979 and 1983 further emphasized the competition concept and provided detailed guidance for cost comparisons. The 1983 revision directed agencies to determine the most efficient way to do the work in-house prior to making the comparison.

[21]Federal Productivity: DOD's Experience in Contracting Out Commercially Available Activities (GAO/GGD-89-6, Nov. 28, 1988) summarizes our prior studies of A-76.

The strategy OMB used evolved from one of laissez-faire to one of inflexibility. OMB set goals for the number of positions to be studied, and agencies were expected to meet them. If they did not meet them, budget cuts were threatened. In fiscal year 1985, for example, OMB attempted to stimulate A-76 implementation in two ways—by establishing cost study goals for each agency and by cutting agencies' budget requests at the beginning of the budget cycle. These cuts, experienced at first by only two agencies, were well in advance of a later executive order that formally called for such cuts. Specifically, Executive Order 12615, issued in November 1987, attempted to accelerate the A-76 program by (1) requiring agencies to submit inventories of all commercial activities; (2) conducting annual studies at the rate of 3 percent of their civilian population each year, beginning in fiscal year 1989, until the inventory is completed; and (3) requiring that estimated savings be included in agencies budget proposals to OMB, with the agencies retaining first-year savings and OMB taking the rest at the beginning of the budget cycle.

Prior to the Executive Order, setting goals and making corresponding budget cuts seem to have made little difference in the extent of A-76 program implementation. Table 3.3 shows OMB's full-time equivalent (FTE) positions study goals and agencies' achievements for fiscal years 1984 through 1988.

Table 3.3: OMB's FTE Study Goals and Agencies' Achievements for Fiscal Years 1984 Through 1988 (Ranked by Percent of Goal Accomplished)

Agency	FTEs to be studied	FTEs studied	Percent
DOD	86,000	48,028	56%
GSA	10,325	3,902	38
Energy	1,184	411	35
Commerce	8,852	3,057	35
Transportation	13,984	3,852	28
Corps of Engineers	4,929	613	12
Agency for International Development	454	45	10
Agriculture	12,374	1,159	9
VA	11,104	1,031	9
Labor	591	47	8
Health and Human Services	9,656	671	7
OPM	1,773	117	7
Interior	12,168	456	4
Environmental Protection Agency	1,010	27	3
Education	564	13	2
Treasury	12,575	207	2
Federal Emergency Management Agency	107[a]	0[a]	0
HUD	714	0	0
Justice	3,175	0	0
National Aeronautics and Space Administration	1,431	0	0
State	905	0	0
United States Information Agency	216	0	0
Total	**194,091**	**63,636**	**33**

[a]Includes goals and studies from 1984 to 1987 only.

Source: Office of Management and Budget.

While there were more positions studied in fiscal year 1988 than in past years, the positions were mainly in DOD, GSA, Transportation, and Commerce. Those agencies have always had relatively high goal accomplishments; however, even those fell short of OMB's goals. Implementation has been uneven, with 16 of 22 agencies accomplishing 10 percent or less of their goals, and 6 of them accomplishing nothing. DOD's relatively high goal accomplishment (75 percent of the total positions studied governmentwide) can be attributed, in part, to OMB allowing DOD to retain all estimated A-76 cost reductions from 1981 to 1988 and to reallocate them among other DOD budget categories. This gave DOD an incentive to achieve other priorities by using these savings.

The A-76 program has encountered significant agency resistance. Obstacles agencies identified as hindering success include the following:

- Lack of governmentwide relevancy to agency operations. In interviews, several agency officials told us that they see no value in the A-76 program. They characterized A-76 as a "millstone around their neck," "not a major concern," and "counterproductive." This negative impression of the program by many agencies could account for the uneven implementation shown in table 3.3.
- Unrealistic study goals. Nineteen of the 21 agencies responding to our questionnaire said that OMB's numeric goals for doing A-76 studies were unrealistic.
- A burdensome and time-consuming cost study process. On average, it has taken DOD about 2 years to complete individual cost studies. The negative feelings about the process reportedly have created low morale and have reduced the productivity of the employees whose jobs were at stake.
- Unclear program objectives. Our interviews disclosed that some agencies did not know whether A-76 was a contracting-out program or a program to gain efficiencies through competition. In addition, they were confused about the relationship between A-76 objectives and other efforts to gain efficiency, such as productivity and privatization.
- Limited OMB program resources. Limited staffing of OMB's A-76 function may have contributed to poor communication between OMB and the agencies and between the OMB A-76 staff and the OMB budget examiners. Except for a brief period in 1981, no more than one permanent position has been dedicated to the A-76 program. OMB's A-76 official said that only recently has OMB assigned an additional permanent position to the A-76 program. Limited staffing could constrain OMB's understanding of agency environments and problems of implementation.
- Poor congressional relations. Congress has gone so far as to legislatively prohibit using A-76 in certain activity areas.

It is unlikely that OMB will achieve its A-76 objectives unless it adopts a more flexible implementation approach and works with Congress and the line agencies to ensure its acceptance. OMB must clarify that the objective of A-76 is to improve the efficiency of operations. It should work with the agencies to develop mutually agreed upon goals and build agencies' expertise slowly by narrowing its focus to a few agencies. In that way, the limited A-76 staff could more effectively work with the budget examiners to identify opportunities for applying A-76 and the existence of other agency activities that are designed to achieve similar goals. Forcing agencies to comply with a program when they are not convinced that it addresses an important management issue has not yielded the desired results and will likely continue to fuel debates about the program that will further reinforce its opposition.

Recommendations

We recommend that the Director of OMB adopt a more flexible strategy for implementing the A-76 program. In devising a flexible approach, OMB could

- initially focus on a few key agencies in addition to DOD that are more likely candidates for contracting-out activities and work to build expertise within those agencies for managing and doing the necessary analytical work.
- work through the budget process to set broad goals for agencies to achieve greater efficiencies. Agencies should be allowed latitude to decide what mix of processes, including contracting out, they want to use to achieve efficiency goals. Continuing to set separate goals for each program on a governmentwide basis will further frustrate agencies and undermine the attainment of OMB's ultimate goal—to produce more efficient service delivery and government operations. To avoid any confusion by the agencies on whether A-76 is a contracting-out program or a program to achieve management efficiency, perhaps A-76 should be removed from OFPP. This step could place all programs designed to achieve management efficiencies in one organizational area of OMB.
- have OMB A-76 technical staff work primarily with the budget divisions to help provide overall guidance and direction to the agencies and critique agency submissions and plans. This will better ensure an integrated OMB approach and maximize the use of limited staff resources that have been greatly diluted by trying to implement the program on a governmentwide basis.
- once a plan for this strategy has been developed, present it to the key congressional committees and begin to work early to ensure Congress' acceptance.

Reform '88: Implications for Future Management Improvement Efforts

Since OMB was established in 1970, each administration has sought to implement its own management agenda. In serving these Presidents, OMB has used a wide range of techniques to try to facilitate governmentwide improvements. Nevertheless, prior efforts encountered a wide variety of implementation problems. We assessed OMB's management of Reform '88, looking in depth at five initiatives. The experience of these initiatives provides lessons that could be applied to future management improvement efforts.

Continuous and Visible Top-Level Support Is Important to Progress

The success of an initiative depends in part upon the relative emphasis placed upon it in the President's agenda. A high place on that agenda means that OMB will generally supply strong support for implementation. For example, debt collection and credit management, as well as cash management, have all received consistent top-level attention from OMB leadership during Reform '88. These were a central feature of the Reagan Administration's management reform program. Agencies recognized this emphasis and responded accordingly.

Procurement reform exemplifies what happens when top-level support falls off. When the OFPP Administrator had support from OMB and White House leadership during the early 1980s, OFPP made considerable progress toward meeting congressional mandates for developing a comprehensive procurement system. A change at the OMB Deputy Director level caused reduced support for OFPP and agency progress.

Sustained Attention and Adequate Resources Are Needed

Achieving meaningful governmentwide management improvements requires considerable time and effort to formulate effective policies and programs, undertake the necessary coordination and communications with the agencies, and monitor agency progress.

Unlike many of the management improvement initiatives of the 1970s, Reform '88 benefitted from at least 6 years of continuous effort toward its goals. For example, the cash and credit management initiatives originated in the Carter Administration and received continuous attention under Reform '88. On the other hand, agency officials are considerably less positive regarding the benefits of the most recent productivity initiative, which started in 1986.

Resource support also plays a role in the success of an initiative. For example, the cash and credit management initiatives have benefitted from adequate staff resources within both OMB and Treasury to set policy, plan, offer assistance to the agencies, and monitor agency implementation. Fewer resources were devoted to the productivity, information technology, and A-76 efforts. Accordingly, progress has been less discernible.

While it is clear that adequate resources are needed to undertake any management improvement initiative, this does not translate necessarily into large increases in OMB's resources. OMB can use other agencies to effectively "lead" those initiatives. For example, Treasury has played a lead role in the cash management area. OPM played a lead role in productivity during the late 1970s. These efforts show that central management leadership can be obtained using alternatives other than adding to OMB's staffing complement. Interagency councils of agency executives, discussed more fully in chapter 4, provide another source of resources and a means of sustaining attention to initiatives.

Establishing Clear Reform Goals and Objectives Is Important to Build Agency Support and Assess Progress

Agencies are more receptive to management initiatives whose objectives and goals they believe address significant problems they confront. When these goals were clear and accepted by the agencies, as in credit and cash management, progress was greater and could be more easily evaluated. In the information technology area, where OMB has not established criteria for judging agency management of information resources, assessment of agency progress is more problematic.

Clear reform goals also help build commitment from the agencies. Agency officials cite the specific credit management performance goals and constant monitoring by OMB and Treasury as providing the visibility and incentives enabling them to gain support within their agencies for taking corrective action. Agency involvement in establishing the goals against which they would be judged, such as the Nine Point Credit Program, also seems to be an effective means to build support for reforms.

In contrast, A-76 is a notable example of agency resistance to efforts to impose unrealistic reform goals. Virtually all agencies reject the study goals as arbitrary, and some agencies remain unsure of the program objectives. In general, agencies do not accept the effort as being in their best interest. Despite up front budget cuts, the agencies are not doing appreciably more studies when specific study goals are imposed than they did when OMB issued only general guidance.

Linking Management Improvement Initiatives to Key Decisionmaking Processes

In pursuing Reform '88, OMB has had partial success in overcoming some of the problems previous centrally directed management improvement initiatives experienced in not establishing links to the budget process. Without such linkages, the agencies generally have found the initiatives to be irrelevant and burdensome.

The OMB information technology initiatives provide a notable contrast in how agencies react. Agency officials recognize the importance of the PPS reviews because these tie into funding decisions or other decisions affecting the development of their major automated systems. Agency officials express much more dissatisfaction with the reporting requirements of the information technology planning process; they find little need for those data in their own decisionmaking purposes and they do not see OMB making use of the submissions in its oversight.

OMB is still seeking to better integrate the A-76 and productivity initiatives into the budget process. However, budget examiners resisted imposing A-76 budget cuts on their accounts until the fiscal year 1989 budget negotiations, when they were instructed to do so by the OMB Director. Similarly, examiners often lack familiarity with productivity analysis and data. Thus, although the productivity reporting requirements have been made part of Circular A-11, OMB's budget reporting guidance, the use of agency productivity and quality data in examiner decisionmaking remains limited.

Achieving Broad Consensus With Congress on Reform Objectives

Congressional action is an important determinant of progress toward management improvement objectives. Passage of legislation on debt collection, cash management, and internal controls signified broad agreement in both Congress and the executive branch and sanctioned leadership efforts on the part of OMB and Treasury. Progress was made in procurement reform early in the administration when OMB pursued a program designed to achieve congressional goals for establishing a comprehensive procurement system.

Congressional opposition to OMB efforts will impede progress. Congress has contributed to limited agency progress in performing A-76 studies by restricting this initiative in some agencies. Less progress has been made in advancing credit management reform policies in those agencies in which Congress has expressed a policy preference for protecting segments of the population from foreclosure.

Perspectives on Historic Factors Influencing OMB's Ability to Provide Effective Management Leadership

Reform '88 made progress in improving some aspects of the management of the federal government and elements of it should be sustained. But in many respects, the long-term success of OMB in providing effective management leadership remains very much constrained by several long-standing issues of OMB's internal and external environment and its institutional culture. These factors include (1) the dominance of OMB's budget activities; (2) the lack of consensus regarding OMB's management role; and (3) difficulties establishing effective relationships between OMB's management and budget staffs, and among OMB, the agencies, and Congress. To establish an appropriate framework for considering realistic options to improve OMB's performance, the Reagan Administration's Reform '88 efforts need to be examined in the context of these broad environmental factors.

How Have the Demands of the Budget Process Affected OMB's Ability to Address Management Issues in the Federal Government?

Because of changes brought about by the Congressional Budget and Impoundment Control Act of 1974 and the Gramm-Rudman-Hollings legislation, OMB's workload has increased and it now is more extensively involved in the congressional budget process. Despite increases in the workload of the budget divisions, their staff has declined since 1981. Moreover, the top-down nature of the budget process now requires that examiners spend more time manipulating aggregate budget numbers and less time observing agency operations. The added workload, reduced resources, and other factors internal to OMB have limited the ability of budget examiners to address management issues.

Changes in the Budget Process Have Increased OMB's Workload

Changes in the congressional budget process and growth in federal budget deficits have heightened the importance of OMB's budgetary function and increased its workload. As a result of the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344), the responsibilities of the OMB budget divisions have grown. OMB assumed such new responsibilities as providing 5-year projections and budget requests categorized by program function, and estimates of the cost of continuing current services.[1] The act also mandated annual budget resolutions to set budget targets and reconciliation legislation to reach those targets. OMB also now tracks the budget through all stages of the budget cycle.

[1] As of July 1988, 230 of OMB's professional staff were involved in compiling, examining, and producing the federal budget.

A 1981 internal OMB task force summarized the situation in the early days of the Reagan Administration as follows:

> "In past years, OMB prepared and transmitted the President's budget to Congress, and from that point, the individual agencies took over the job of explaining . . . and defending it. This year, OMB assumed much of the latter responsibility as well. This stemmed partly from the scope of the reconciliation process . . . and partly from the OMB and White House political judgment that agency staff could not be depended on to put the integrity of the President's budget foremost on their list of priorities."[2]

Then-Director David Stockman expanded OMB's contacts with Congress and altered the roles of the budget examiners. A significant organizational legacy of Stockman's tenure was his creation of a new branch within the Budget Review Division (BRD), the Central Budget Management Branch. It develops and operates the Central Budget Management System (CBMS), which allows almost instantaneous monitoring and scorekeeping of congressional and executive branch budgetary decisions.

With CBMS, Stockman enhanced OMB's ability to track and analyze budgetary fluctuations. CBMS contributed to the top-down nature of budgeting during the Reagan Administration by affording the Director the ability to analyze and project answers to hypothetical budget proposals.

Other significant changes in OMB's activities were ushered in by the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), also known as the Gramm-Rudman-Hollings Act. It lengthened OMB's budget season by fostering continuous interaction with Congress. The act also designated mandatory ceilings for the federal budget deficit and set forth procedures to bring about automatic spending reductions in nonexempt programs if the estimated deficit exceeded the ceiling by more than $10 billion.

The increased interaction between OMB and Congress that began with the 1974 act and continued under Stockman endures because of the changed nature of the budget process. According to one knowledgeable observer, because much of the budget debate is realized in omnibus legislation, OMB has become more involved in direct negotiations with Congress.

[2] Report of the Task Force on OMB's Relationship to the Congressional Budget Process (Oct. 19, 1981), p.4.

"Budget resolutions, reconciliation legislation, continuing resolutions, debt ceiling extensions, budget process reforms such as GRH (Gramm-Rudman-Hollings)—all these legislative efforts require a centralized response from the executive branch."[3]

Only OMB, he said, has the broad perspective and technically trained staff to provide this centralized response.

Growing Workload Limits Examiners' Traditional Role

A theme that emerged in our discussions with senior budget officials and was echoed by others outside of OMB is that the budget examiners' workload has expanded tremendously as a result of the changes in the federal budget process and increased contacts with Congress. During the Reagan Administration, OMB Directors in their appropriations requests consistently reported escalations in OMB's workload. Despite significant increases in the amount and sophistication of the work done by OMB's budget examining divisions, their staffing levels have declined by roughly 9 percent between 1981 and 1988—a loss of 24 staff.

Traditionally, OMB examiners have been responsible for analyzing programs and budgets and overseeing the implementation of presidential policies. They are expected to be knowledgeable about the administration's programs, policies, and objectives as well as program, agency, and governmentwide management initiatives. Examiners exercise a program management role through their budget responsibilities. They raise a variety of management issues in their reviews of agency budgets and utilize a variety of techniques to help resolve them.

In their responses to our survey, budget examiners[4] provided a number of such examples. On an issue regarding the content and scope of an agricultural program, the budget examining official reviewed program regulations and assisted with developing legislation. In another instance, an examiner identified the need for tighter reimbursement requirements for program beneficiaries and proposed a series of program policy changes, which were subsequently adopted.

Other management issues the examiners raised varied from field office structure to data processing systems. Actions taken by examiners included establishing requirements for action in the agencies' allowance

[3] Johnson, Bruce, "OMB and the Budget Examiner: Changes in the Reagan Era," Public Budgeting and Finance, Winter 1988, p.6.

[4] In reporting the results of our survey, we use the term "budget examiners" for all respondents, regardless of grade level or supervisory responsibilities, who answered that they were part of the budget examining staff at OMB.

letters, revising regulations, and working with the agency and Congress to develop legislation. One Deputy Associate Director said that he has worked with examiners to identify such major management issues as formulating productivity measures, developing estimates of marginal revenue yields from additional enforcement resources, and developing proposals for data processing consolidations.

Though they raise management issues when reviewing agencies' budgets, the budget examiners who responded to our survey said that they should be raising such issues more often. However, OMB staff has declined in size while the changes in the budget process have increased its workload. A senior BRD official said that as a result, the amount of time examiners have to devote to management issues is "minimal."

Their expanded workload also has left examiners with less time to visit agencies and observe operations first-hand. An OMB internal study found in 1981[5] that the budget examiners' response to the demands of the policy leadership to monitor the congressional budget process had disrupted the examiners' time to replenish their in-depth knowledge of their programs. "Examiners," the study said, "feel that they are manipulating numbers in the abstract and progressively losing sight of what lies behind them." Several senior career budget officials noted that the change to top-down budgeting brought about by the congressional budget process and Gramm-Rudman-Hollings means that examiners do more aggregate "number-crunching" and have less time to visit their agencies. As one of these officials recalled,

> "It used to be that in the off season, budget examiners could travel around and learn more about their accounts. Now OMB is much more involved in the Congressional budget process, budget season goes all year, and the pressures on a budget examiner's time have changed. Time pressures [on the budget examiners] are not as bad as under Stockman, but they are still high."

Aaron Wildavsky, a political scientist noted for his writings on the federal budget, recently made a similar assessment of the effects of the changes in the budgetary process:

> "Working largely top down is not the same as working largely bottom up. Once budget examiners used to examine; they went into detail on programs, made field

[5] Report of the Task Force on OMB's Relationship to the Congressional Budget Process (Oct. 19, 1981), p. 3.

visits, and otherwise kept track of agency programs. Some still do; many do not. Now most examiners deal with aggregates, with total agency spending."[6]

Even if the examiners had time to make field visits, OMB might not be able to afford the travel. Between fiscal years 1981 and 1987, OMB's travel expenditures fell almost 45 percent, from $456,000 to $25?,000 in constant 1982 dollars.

Other factors within OMB also reduce the incentives that budget examiners may have to address management issues. Numerous senior budget officials we interviewed said that workload pressures force budget examining staff to respond to matters that are urgent and immediate rather than perform analyses on important long-term issues. Budget officials also noted that OMB's top leadership does not direct attention to agency management issues during forums such as Spring Review and Director's Review. In recent years, there appears to have been reduced emphasis within OMB on these reviews, with sessions shortened or not held at all. Thus, there is little incentive for budget examiners to analyze program management issues in preparation for these review forums.

To What Extent Is There Consensus on OMB's Management Responsibilities?

In contrast to its budget role, OMB's management responsibilities have never been well-defined. Almost since its inception, there has been little agreement over either the approaches it should take toward management improvement or the management functions it should oversee. Since its reorganization in 1970, each administration has directed OMB to undertake a major management improvement effort significantly different from that conducted by the previous administration. These efforts generally lacked direction and dissolved as presidential attention waned. In addition, as OMB became more closely associated with presidential policy interests, Congress legislatively directed OMB to exercise leadership on a variety of administrative management issues. These actions exerted lasting effects on the structure of OMB's management activities.

OMB has thus been challenged to reconcile competing demands of responding to presidential policies that usually change every 4 years while maintaining an institutional commitment to certain management issues. Given its record, OMB has often found itself facing questions about its ability to provide effective management leadership.

[6] Aaron Wildavsky, The New Politics of the Budgetary Process, (Glenview, Ill.: Scott, Foresman and Company, 1988), p. 168.

OMB Has Significantly Altered Its Approaches to Management Reform

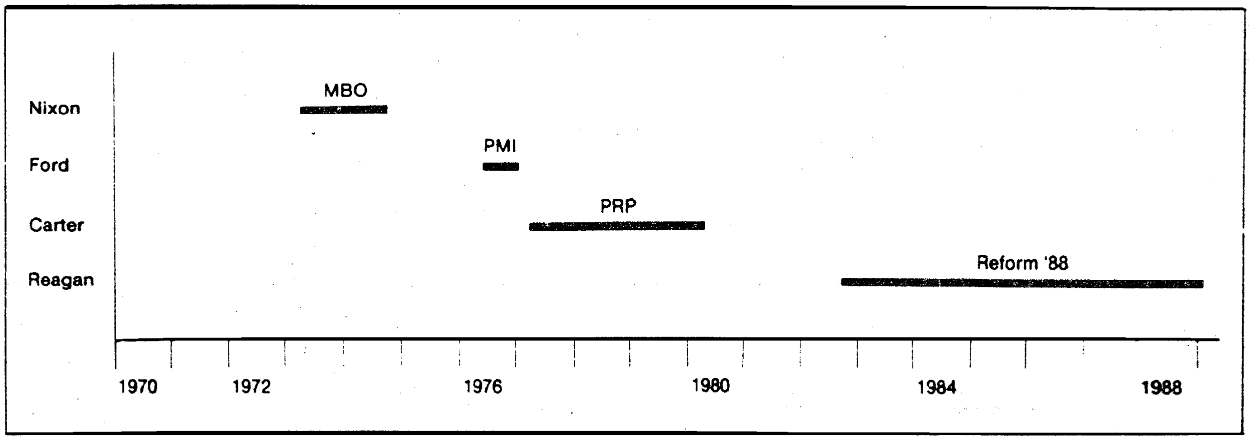
President Nixon's Reorganization Plan No. 2 of 1970 stated that OMB represented an opportunity to improve the responsiveness of the government and reflected the broader management needs of the Office of the President. The plan did not, however, specify the approaches OMB should use in undertaking its management responsibilities. The pattern has been for each successive administration to bring to OMB a new management agenda, implicitly rejecting what was already in place.

In the 7 years between 1973 and 1980, OMB pursued three major management reform efforts under three different presidents. Each effort was intended to produce sweeping improvements in the overall management of the federal government, and each received great emphasis, attention, and resources from both the administration and OMB. However, each dissolved when either the president's attention turned elsewhere or when a new administration took office.

- In April 1973, President Nixon initiated his Management by Objectives (MBO) system. MBO was built around the budget process; OMB was to work with agencies in defining presidential objectives. The effort faltered because OMB guidance was too general, agency objectives lacked political substance, and Watergate distracted attention from the program.
- Under President Ford, OMB in 1976 directed a short-lived management improvement program called Presidential Management Initiatives (PMI). Like MBO, PMI attempted to integrate management issues into the annual budget cycle. PMI produced limited results partly because it began late in Ford's presidency and the administration's attention soon turned to the election.
- President Carter suspended PMI and directed OMB to undertake a major administrative effort to reorganize the federal government. In 1977, Carter launched the President's Reorganization Project (PRP). At its peak in 1978, the PRP had a staff of several hundred, including many detailees, working on 30 reorganization projects. However, the PRP ended without achieving the sweeping organizational changes originally promised. President Reagan discontinued agency organizational studies early in the 1980s.

These changes in OMB's management activities represented fundamentally different approaches to government management improvement. MBO and PMI were management efforts grounded in the budget process, whereas PRP intended to improve government operations through restructuring. Each new major initiative required OMB to revise significantly its management role, responsibilities, and resources. Reform '88 continues the trend of management improvement initiatives differing significantly from those previously in place. Figure 4.1 illustrates the duration of the four major management initiatives OMB has undertaken since 1970, along with the presidential administrations under which they originated.

Figure 4.1: Duration of Major Presidential Management Initiatives



Emphasis Given "Traditional" Management Functions Changes With Presidential Interest

As it increased efforts to respond to presidential priorities, OMB's commitment to established administrative management functions eroded. For many years, the pervasive philosophy within BOB was that there should be institutional memory in such classical management areas as financial management, organizational policy, and statistical policy. While administration interest in various functions might rise and fall over time, BOB careerists maintained the capacity to respond to presidential management interests as needed. Reorganization Plan No. 2 of 1970 recognized and expanded on these functions, creating a role for OMB in program evaluation, interagency cooperation, information and management systems, and executive development.

However, since OMB was established, the classical functions and those who performed them have been downplayed. The fortunes of particular functions have depended on their congruence with the President's management philosophy or the perspectives of top OMB appointees. In 1972, a number of functions deemed "administrative details" were transferred from OMB to GSA. These activities related to procurement policy, travel regulations, property management, automated data processing, financial management, grant simplification, and management systems. In the view of Director Roy Ash and Deputy Director Fred Malek, transferring these functions was necessary to make room for staffing the MBO effort. The changing emphasis OMB has given to matters of organizational policy, intergovernmental relations, and financial management also illustrates the relationship between traditional OMB management issues and the changing management policy interests of different presidents.

OMB's commitment to organizational policy grew from about six staff under Presidents Nixon and Ford to a major initiative under Carter. Determined to streamline the federal government as he had state government in Georgia, Carter established the PRP to make the organizational policy function a focus of attention. But PRP began fading in the middle of the Carter years as presidential attention shifted elsewhere. The Reagan Administration placed little value on organizational approaches to management problems and disbanded the organizational studies unit in 1982, reassigning the four remaining staff to other areas.

Intergovernmental relations (IGR) was a high priority function in the early Nixon OMB. In the mid-1970s, however, OMB's role in this area was criticized. The Advisory Commission on Intergovernmental Relations characterized OMB's IGR role as being "fragmented and divided" due to the continuing weakness in the agency's management component. During the Carter years, its approach to intergovernmental reform was described as "piecemeal."

OMB's IGR emphasis shifted from process to policy in the early 1980s. The Reagan era "New Federalism" and block grants initiatives fit in with the President's overall budget and policy goals. In 1981, 57 programs had been merged into nine block grants. By June 1983, OMB had dissolved the intergovernmental affairs division and transferred the last eight professional staff to another management division.

The financial management function, including debt/credit and cash management projects, has received increasing staff support and has consistently maintained the highest priority among the Reform '88 initiatives. The responsibility for financial management was transferred from BRD to the management side in 1982, creating a separate Financial Management Division. That division employed 16 permanent professional staff in 1988 working on a full range of financial management issues.

Congressional Actions Also Influence OMB's Management Activities

During the early 1970s, OMB, as the President's agent, became embroiled in growing disputes between the President and Congress. In the wake of impoundments and Watergate, Congress limited OMB's power and discretion by requiring the Director and Deputy to be confirmed by the Senate and by restricting the President's ability to impound appropriated funds. In addition, Congress passed legislation requiring OMB to attend to specific management issues.

After OMB's creation, Congress grew concerned about the agency's handling of its more traditional management functions. In response to what it perceived as OMB's lack of attention to the recommendations of the Commission on Government Procurement, Congress passed the Office of Federal Procurement Policy Act in 1974. This legislation established OFPP within OMB but apart from the management divisions to address procurement issues. Soon afterwards, Congress assigned back to the OMB those functions that the agency had earlier sent to GSA.

Five years later, congressional concern with the fragmented policymaking, oversight, and management structure for information activities led to OIRA's establishment through the Paperwork Reduction Act of 1980. The management side's statistical policy and data processing functions were transferred to OIRA soon afterward. In addition, Congress passed three laws during the 1980s specifying that OMB fulfill various financial management responsibilities. For example, the Federal Managers' Financial Integrity Act of 1982 required OMB to develop guidelines for internal controls and for effective, efficient accounting systems.

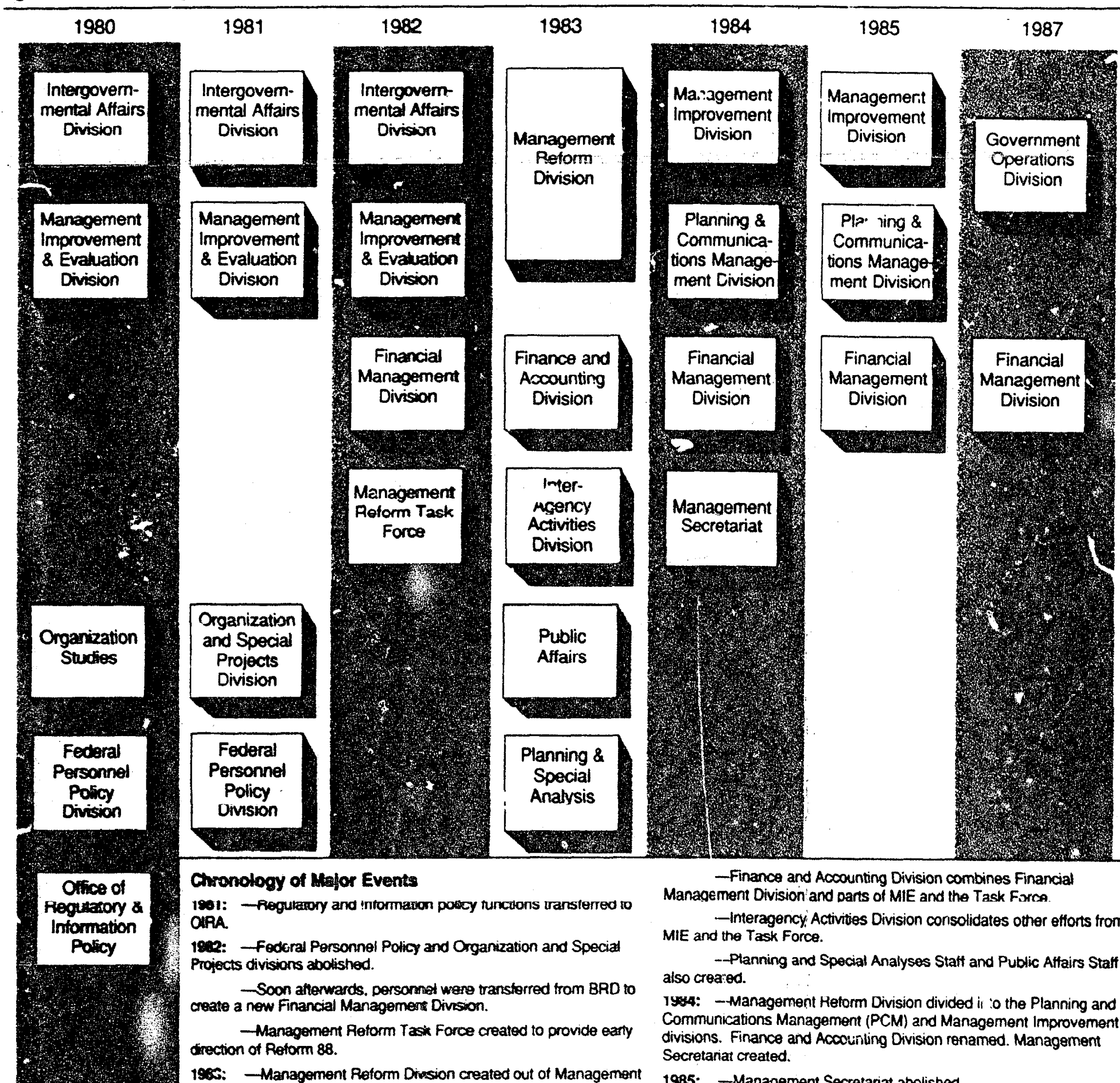
Changes During the Reagan Administration Influenced OMB's Management Leadership

President Reagan's Reform '88 differed from previous management improvement efforts in its duration. Yet despite the relative stability of this agenda, OMB has experienced numerous underlying changes that have hampered its management leadership. In particular, a succession of political executives restructured the management divisions and altered their processes.

Since 1981, four different Associate Directors have headed OMB's management divisions, and under each one, the management divisions were reorganized. As shown in figure 4.2, between 1981 and 1988, the divisions were realigned at least six times.[7] Several officials said that as a

[7] Shifting the information and statistical functions to OIRA in 1981, however, should be attributed to congressional actions.

Figure 4.2: Changing Organizational Structure of OMB's Management Divisions



Chronology of Major Events

1981: —Regulatory and information policy functions transferred to OIRA.

1982: —Federal Personnel Policy and Organization and Special Projects divisions abolished.

—Soon afterwards, personnel were transferred from BRD to create a new Financial Management Division.

—Management Reform Task Force created to provide early direction of Reform 88.

1983: —Management Reform Division created out of Management Improvement and Evaluation (MIE), Intergovernmental Affairs, and the Management Reform Task Force.

—Finance and Accounting Division combines Financial Management Division and parts of MIE and the Task Force.

—Interagency Activities Division consolidates other efforts from MIE and the Task Force.

—Planning and Special Analyses Staff and Public Affairs Staff also created.

1984: —Management Reform Division divided into the Planning and Communications Management (PCM) and Management Improvement divisions. Finance and Accounting Division renamed. Management Secretariat created.

1985: —Management Secretariat abolished.

1987: —Management Improvement and PCM divisions combined into Government Operations Division.

result of the frequent restructurings, OMB discontinued important management initiatives and lost opportunities for making other crosscutting management improvements.

Changing leadership also has precipitated changes in management procedures. According to the Deputy Associate Director for Government Operations, former OMB Director Stockman directed him to install a management process that would last more than 1 year. He was unable to institutionalize such a management process, he said, because each Associate Director had different ideas of what the management side should do with its management initiatives. Disbanding the management review process left the agency without a coordinated management improvement process. On page 74 we discuss in more detail some procedures that OMB has employed over time to enhance its management initiatives by linking them to the agency's budget activities.

OMB Management Improvement Efforts Shift Balance to Favor Responsiveness Over Continuity

Within the past few years, the National Academy for Public Administration (NAPA), the Grace Commission, and the Senate Committee on Governmental Affairs have all raised serious questions about OMB's ability to provide effective management leadership. In supporting a separate Office of Federal Management, an alternative to maintaining responsibility for management leadership at OMB favored by each of those three groups, Senator Roth said in May 1986:

> "We have seen little regard for developing managerial leadership or organizational and managerial systems capacity for the most efficient and effective delivery of Government services. This is hardly the kind of sustained management assistance that the President needs."

Similarly, as we reported in 1983, while management improvements require dedicated resources applied over a long period of time, OMB's efforts since 1970 have been short-term and sporadic.

The inability of either the Executive Office of the President or OMB to create consensus on the agency's management responsibilities and approaches to management improvement ultimately has hampered its efforts at management reform. As explored in greater detail in the following question, the lack of consensus has also exacerbated efforts to solidify the relationship between OMB's budget and management sides.

What Have Been the Effects of OMB's Attempts Since the 1970s to Link Management and Budget Activities?

Despite repeated efforts during the 1970s, OMB was unable to establish an enduring process to integrate management and budget operations. During the Reagan Administration, OMB took several steps to better link management issues with the budget process. These included establishing a management review process, creating a computerized tracking system, reassigning budget responsibilities for the OPM and GSA accounts to the management staff, and publishing an annual management report. However, no stable management review mechanism has emerged and the long-term effects of the changes are uncertain. Given the environmental and resource constraints that OMB faces, more needs to be done to integrate management and budget functions effectively.

Problems with establishing effective linkage between its management and budget operations have, over the years, plagued OMB's efforts to use the budget review process to bring about management improvements. During the 1970s, OMB made two significant attempts to establish such linkages—MBO under President Nixon and PMI under President Ford. However, neither MBO nor PMI was able to establish an enduring, systematic process for addressing management issues in preparing the budget, the one tool that necessarily forces the agencies to pay attention to OMB.

In 1973, OMB's leadership built an MBO system around the annual budget process. The primary purposes of the MBO system were to enunciate the President's objectives and to assure agencies' responsiveness to these objectives by providing an effective means of monitoring and controlling their output. The system was designed to involve department heads in agency management issues, foster open communication between OMB and the agencies, and focus on results. The objectives of MBO included: improving management to deliver more effective services, allowing OMB to better utilize budgetary and regulatory leverage to effect changes in program management, setting priorities to focus the limited resources of presidential staff, and providing a mechanism to hold department or agency heads accountable for their performance.

MBO required each department or agency head to develop an agenda of management objectives. OMB would work with the agencies to help them define objectives and then review the objectives using criteria such as importance to the administration's political program, feasibility, genuine challenge, and measurability of results within defined time periods.

As initially envisioned, the MBO system was to operate with a minimum of paperwork, focusing on face-to-face reviews between the President and his Cabinet members rather than on detailed written reports that would be relegated to staff for preparation. However, the MBO effort faltered because it addressed noncontroversial reforms that failed to maintain the interest of political executives. At the same time, Watergate distracted attention from the program. Although the governmentwide MBO initiative was not sustained, some departments have adopted their own MBO systems.

Under President Ford in 1976, OMB directed PMI, which like MBO attempted to integrate management issues into the annual budget cycle. OMB developed a list of presidential initiatives, the agencies submitted individualized plans to pursue some subset of those initiatives, and OMB monitored their progress. PMI produced limited results because it began late in Ford's presidency, agency plans varied greatly in quality, reporting requirements burdened OMB examiners preoccupied with the budget, and the administration's attention was focused on the presidential campaign.

Recognizing the dominance of the budget process and the need to establish a more stable management process, OMB's leadership during the Reagan Administration instituted several procedures in an attempt to give greater attention to the Office's management efforts and to better integrate management issues into the budget. These included

- establishing a Management Review Process to ensure agencies' compliance with the Reform '88 administrative management agenda,
- creating a system to track agencies' progress in making management improvements,
- moving budget responsibilities for the OPM and GSA accounts to the management staff, and
- publishing an annual management report.

The extent to which each of these achieved its objectives is discussed in the following sections.

Management Review Process Inconsistently Applied and Still Evolving

To effectively use the leverage of the budget process, OMB leadership sought to establish a formal review process for integrating management improvement decisions into resource decisions. OMB staff responding to our survey expressed support for the concept of a management review process; however, continual changes over virtually each of the past 6 years have precluded efforts to establish a stable process.

In 1982 OMB officials first set out the approach and objectives for establishing a Management Review Process. The products of these reviews were to have been specific findings and recommendations for effecting management systems reform or specific management improvements. In August 1983, the 20 largest departments and agencies were informed that the management reviews would begin with the fall budget submission (for fiscal year 1985). The Management Review Process was focused on monitoring agencies' progress on Reform '88 projects, including efforts in such areas as

- organizational structure, staffing, and field structure;
- selected major system upgrades required to improve administrative, program, and service delivery;
- progress on the recommendations contained in the President's Private Sector Survey on Cost Control; and
- cost and effectiveness of management and administrative support.

A budget procedures memorandum[8] listed the following objectives for the management reviews:

- to produce an increased awareness of management issues and processes;
- to identify, to the extent possible, specific budgetary savings reflecting significant cost-effective opportunities to improve management;
- to develop general management guidance or specific instructions to be incorporated in the OMB passback to the department or the agency;
- to result in management improvement decisions to be expressed in the OMB final allowance letter to the department or agency; and
- to generate specific statements on major management initiatives in the 1985 budget documents.

Procedures for management reviews and roles of budget and management staffs also were specified. First, the management staff—including OIRA and OFPP—were to work with the budget divisions to identify potential topics to be discussed with each department or agency during the fall budget hearings. Before the hearing, the budget divisions would notify their departments or agencies of the selected management topics and request data needed by OMB for any analyses. In preparation for the hearings, the management divisions had responsibility for conducting all analyses—crosscutting, agency-specific, or project-specific—in support of the management reviews. The results of these analyses were to be used in recommending to the respective Deputy Associate Director and

[8]Budget Procedures Memorandum No. 686, August 30, 1983.

to the Associate Director for Management an agenda of specific management issues to be raised at the agency's budget hearing. Representatives from the budget program divisions would chair the hearings with each agency or department and address the major program management issues through the normal budget process.

While this procedure was established in 1983 for formulating the fiscal year 1985 budget, the Management Review Process was changed in 1984 for the fiscal year 1986 budget cycle when OMB asked the agencies to submit Management Improvement Plans. These were to be essentially contracts between OMB and the department or agency to complete selected management improvement initiatives within a given period of time. The plans were to include objectives for each initiative identified and approved by OMB, milestones for implementing each initiative, and performance measures. The plans were also to include the updated 1985 to 1990 budgetary savings identified by OMB in the agency's budget passback.

Beginning in March 1985, all participating departments and agencies were to report to OMB every 2 months on the status of their management initiatives. If necessary, quarterly meetings would be held to ensure that agencies were implementing initiatives according to their approved Management Improvement Plan. Changes to the plans required OMB's prior approval.

Because the Management Improvement Plans submitted by the agencies varied in their quality and substance, OMB decided to adopt a computerized system to track their implementation beginning in late 1984 for the fiscal year 1986 budget cycle. However, the system was short-lived. According to OMB officials, it was considered burdensome and eventually abandoned in 1986.

In May 1986, further changes to the Management Review Process occurred when OMB decided to formally include agency Management Improvement Plans as part of the budget submissions for the fiscal year 1988 budget. Circular A-11, the primary guidance that OMB sends to the agencies for preparing their budget submissions, was modified to include this requirement.

Despite the Circular A-11 requirement, however, an OMB management official said that OMB has not done general reviews of agency Management Improvement Plans for 2 years. According to this official, although some agencies still submit their plans, OMB does not enforce the Circular

A-11 requirement. He and others in OMB attributed the shift in emphasis to changing policy-level leadership. The Management Associate Director, faced with a small staff and limited time remaining in the Reagan Administration, chose to emphasize four specific initiatives—financial management, credit management, information resources, and productivity.

While Circular A-11 retains a requirement that agencies submit an overall Management Improvement Plan, it also requires that they submit specific plans and reports for the productivity, debt collection, and financial management initiatives. Further, for the information technology initiative, agencies are required to submit program requests spanning 5 years. In addition, FMS also provides OMB with data assessing the agencies' progress on the credit and cash management initiatives.

While acknowledging that there have been problems with implementing the management review process, an OMB management official characterized it as "the best mechanism that OMB has used to link the management and budget sides." The former Associate Director for Management said that, in retrospect, something had been lost in just reviewing specific initiatives and that a review process with a broader focus on agency management issues would be useful.

OMB staff in the management and budget divisions have supported linking management issues to the budget process and generally have perceived the management review process as a good mechanism for doing so. Several interviews and written comments on our survey reflected the staff's view that the only really effective way to get agencies to improve their management operations is to get their considerations raised as an integral part of the budget formulation and execution processes, where OMB has the agencies' attention. Of the OMB staff responding to our survey question, about 55 percent (53 of 97) regarded the general management review process as having a positive effect on the integration of management issues into the budget process. About 72 percent (87 of 121) believed that the focus on specific initiatives had a positive effect.

Outside of OMB, there also appears to be support for a mechanism to link management reviews to budget operations. Of the 12 Assistant Secretaries we interviewed, 8 said that they look to OMB to raise management issues as part of the budget review process.

Confusing Expectations and Poor Communication Between Management and Budget Staffs

Despite support from OMB's leadership for an institutionalized management review process, continual modifications have produced confusing expectations of the management roles of the budget divisions and have undermined communication between management and budget staffs.

Examiners can play a significant role in improving agency management throughout the budget review process, and they are expected to be knowledgeable about the administration's management initiatives. However, the former Associate Director for Management cautioned that "some of the budget staff may not fully understand our management agenda." He explained that, "They [the budget staff] do not play a day-to-day role in this area. While they may understand their specific project areas, they are not likely to have a comprehensive view of what is going on."

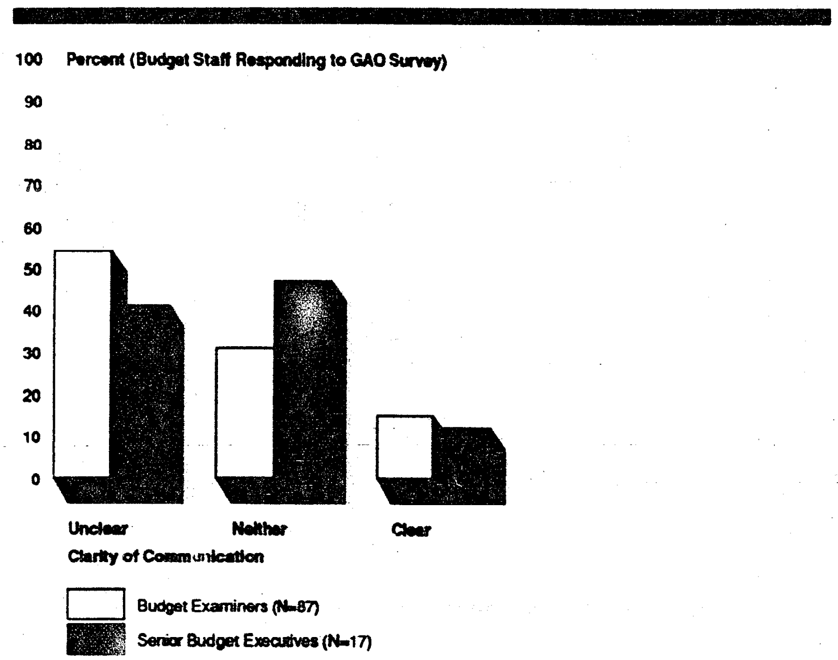
Our survey of OMB budget examiners showed that most experienced communications problems regarding their responsibilities for facilitating management improvements under Reform '88. Of the 87 budget examining staff who responded to the question, about 15 percent said that their responsibilities under Reform '88 had been explained to them clearly; by contrast, 54 percent said that their responsibilities had been communicated unclearly. The lack of communication also is noticeable in the responses of the senior executives on the budget staff. Among the 17 senior budget division executives who responded, only 2 believed that their Reform '88 responsibilities had been communicated clearly, while 7 said that their responsibilities had not been explained clearly.[9] These results are summarized in figure 4.3.

Budget examiners also reported that they generally do not obtain or use information from the management staff. Asked how often they received information from the management staff on management improvements in their agencies or accounts, 47 percent of the 87 examiners who responded said that they were seldom informed of such improvements. Also, of the 54 budget examiners responding to our questionnaire who said that they had recently identified management issues in their largest accounts, only 27 informed the management staff, and even fewer (19) said that they worked with the management staff on those issues.

Examiners generally did not regard the management staff as a good internal resource, although they cited notable exceptions among the IRM

[9]The remaining eight senior budget executives said that their Reform '88 responsibilities had been communicated "neither clearly nor unclearly."

Figure 4.3: Reform '88 Responsibilities—Clarity of Communication to OMB Budget Staff



GAO's Question: "How clearly, or not, have your responsibilities for facilitating agency management improvements through the Reform '88 initiatives been explained to you?"

staff in OIRA. In response to our question about the extent to which information from the management staff is useful, 10 percent of the 78 budget examiners who answered found such information very useful. By contrast, 37 percent said that information from the management staff was of little or no use.

Nor do the budget staff generally perceive the management staff as being able to provide them with technical assistance. Day-to-day activities prevent management staff from assisting budget staff. As one budget examiner commented on our questionnaire, "Policy staff keep the management staff so busy with tracking issues and other reporting requirements that the management staff has no time to offer support and analysis to the budget staff on management issues." A management official with budget division experience also acknowledged that the rest of the organization did not always hold the management side in high regard. He attributed this to the kinds of questions the management side asked, especially in meetings, which he said were unrelated to the maj priorities of OMB—the budget and legislation.

The lack of close working relations between management and budget staffs causes miscommunication outside of OMB as well. A congressiona subcommittee staff director offered an example where, in order to mee budget targets, his subcommittee had proposed to press for the passag of legislation sought by OMB. The budget staff negotiating for OMB said that they were very skeptical of the amount of savings projected by th management staff, and refused to count it as a budgetary saving. In another case, a budget division branch chief cited an instance where th budget side had been clearing legislation on a pilot program and called find out when the agency would be briefing OMB. They learned that the agency had already given OMB a briefing—to the management side.

Such incidents cause agency officials concern as well. Of the 12 Assistant Secretaries we interviewed, 8 said that they were dissatisfied with the consistency of the communication regarding Reform '88 that they received from OMB staff located in different offices. Various Assistant Secretaries provided examples where the management staff made commitments to the agencies that were not communicated to, or not honore by, the budget staff.

Moving OPM and GSA Budget Responsibilities Has Changed Little

Budgetary responsibility for the OPM and GSA accounts was shifted to th Management Division in March 1987. Though no formal rationale was given for this reorganization, OMB officials believed that it was an attempt to improve coordination with other central management agencies and help integrate OMB's management and budget functions.

While assigning the OPM and GSA accounts to the management staff may have yielded some beneficial effects, it appears that little has changed operationally. An executive on the management staff said that the budget review responsibilities are not carried out any differently than before. Officials in OPM and GSA reported that there were no major changes in the way that they prepared and submitted budgets to OMB. Both agencies still have the same budget examiners as before.

Moving of the OPM and GSA accounts had both positive and negative effects on the access to and demands on the former Associate Director for Management. OMB officials noted two positive changes. First, the branch with OPM and GSA responsibilities has considerably more access to the Associate Director for Management than it had to the Program

Associate Director for Economics and Government on the budget side. Second, the Associate Director was credited with doing a much better job than his predecessors at establishing linkages with the budget side by taking the time to learn and understand the budget formulation and review process. OPM officials said that at the policy level, the Associate was "more involved" with their budgets. As a result, OPM officials had more access to him and could get issues resolved. However, the budget responsibilities were time-consuming and limited the attention the Associate gave to other duties, such as those of Chief Financial Officer.

OMB's Management Report Highlights Administration's Commitment to Management Improvement

As required by the Deficit Reduction Act, OMB submitted an annual management report in fiscal year 1986 and has continued publishing the annual report. Management of the United States Government presents the President's Management Message and the goals of his plan to improve federal management. The fiscal year 1990 report lists accomplishments in the areas of credit, financial, and procurement management; quality and productivity; improved services though technology; and privatization. It also details the agencies' plans for implementing the President's goals in these priority areas.

The management report symbolically links management improvements and budgetary allocations and serves to articulate the commitment of the Executive Office of the President to management improvement goals. Of the 120 OMB staff responding to our survey question, almost 47 percent perceived a positive effect from the annual management report, almost 48 percent said there were neither positive nor negative effects, and about 6 percent perceived negative effects.

We have supported the publication of a report that would comprehensively address the government's management improvement agenda. In testimony before the Senate Committee on Governmental Affairs,[10] we noted that such a report could foster a dialogue with Congress on what management issues are most important, help to promote a consensus on what needs to be done, and sustain attention to addressing complex management issues.

The NAPA panel on the 1988 to 1989 presidential transition also recommended that the OMB management report be continued. The report, NAPA said, provides a discipline for management improvement activities and serves to inform Congress and the public on these matters.

[10] Statement of Comptroller General Charles A. Bowsher, February 26, 1986.

What Are the Barriers to Effective OMB and Agency Relations and How Can They Be Overcome?

OMB's task of providing management leadership to the agencies is complicated by the diversity of the agencies, the shifting nature of OMB initiatives and approaches, and the limited OMB capacity to work with and oversee agency management improvement efforts. While OMB's past performance has induced agency skepticism regarding the efficacy of its efforts, agency officials we interviewed recognized that OMB leadership can help agency management improvement. For instance, OMB was seen as helpful when it focused attention on issues that the agencies acknowledged as legitimate. OMB was also seen as helpful when it monitored agency efforts while at the same time providing agencies with the flexibility to pursue management improvement strategies suitable to their own unique environments. Overall, the agencies and OMB appear to operate best when a consultative, cooperative approach has been used in approaching management reforms.

The Reagan Administration's use of interagency councils, such as the PCMI and PCIE, has fostered effective relationships between OMB and line agencies. These consultative groups have fostered communications about common management issues across agencies and between the agencies and OMB; enlisted the talents and resources of the agencies to address management issues, thus supplementing OMB's limited resources; and generally built commitment for needed management improvement. In our view, further benefits could be obtained through formation of a council of Deputy Secretaries to help focus on crosscutting program management issues affecting agencies.

OMB/Agency Relations Are Complicated

Since BOB was moved to the Executive Office of the President in 1939 with a mandate to help the President provide management leadership, the federal management environment has become much more complex. The difficulty of BOB/OMB providing management leadership across the executive branch has increased because of such factors as the (1) growth in the number of federal agencies and the diversity and difficulty of their missions and (2) lack of a consensus regarding OMB's management role.

Federal agencies of the 1980s are vastly different from the agencies that made up the federal government in the 1930s. Now the federal government is composed not only of large operating agencies but also of a diverse group of research and regulatory agencies that manage through grants and administration of contracts. These agencies have diverse cultures and management issues and have a natural tendency to resist governmentwide approaches to their problems.

Finally, over the years the agencies' management capabilities have increased while OMB's have declined. While the BOB of the 1940s was viewed as a relatively large repository of management talent compared with the line agencies, studies of the BOB/OMB management capabilities since 1967 have raised concerns about the institution's staff capabilities relative to those in the agencies.

The natural agency aversion to central control has been complicated by the shifting OMB management agendas. In looking at the experience of OMB governmentwide initiatives in the 1970s, we found a succession of initiatives of short-term duration and a pattern of implementation problems contributing to skepticism that any governmentwide management improvement initiative can be successful. This has encouraged some agencies to resist OMB's efforts, waiting for their eventual end.

Nevertheless, agency officials we interviewed recognized the importance of OMB taking a management leadership role. A theme from our discussions with agency officials was that it is difficult to get a focus on management issues in the government environment and that OMB's efforts can direct attention to issues. What is clear is that OMB must exercise care not only in what and how many management initiatives it undertakes but also in how it addresses them.

Consensus Needed That Management Issues Addressed Are Important

In our view, agency officials have been more receptive to management initiatives whose objectives and goals they believed addressed the significant problems they confronted. When these goals were clear and accepted by the agencies, as in credit and cash management, progress appeared greater and there was a better basis for evaluation. For instance, the Nine Point Credit Program included performance goals negotiated with each major credit agency, which provided clear criteria to assess progress. Further, when asked about the cash and credit management initiatives, most agency officials we interviewed believed that these initiatives helped bring about much neede : reform. Over 50 percent of the 68 cash and debt and credit management focal point surveys indicated that these initiatives addressed an important management issue to a "great" or "very great" extent.

Most of the ASAs and IGs we interviewed were pleased with these initiatives overall and gave these efforts high praise. They believed that through OMB's push of these two Reform '88 initiatives, problems were being highlighted and changes had begun. In contrast, 43 percent of the 21 A-76 focal point surveys [illegible]cated that A-76 was of "little to no" importance. Likewise, several ASAs and IGs described the initiative in negative terms. Clearly a consensus had not been reached about the importance of this initiative.

OMB's Approach to Management Issues Is Important

Agency officials believed that OMB could be most effective when it serves as a catalyst and provides leverage for officials to get attention within their agencies. Agency officials also stressed the importance of consistent communication and sensitivity to agency problems. They believed that OMB is needed to (1) require managers to review management operations and (2) force more communication with other institutions.

In providing leverage, we believe that OMB must continue to monitor agency implementation and ensure accountability for results. Monitoring provides continued support for agency action and helps sustain their efforts. While there was a recognition of OMB's efforts in this regard, views were also expressed that improvements could be made. Two such areas were communication and implementation strategies. Several officials we interviewed sought more consistent communication by OMB's management and budget staffs and implementation strategies that allowed for more agency flexibility in accomplishing improvement goals.

When asked how satisfied they were with the consistency of communication on Reform '88, some ASAs believed that OMB should have more consistency across its management and budget staffs in supporting management initiatives. In fact, of the 12 ASAs we interviewed, consistency of communication appeared to be the area of most concern to them. We heard complaints of being torn in two different directions between the management and budget staffs and of OMB's management staff not coordinating with each other on a day-to-day basis. Eight of the 12 ASAs we interviewed said that they were "dissatisfied" with the consistency of OMB's communication from staff located within different offices.

A strong theme from our discussions with ASAs and IGs concerned the perceived need for OMB to provide more agency flexibility. Further, several officials wanted OMB to solicit more input from the agencies on how to pursue the goals most effectively. A-76 especially appeared to have been viewed as one of OMB's most inflexible initiatives. For example, one Assistant Secretary described OMB as insensitive to the agency's individual needs regarding A-76 and said that OMB was not giving the agency officials any credit for innovative thinking. He said that this type of insensitivity made people resist any changes.

In general, the most widespread theme was that communications needed to be improved. Most officials we talked with said that OMB needed to express more sensitivity toward the agencies' problems and interact more frequently with agency officials to gain their point of view. In other words, they wanted a closer, more consultative relationship. NAPA also supported a consultative relationship in its study entitled The Executive Presidency: Federal Management for the 1990s. The NAPA study says that the President should not force his agenda on others but rather should articulate his policy agenda and consult with those directly involved. The study cautions against forcing policy issues through the system and says that one way to help gain the collective insights of agency officials is through the use of cabinet councils.

Interagency Council Approach Has Fostered Management Reform

While our discussions with agency officials reflected a desire for improved relations between their agencies and OMB, there was unilateral recognition that the establishment of two interagency councils was helpful in achieving greater agency involvement in addressing crosscutting management issues. The creation of the PCMI and PCIE helped ensure that an agency perspective was applied to governmentwide management reforms and brought attention to the need for improvements. These councils have committees that meet monthly to foster ongoing communications and to share perspectives on common problems. As an outgrowth, the councils initiated varied projects to tackle management reform. For example, the PCMI and the PCIE jointly promoted projects that emphasized computer matching to combat entitlement fraud. The PCMI revised plans for accomplishing the Federal Managers' Financial Improvement Act goals while minimizing paperwork burden and created consolidated administrative service units to achieve economies in operations common among several agencies. Also, the PCIE established governmentwide standards governing IGs' investigative and evaluation approaches.

In our interviews with 12 IGs and 12 ASAs serving on the PCIE and PCMI, respectively, all were overwhelmingly supportive of these councils. We asked what contributions these councils could provide for the next administration, and most of the comments centered on providing lessons learned and continuing current efforts. The respondents believe that these councils had provided resources, highlighted important issues, helped with legislation, and provided an opportunity for coordination of projects and the cross-fertilization of ideas. Consequently, we believe that these councils were successful in fostering necessary communication across the executive branch, building commitment to reform efforts, tapping talents that existed within agencies, keeping management issues in the forefront, and initiating important improvement projects.

We believe that the formation of an additional council—one for Deputy Secretaries—is advisable. By the end of the Reagan Administration, both the Executive Director of the Domestic Policy Council and OMB's Deputy Director had concluded that the use of Deputy Secretaries on councils would be beneficial. The Executive Director advised that the next administration should form a council of Deputy Secretaries and task them to develop indicators of management performance. OMB's former Deputy Director suggested the use of Deputy Secretaries on the PCMI, saying that they could provide leadership within the agencies and also help address interagency problems. We agree that a more extensive use of Deputy Secretaries on councils could encourage management reforms. Formation of a council for Deputy Secretaries would help efforts to focus on significant crosscutting program and operational problems and foster greater understanding of governmentwide presidential objectives.

How Successful Has OMB Been in Obtaining Congressional Support for Enacting Its Management Legislative Agenda?

Traditionally, obtaining congressional cooperation has been an important factor in OMB's success. OMB's ability to deal with Congress has been influenced by the broader state of the White House relationship with Congress. A strong force against success has been the adversarial relationship between the executive branch and Congress. Early on, the Reagan Administration was successful in getting Congress to enact legislation important to its agenda. More recently, of 38 bills proposed in the fiscal years 1987, 1988, and 1989 management reports, 12 were enacted by the end of the 100th Congress. On the basis of discussions with congressional staff, we believe that OMB can increase its effectiveness in dealing with Congress by establishing earlier, better contact.

Efforts to improve program and administrative operations frequently require either legislative changes or the creation of a statutory base if none exists. Our past work has shown that program and administrative management improvements are most likely to receive sustained attention if there is congressional support and a solid statutory framework. Recent examples that illustrate the importance of this support are the Debt Collection Act of 1982 and the Prompt Payment Act and subsequent 1988 amendments. These measures were very important to the Reagan Administration's efforts to address the government's growing delinquent debt burden and to improve government prompt payment of bills. Congressional action has served to provide additional debt collection authority and to establish some standards for the payment of debts, thereby increasing the visibility of the debt collection and payment efforts.

OMB Has Generally Opposed Management Legislation Proposed by Congress

OMB has generally resisted proposals for congressional management legislation as restricting its flexibility to serve the President. Even though OMB supported the goals of the Prompt Payment Act, it initially resisted proposals to legislate in this area and instead sought to address the problem administratively.

However, the record shows that OMB's management efforts appear to be more successful when they have had congressional support. Our 1983 staff study[11] found that "a base in statutory authorization appears to be helpful for management initiatives, even though OMB usually opposes this approach unless it is unavoidable." As we noted in the staff study, "legislation provides an ongoing requirement for action and . . . an institutional focal point accountable for progress." Our work on the Reform '88 initiatives substantiates the earlier conclusion. The most successful ones—debt management and cash management—have strong legislative bases. One initiative, A-76, which has encountered significant agency resistance, has been affected by legislation that in part blocks its operation.

Reagan Administration Management Agenda Had Limited Success With Congress

Senior White House and OMB officials in the Reagan Administration had expressed concern about the difficulty in getting broad congressional support for the administration's management program. OMB proposed 38 separate management legislative items in six distinct areas in the management reports for fiscal years 1987, 1988, and 1989. Twelve of these items were enacted by the end of the 100th Congress. The measures in each area are discussed in the following paragraphs, and their status at the end of the 100th Congress is summarized in table 4.1.

[11] Selected Government-Wide Management Improvement Efforts—1970 to 1980 (GAO/GGD-83-69, Aug. 8, 1983).

Table 4.1: Status of Management Legislation (As of November 10, 1988)

Subject	Proposed	Enacted	Pending	No action	Dropped[a]
Improved financial procedures	10	3	4	3	0
Procurement	9	2	0	3	4
Fraud prevention	9	5	0	2	2
Productivity improvement	7	1	3	1	2
Reductions in regulatory paperwork burdens	2	1	0	0	1
Management report	1	0	0	1	0
Total	**38**	**12**	**7**	**10**	**9**

[a]Proposals made in 1987 or 1988 Management Reports but not renewed in the 1989 Management Report.

The issues covered in the 38 bills proposed by OMB varied widely. Of the 12 that passed, one with a large dollar impact is the extension of the program to offset debts owed to the federal government by reducing income tax refunds. According to OMB, this program produced $841 million between 1986 and 1988. Another important new law amended the Debt Collection Act of 1982 to authorize an experiment under which the Justice Department hires private attorneys to litigate some federal debt collection cases. In the procurement area, in addition to a law that reauthorizes OFPP, a bill was passed that simplifies and reduces paperwork requirements for purchases of less than $25,000. In the fraud prevention area, one proposal became the Inspector General Act Amendments of 1988. The act establishes eight new statutory Inspectors General, including IGs at the Departments of Justice and the Treasury.

However, some measures in the administration's management agenda were not passed. OMB had proposed two similar bills to allow tests of innovative acquisition techniques and three bills to simplify federal procurement. Another measure, designed to strengthen federal efforts to reduce fraud, would have allowed some disclosure of grand jury information to Justice Department attorneys responsible for civil fraud cases without requiring them to seek a court order. To support the productivity initiative, OMB sought a joint resolution making productivity improvement in the federal government a national goal. None of these proposals generated much congressional attention.

To determine what OMB could do to increase its success in promoting management legislation, we discussed the relationship between OMB and Congress with 15 current and former congressional staff who had extensive experience dealing with OMB. There was general recognition that a natural tension exists between Congress and OMB, the latter of which is the key representative of the President's policy agenda. This tension between the executive leadership, particularly OMB, and the legislative branch creates an environment of distrust and impedes efforts to forge a consensus on key issues needing attention. As a result, in trying to assess the effectiveness of OMB's efforts, it is necessary to take into consideration the overall climate.

However, discussions with the congressional staff identified two themes on how OMB could gain more support for its agenda and strengthen its relationship with Congress. The first involves establishing earlier and more frequent contact with Congress. Most of the staff we interviewed believed that OMB needed to do a better job of marketing its legislative agenda and providing its proposals in a timely manner. A Capitol Hill staff member said that "they don't look or ask for congressional support even when they could get it." Regarding the marketing of OMB's agenda, another staff member suggested that it would help OMB's efforts if at the beginning of a session OMB routinely briefed the interested members and staff on its priority agenda items.

Secondly, some of the congressional staff we interviewed also felt that because of OMB's limited size, it should clearly communicate its priorities. The staff cited several examples of problems in enacting legislation created because OMB seemed unable to look at the bills until the last minute, thus complicating congressional action. For example, on legislation to revise the Presidential Transition Act, OMB asked for changes after the final version had been approved by the House and the staff member had to send the bill back to get it voted on again. He believed that the issue had not been raised earlier because no one at OMB had focused on the bill until the last minute.

The NAPA report entitled The Executive Presidency: Federal Management for the 1990s also called for improved relations between the President and Congress. The report suggested that the two branches cooperate more fully. It also recommended early presidential consultations with Congress and a clear setting of priorities.

The OMB Management Role: Proposals for the Future

The record of the last 6 years shows that OMB leadership can produce some management improvements across the executive branch agencies, but only when there is a congruence of several critical factors. To achieve positive performance, OMB needs to exercise sustained leadership and continuity of effort, work on problems the agencies recognize as requiring attention, establish implementation and oversight strategies that tie into critical decisionmaking processes like the budget, and effectively use the resources and talent of executive branch agencies.

OMB has underway a number of largely administrative improvement initiatives that address important management issues. While improvements in their implementation are possible, these efforts are worthwhile and should be continued.

However, our work and surveys of OMB personnel and agency executives reveal a long list of critical program management issues confronting the agencies. To what extent OMB can serve as a positive force in helping the agencies address these areas remains a central question. The long-term record and recent trends have resulted in skepticism across government regarding OMB's future performance.

The OMB environment is characterized by changing management initiatives and implementation approaches closely tied to the changing policy agendas of the President and top OMB officials. Further, the OMB environment is dominated by (1) demands to control budget outlays and to negotiate and monitor broad budget decisions with Congress and (2) resource and time constraints that limit the ability of OMB career staff to address the complex and seemingly intractable problems confronting the agencies.

As a result of these trends, concern has mounted over OMB's ability to help stimulate improvements in management. Various proposals have been made for alternatives to the current OMB structure. For example, both NAPA and the Grace Commission offered separate and distinct proposals for an Office of Federal Management (OFM) in 1983, and the Senate Governmental Affairs Committee introduced legislation during the 99th Congress to create such an office.

However, the OFM concept would still be subject to some of the same environmental constraints affecting OMB. If OMB's management activities have been subject to frequent change and waning presidential attention over time, there is no reason to assume that an OFM would escape those problems. Similarly, if OMB has had difficulty coordinating its own management activities with the budget process—the key governmental decisionmaking process—coordination between two organizations could pose even greater challenges.

We believe that attention should be directed at maximizing OMB's management leadership potential. The key to effectively accomplishing this is understanding what constitutes management. The essence of federal management is policy implementation and the delivery of program services; administrative management processes and structures are a means to facilitate service delivery. Viewing management in this light is more likely to prompt the necessary attention of White House, congressional, agency, and OMB personnel. This view of management will also focus reform efforts on helping individual agencies perform their programmatic missions more effectively and efficiently.

Within this context, several actions are required to better enable OMB to achieve its potential to serve as a positive force in stimulating management improvement. These include

- establishing an institutional process within OMB that integrates the activities of the management and budget staffs to improve their oversight of agency efforts to address a select number of major policy implementation and program delivery issues;
- building effective relationships with the agencies to ensure implementation of management change;
- achieving the necessary support for management activities from the President; and
- reaching broad agreement with Congress on the scope and approach to management activities.

Establishing an Institutional Management Process Within OMB

OMB needs, but has not had, a stable framework for addressing the most pressing management issues confronting the major departments and agencies. The effort to establish a management review process within the Reagan Administration was undermined by continual change. This left the management and budget staffs at the end of the Reagan Administration operating in a largely separate manner, with limited opportunities to focus on key management issues in the agencies.

The examiners, who traditionally have seen their responsibilities encompassing oversight of agency and program management, have had less time to focus on key management issues in the face of increasing workload demands imposed by a relentless budget process. The management staff, consumed with implementing and monitoring agency compliance through reporting requirements of an important but largely administrative management agenda, are generally not looked to by the examiners to provide analytical support. Consequently, OMB has not been able to apply the full talent of its staff in identifying and working on the major program management problems confronting executive departments and agencies.

OMB must develop a more effective strategy to maximize its limited resources if it is to have a better opportunity to act as a catalyst for management improvement. That strategy should build on four key changes:

- OMB must recognize that the most effective approach is one that is rooted in developing management improvement strategies tailored to individual agencies. The management problems, environment, and effectiveness of each agency differ. At the same time, OMB's resources are limited. OMB must, therefore, single out those programs and areas most in need of attention, rather than try to focus on all of them.
- OMB needs to assign the budget divisions responsibility for overseeing agency management improvement efforts and provide them with additional support. OMB's greatest source of knowledge of agency policies and programs rests with them. Moreover, OMB's budget formulation and review responsibilities are central to implementing any management improvement efforts.
- OMB should focus the management staff's attention on working as a team with the examiners to provide technical assistance in analyzing agencies' plans for addressing key policy and program service issues and in monitoring actions taken.
- OMB needs to establish a stable, systematic process built into the annual budget review cycle for evaluating key agency-specific and crosscutting management issues that affect program effectiveness.

This strategy involves changing the management staff's current focus on implementing a largely separate management reform agenda. Instead, the management staff should work with the examiners in teams to identify, analyze, and monitor agencies' management improvement efforts. Additionally, the management staff should maintain a capability to formulate governmentwide management policy and to undertake special projects and studies of significant management issues arising from presidential needs and from OMB's normal oversight of agency operations.

Through this revised approach, the management staff should continue to meet its essential responsibilities for establishing the crosscutting management policy framework within which the agencies should operate. It may occasionally have to get involved in helping to implement a new initiative, but as a general rule, detailed implementation of initiatives to address crosscutting management problems should be undertaken by lead executive branch agencies, such as OPM, GSA, and Treasury. The lead agency concept, as exemplified in the OMB/Treasury working relationship in financial management, provides a useful model for project implementation and oversight, technical assistance, and training. OMB, in its policy role, should require that appropriate crosscutting analyses are performed to measure the success of its policy implementation strategies. Through its budget role, OMB should work to ensure that the talent and resources are available in the other central agencies to provide continuity and technical support to the line agencies.

While some increase in staff would be required to handle these responsibilities, success will depend on a cadre of management analysts who can work effectively with the examiners in teams to produce credible and timely analyses. These analysts will also need to be able to work across OMB and the executive branch agencies to undertake studies and establish workable policies. This staff should maintain the technical management specialties that the budget divisions believe they require in overseeing agency management. Our review indicated that examiners identified a range of management problems in the agencies in such areas as program and service delivery, automated data systems, personnel and human resources, organizational alignments, contracting issues, and financial management. Consultations across OMB may reveal other potential areas of support.

Addressing Resource and Leadership Concerns

OMB's potential for being a positive force for improving agency management will be difficult to achieve in the face of the work demands on the budget examiners and top OMB leadership. Under the revised approach, the budget divisions would have explicit responsibility for overseeing agency management improvement efforts, and this would have a further impact on their already increasing workload. Dedicated technical assistance provided to the examiners by the management and special studies staff would help. Reforms streamlining the budget process might offer the best opportunity for workload relief in the long term.

However, if the examiners are to carry out their role effectively, OMB resources must be further supplemented. Realistically, OMB cannot be expected to carry out its heavy workload with decreasing resources. At the same time, expectations have increased concerning management oversight for individual agencies.

The envisioned OMB management role would further add to the demands on the OMB Director and Deputy Director. These officials are already faced with increasing expectations for involvement in congressional budget matters, executive branch budget formulation, and appearances before Congress and the public. When Joe Wright was Deputy Director, he assumed an unusually high management profile, yet he estimated that he devoted only about 2 percent of his time to management issues. Several associate directors and senior executives also said that only limited time was available to focus on long-term management issues.

The problem of limited high-level attention to management issues was compounded by the situation faced by the former Associate Director for Management. The Associate Director's time and attention was diffused across responsibilities for overseeing the budgets of OPM and GSA, serving as the government's Chief Financial Officer, coordinating with the presidential management councils, and overseeing the management divisions. Further, the organizational position of the Associate restricted his ability to coordinate with the management functions carried out by OIRA, OFPP, and the Office of Privatization.

To share the heavy workload associated with policy and budget representation, testimony before Congress, attention to agency and crosscutting management issues, and attention to OMB institutional management, the Director may wish to consider seeking legislation to add a second Deputy Director. This proposal has been presented as an option in various external studies of OMB. In establishing this position, the Director could signal an intent to develop an institutional OMB management role, increase the ability of OMB top leadership to interact with cabinet-level officials and Congress on agency-specific and crosscutting management issues, and increase the ability of top management to coordinate the management functions organizationally dispersed within OMB.

Building Effective Relationships With the Agencies

The key to management progress is not to use just OMB, with its limited staff, to impose change or attempt to manage agency operations. One clear message coming from our reviews of other agencies, our analysis of Reform '88 initiatives, and discussions with agency and OMB officials is that individual agencies must see reform initiatives as important if they are to have a reasonable chance of succeeding. As a result, the administration must enlist the commitment of the line agency executives to address difficult management problems.

OMB leadership is important for grappling with difficult problems within and across the agencies. OMB serves a useful purpose in (1) raising issues relative to the policy, program, and administrative management of the agencies; (2) challenging the agencies to choose the most effective solutions to their management problems; (3) providing the necessary policy framework to guide agency efforts; (4) providing the external influence and support useful to agency officials in overcoming opposition to change within the agencies; and (5) coordinating those issues that cross agency boundaries. However, the agencies bear primary responsibility for addressing their own management issues, and OMB's oversight of agency management improvement efforts should not be seen as absolving agency heads of responsibility for addressing agency problems.

Councils could continue to assist OMB in carrying out its leadership role in addressing crosscutting management issues and ensuring that the agencies' perspectives are considered in conducting improvement efforts. These councils could comprise

- Deputy Secretaries, to work collectively to identify and solve the cross cutting policy and program management problems;
- Assistant Secretaries for Administration, to address the administrative management issues of common concern and explore new opportunities for management improvements; and
- Inspectors General, to evaluate the government's progress toward addressing its many management objectives and to reduce fraud and waste in government programs.

These groups could help to (1) address the range of management issues confronting government, (2) foster communication across the executive branch, (3) build commitment to reform efforts, and (4) tap the talents within the agencies to attack the government's management problems. The councils could also help keep management issues in front of agency leaders despite the inevitable pressures to confront immediate crises. Finally, they offer the potential for influencing not only what crosscutting management issues receive attention within a budget-dominated OMB, but also how OMB works with the agencies regarding management policy implementation.

Presidential Support: A Prerequisite for an Effective OMB Management Role

Whether OMB will achieve its management leadership potential ultimately depends on its relationship to the President, how he wants to manage, and the support he provides to OMB in exercising its management role. Modern presidents have devoted limited time and attention to policy implementation and general management issues. Most of their attention has been given to defense and foreign policy, domestic policy development, and political affairs. While this is understandable, their Cabinet secretaries also have often been consumed with policy development, representation to Congress and client groups, and responding to crises. As a result, there often is not the sustained, high-level attention to managing the implementation of key policies and programs that large, complex federal programs require.

The immensity and diversity of federal operations make a decentralized approach to agency management essential; however, the President must have confidence that the Nation's policy and program management agenda is being accomplished. The decentralized approach to government management is hindered by the inherent difficulty of developing objective measures of agency performance. This necessitates central presidential staff support to help assess the effectiveness of agency programs and to find ways to improve program operations wherever possible. OMB can support the President by overseeing line agency implementation of his policy and program management agenda and by assessing the effectiveness and efficiency of program delivery. A sustained effort by OMB and agency leadership will be required to (1) develop meaningful and well-articulated management objectives and goals and (2) measure accomplishments. However, OMB will be hampered in fully exercising its management oversight and holding the agencies accountable for performance without clear signals from the President to his Cabinet that he expects results and supports OMB's efforts.

Given the record of prior efforts to impose governmentwide management objectives through the budget process, we believe that a pragmatic approach would start with a small set of objectives at a few key agencies. Expansion across the government could proceed on the basis of the lessons learned from the test phase.

Effective Congressional Relations Are Needed to Assure the Success of OMB's Management Activities

The history of OMB's management improvement efforts shows that progress is most likely to occur when the President and Congress can agree on the broad reform objectives. Recently, this has occurred in debt and credit management. However, OMB generally has opposed management legislation proposed by Congress and has had limited success in generating congressional support for proposed management legislation. The administration needs to treat Congress as a partner in its efforts to improve government operations. OMB should hold early and continuing discussions with Congress regarding its plans for addressing the government's management problems and respond to congressional calls for OMB leadership. While no substitute for direct consultations, OMB should also continue the recent practice of informing Congress of its management program through the annual management report.

Recommendations to the Director, OMB

The Director of OMB should take the following actions:

- Establish a systematic process, built into the annual budget cycle, for overseeing agency progress in implementing a select number of objectives for presidential policy implementation and improved program management. These issues should be agreed upon by the head of the agency and by the OMB Director (acting for the President). Progress should be reviewed periodically by the Director and the agency head.
- Charge the OMB budget divisions with explicit responsibility for overseeing agency implementation of selected management improvement efforts, evaluating the effectiveness of the management of individual agencies and programs, and ensuring that corrective action is taken to solve identified problems.
- Take steps to either increase or supplement staff resources. Options to consider to meet the workload demands include
  - increasing permanent examiner staff,
  - increasing staffing in the special studies divisions and/or the technical management staff fully dedicated to supporting examiner management oversight, and
  - using reimbursable interagency details to supplement permanent examiner staff during peak budget review periods.
- Charge the OMB management staff with
  - working as a team with the budget divisions to identify agency management issues and assess progress,
  - working with the agencies to identify important crosscutting management issues and establish needed policies, and
  - conducting special projects addressing management issues of presidential interest.

- Enlist the following groups to help OMB address crosscutting management issues:
  - the departmental Deputy Secretaries to identify and resolve crosscutting policy and program management problems,
  - the Assistant Secretaries for Administration to address the administrative management issues of common concern, and
  - the Inspectors General to help identify emerging problems and evaluate the government's progress toward addressing its many management issues and to provide suggestions for improvement.
- Engage in regular, early contact with Congress both to advance needed management legislation and to keep Congress informed about the status and priorities of the administration's efforts. The annual management report could be useful in this regard.
- Secure presidential support for undertaking, in conjunction with the agencies and Congress, an active management program aimed at improving the agencies' capacities to perform their programmatic missions effectively and efficiently. Specifically, OMB will require presidential support for its efforts to oversee, as part of the budget process, agency implementation of a limited number of key policy, program, and administrative management issues.
- Consider the need for establishing a second Deputy Director to enhance the time and attention OMB's top management team can give to strengthening its management leadership role and working with Cabinet heads and their top managers on critical policy implementation and program delivery issues.

Matters for Congressional Consideration

As part of its oversight, Congress should engage OMB in a dialogue on approaches to its management responsibilities with a view toward building consensus on actions needed to ensure that results are achieved in resolving critical management problems. To facilitate discussion, Congress should consider statutorily requiring that OMB continue its practice of preparing an annual report on the state of federal management and submitting it with the President's budget. Such a report can be of value in hearings on OMB's management leadership agenda and the resources it would require.

Agency Comments

In commenting on a draft of this report, OMB agreed with our characterization of OMB's performance in addressing the government's management problems and with the essence of our recommendations. OMB cited a number of actions it had underway in response to them. Their actions are outlined in OMB's response included on pages 102 to 105. In addition to actions it proposes to take within OMB and across the executive branch, OMB also reported that it has begun the process of developing the closer relationship with Congress that will be needed to address the major management problems facing the government.

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Appendix I

Comments From the Office of Management and Budget

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON D.C. 20503

March 17, 1989

Mr. Richard L. Fogel
Assistant Comptroller General
General Government Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Fogel:

See pp. 99.

OMB Director Darman has asked me to respond to your request of February 15th for comments on the GAO draft management review at OMB. We believe the draft report makes an important contribution in addressing the major issues involved in managing the Government. We agree with the large majority of its findings and conclusions. In our opinion, the draft provides the basis for a high degree of consensus between GAO and OMB on the substance and means for Federal Government management improvement. At the same time, Office of Federal Procurement Policy and Office of Privatization staff are communicating directly with your staff on some new information in their areas that should be taken into account in finalizing your report.

We agree that the work of OMB has been generally dominated by its budget activities. This domination has been heightened, as the draft report points out, by, first, the Budget Impoundment and Control Act of 1974 and, second, the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings). This domination of the annual budget cycle has also made it more difficult for OMB to take the kind of longer term view that is a necessary ingredient of management reform. Management reform takes time.

We agree that OMB management activities have been the subject of changing initiatives, although Reform '88, which was begun in 1982, did establish a relatively longer term framework for making progress on administrative improvements. It did not, however, provide a framework for improvements in policy implementation and program service delivery. These must be high priorities for the future. At the same time, we must continue to make progress in the administrative area, and it is our plan to continue these efforts, particularly in the area of credit management.

The draft report is quite correct that emphasis on the short-term, versus the long-term, is a problem for the entire Government, not just OMB. Political horizons are generally short-term, and this fact dominates both Executive Branch and Congressional policy making. Implementing a longer term effort will require commitment not just by the political leadership in the Executive Branch and Congress, but also the commitment of civil servants who run the programs while Executive Branch political leadership changes. We need in the period ahead to design systems that develop dialogues at all levels (low as well as high) on these longer term issues and then pinpoint a mutuality of interest in proceeding over the longer term with their resolution.

We agree that more needs to be done to improve Federal credit management, although we would note that significant progress has been made in this area. We fully agree that the federal financial systems need modernizing; a beginning has been made but we have a long way to go. We also agree that much more attention needs to be paid to procurement reform. We need to find a better balance between the conflicting goals of rapid and unbureaucratic government contracting and due process, accountability and ethics. These goals are in conflict. Dealing with this issue will be a high priority of the Bush Administration, particularly in the Defense Department.

With regard to mechanisms, we agree that there will continue to be a need for coordination and a forum for Assistant Secretaries for Management, as is currently the case in the President's Council on Management Improvement; there is also a need for interagency coordination and a forum at the deputy secretary (chief operating officer) level. We are currently developing plans for such a mechanism. In addition, we need to continue the President's Council on Integrity and Efficiency (for the Inspectors General). President Bush met with the Inspectors General on January 26, 1989, and emphasized to them the need for their continued support to stamp out fraud and waste.

Now on pp. 8 and 9.

With regard to your four recommendations, we agree that there needs to be a select number of policy implementation and program service delivery objectives, although we are less sanguine that such a process should be established within the annual budget cycle. The longer term horizons that we are considering would militate in the direction of such a process taking place outside the annual budget cycle.

Your recommendations -- with regard (a) to making the budget divisions explicitly responsible (with needed resources) for implementation of an enhanced OMB management

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effort and (b) to charging the management staff to work as a team with the budget divisions to identify agency management issues, assess progress, and identify the most important cross-cutting management issues and policies -- make sense in principle. We will need, however, to develop a specific OMB process in these respects which will not, as in the past, get swamped by the annual budget review. Finally, we also are considering the possibility of legislation to create a second deputy director who could enhance OMB senior management's ability to strengthen OMB management activities.

As you probably know, President Bush's February 9th submission to Congress entitled "Building a Better America," pinpointed five management initiatives that very much parallel your draft report's ideas. These are credit reform, improved budget measurement, high-lighting federal expenditures that are in the nature of capital outlays, greater efforts to anticipate long-term problems and opportunities (e.g., FSLIC and nuclear weapons facilities problems), and Management by Objectives (MBO). The MBO initiative is similar to that which your draft report has suggested.

In addition, Part III of the President's "Building a Better America" speaks to three priority areas under the heading "Managing America's Government Better." The first of these involves efforts to provide for national security and increase defense efficiency. Among the specific provisions of the President's defense program will be a report by the Secretary of Defense on recommendations to improve defense management (including steps that must be taken by Congress to improve management practices and procurement procedures). The President's Program also includes attending to problems from the past: reforming the S&L sector, protecting safety and the environment at nuclear weapons plants, and insuring excellence and safety in civil aviation. The President proposes to eliminate Federal activities that should be conducted privately and allow private firms to use government-owned resources.

Since the President set out his program on February 9th, the Director of OMB has appointed me Executive Associate Director (the number three job at OMB) to develop a management agenda for OMB that would implement the President's program. We have begun the process for developing the President's MBO effort. We have also completed a draft legislative proposal concerning Chief Financial Officers (CFO's). The draft proposes a federal CFO in OMB (and CFO's in departments, agencies, and major components) consistent with present arrangements. This was discussed with Senator Glenn at Director Darman's confirmation hearings.

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Although we need to improve coordination between the budget and management divisions, an example of a current effort in this area is the Federal Credit Policy Working Group established by the Economic Policy Council in 1986 (institutionalized in the recently revised Circular A-129). The Working Group has played a key role in the effort to improve credit subsidy estimates, primarily through the Credit Reform Proposal that was submitted to Congress in 1987 and retransmitted in 1989. The Group was also instrumental in developing and implementing the Loan Asset Sale pilot program that was initiated in 1987.

As you can see, we have taken a number of positive steps which appear consistent with the recommendations you have made in your draft management review. We have also begun the process of developing a closer relationship with the Congress, and are looking into what additional OMB resources and/or organizational changes might be needed to accomplish these tasks.

In conclusion let me reiterate, on behalf of the Director as well as myself, that the draft report was very useful. We appreciate the openness and candor with which your staff carried out this study and believe it was beneficial to the relationships between our agencies.

We look forward to working closely with GAO on our specific efforts to move in the direction of management improvement. Policy implementation and program service delivery should not be the subject of partisan politics or of competition between the branches of Government. The problem at hand is, once the basic policy direction is set by those constitutionally empowered to set it, how best and most efficiently to implement the policy. We should all be able to work together on this; the American taxpayers deserve no less.

In this spirit, I hope that GAO and OMB can work closely together in the future in this area. I personally will look forward to meeting you and Chuck Bowsher on these matters. I would hope we could draw heavily on your expertise and judgment.

With best regards.

Sincerely,

Frank Hodsoll
Executive Associate Director

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