United States General Accounting Office

GAO

Testimony

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

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

GOVERNMENT MANAGEMENT

Observations on OMB's Management Leadership Efforts

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

and

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

Government Management: Observations on OMB's Management Leadership Efforts

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our observations on the Office of Management and Budget's (OMB) efforts to carry out its responsibilities to set policy and oversee the management of the executive branch. As you know, last month we issued a major new series of reports, entitled <u>Performance and Accountability Series: Major Management Challenges and Program Risks</u>, and an update of our high risk series.[1] Collectively, the reports show that long-standing performance and management challenges hinder the federal government's efforts to achieve results. The report series also highlighted numerous improvements that agencies need to make in their performance, management, and accountability. Making these improvements will require the sustained efforts of the leadership and staff within agencies. At the same time, the report series also underscored the pivotal role that the federal government's central management agencies—in particular, OMB—must play in guiding and overseeing agencies' efforts to address the shortcomings that we identified and to implement the changes necessary to improve performance.

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

OMB Has Wide-Ranging Management Responsibilities

OMB was established under presidential reorganization authority in 1970, in large part to increase the attention given to management issues in the federal government. OMB is the lead agency for overseeing a statutory framework of financial, information resources, and performance planning and measurement reforms designed to instill a performance-based approach to federal management, decisionmaking, and accountability. This

---

[1] <u>Performance and Accountability Series: Major Management Challenges and Program Risks</u> and <u>High Risk Series: An Update</u> (GAO/OCG-99-22SET, January 1999).

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

framework contains as its core elements financial management improvement legislation, including the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996; information technology reforms, including the Paperwork Reduction Act (PRA) of 1995 and the Clinger-Cohen Act of 1996; and the Government Performance and Results Act of 1993 (the Results Act).

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

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

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

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

During the past 50 years, a number of presidential advisory groups have recommended changes designed to strengthen the Office's central management leadership. In response to the recommendations of one of

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

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

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

The RMOs' efforts are supplemented by three OMB statutory offices created by Congress: (1) the Office of Federal Financial Management (OFFM) to guide the establishment of systems and controls needed for agencies' financial management; (2) the Office of Federal Procurement Policy (OFPP) to provide overall direction for executive agencies' procurement policies, regulations, and procedures; and (3) the Office of Information and Regulatory Affairs (OIRA) to direct and oversee agencies' management of information resources and reduction of unnecessary paperwork. The OMB 2000 initiative reduced the statutory offices' staffing

levels and transferred their responsibilities for overseeing agencies' implementation of many governmentwide management initiatives to the RMOs.[3] This increased OMB's reliance on RMO managers and staff to focus on management issues and coordinate their activities with the statutory offices.[4] In fiscal year 1997, OMB obligated $56 million and employed over 500 staff.

The Effectiveness of OMB's Management Leadership Has Been Uneven

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

In our assessment of the Fiscal Year 1999 Governmentwide Performance Plan, we noted that the separate management performance section within the plan was a useful approach that added essential context and depth to the Plan.[5] This year's Plan follows a structure similar to that developed last year, including (1) a discussion of the Administration's High Impact Agencies initiative, which focuses on defining service delivery commitments, developing customer and employee satisfaction measures, using interagency partnerships, and enhancing electronic access; and (2) 24 specific priority management objectives (PMO), many of which are also on GAO's high risk list. These PMOs were selected by OMB as areas in need of real change and are intended to create a clear set of priorities for the Administration's management improvement efforts.

The PMOs include not only governmentwide issues, several of which we discuss further on, but also program- and agency-specific issues, such as Department of Energy contract management and Federal Aviation Administration management reforms. We have not yet fully reviewed the

---

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

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

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

PMOs included in the Fiscal Year 2000 Governmentwide Performance Plan. However, in our assessment of the Fiscal Year 1999 Plan, we noted that there needed to be a clearer and stronger linkage between these PMOs and the underlying agency annual performance plans. Specifically, by improving the discussion of the program performance consequences of the PMOs, OMB could better ensure that agencies develop relevant goals and strategies in their performance plans and clarify agency accountability for specific results. We recommended that OMB ensure that agencies incorporate appropriate goals and strategies in their annual performance plans and describe their relevance to achieving the priority management objectives described in the governmentwide performance plan.

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

Helping Agencies Meet Information Technology Management Challenges

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

Increasing Year 2000 Compliance

Resolving the Year 2000 computing problem is the most pervasive, time-critical risk facing the federal government today due to its widespread dependence on large-scale, complex computer systems to deliver vital public services and carry out its massive operations.[6] Over the past 2 years, the government has revamped and intensified its approach to this problem. In February 1998, the President established the President's Council on Year 2000 Conversion. Chaired by an Assistant to the President who previously served as OMB's DDM, this Council, which is supported by

---

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

OMB, is charged with ensuring that no system critical to the federal government's mission experiences disruption because of the Year 2000 problem.

As the Council has concentrated its efforts on international, private-sector, and state and local government issues, OMB has played a key role in tightening requirements on agency reporting of Year 2000 progress. OMB now requires that, beyond the original 24 major departments and agencies, 9 additional agencies report quarterly on their progress, and that all agencies report on their status.[7] Further, OMB places each of the 24 major agencies into one of three tiers after receiving quarterly progress reports, based on OMB's judgment as to whether evidence of the agency's reported progress is or is not sufficient. Additionally, OMB has clarified instructions on agencies preparing business continuity and contingency plans.[8]

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

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

Enhancing Information Security

Continuing computer security weaknesses also put critical federal operations and assets at great risk. In September 1998, we reported that recent audits have identified significant information security weaknesses at virtually every major agency.[10]

Since 1997, when we designated information security as a governmentwide risk, there has been increased recognition by the Administration and

---

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

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

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

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

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

In addition, on January 22, President Clinton announced major new initiatives to strengthen our nation's defenses against attacks to our critical infrastructure, computer systems, and networks. Implementing these initiatives effectively will require a more concerted effort at individual agencies and at the governmentwide level. Agencies need to do a better job of establishing comprehensive computer security programs that address systemic problems as well as individual audit findings in this area. Moreover, we found that most agencies have not addressed enhancing information security in their fiscal year 1999 performance plans. In addition to individual agency actions, more effective governmentwide oversight is important to (1) ensure that agency executives understand the risks, (2) monitor agency performance, and (3) resolve issues affecting multiple agencies. As these efforts progress, it is important that OMB play a key role in ensuring that a comprehensive federal strategy emerges.

Information Management Capabilities

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

---

[11] Evaluating Information Technology Investments: A Practical Guide, Version 1.0 (Executive Office of the President, Office of Management and Budget, Office of Information and Regulatory Affairs, Information Policy and Technology Branch, November 1995).

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

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

Nevertheless, broad IT management reforms are still in their early stages in most federal agencies. As our reviews demonstrate, agencies continue to be challenged by (1) weaknesses in IT investment selection and control processes; (2) slow progress in designing and implementing IT architectures; (3) inadequate software development, cost estimation, and acquisition practices; and (4) the demand for effective CIO leadership and organizations.[15] Improvements in these areas will be difficult to achieve without effective agency leadership support, highly qualified and experienced CIOs, and effective OMB leadership and oversight. With the Deputy Director for Management serving as its co-chair, OMB must continue to work effectively with the federal CIO Council to focus management attention on putting in place disciplined information technology management processes that can lead to improvements in the delivery of high quality, cost-effective results. The development of the "Raines' Rules"—requiring agencies to satisfy a set of investment management criteria before funding major systems investments—can potentially serve to further underscore the link between information technology management and spending decisions. These criteria were incorporated into OMB guidance to agencies for the fiscal year 2000 budget process.

Greater Attention to Financial Management Issues

OMB's DDM and the OFFM, in concert with the CFO Council, have led governmentwide efforts to focus greater attention on financial management issues. OMB has played a pivotal role in fostering ongoing financial management reforms ranging from improved financial systems and reporting to the Federal Accounting Standards Advisory Board's new accounting and cost accounting standards. We are seeing positive results

---

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

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

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

from OMB's efforts. For instance, 11 agencies received unqualified audit opinions on their fiscal year 1997 financial statements—up from 6 in fiscal year 1996.

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

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

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

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

OMB is focusing on improving financial systems. Through its participation as a principal member of the Joint Financial Management Improvement

Program (JFMIP), which issues financial systems requirements to be followed by all CFO Act agencies. Together with the CFO Council, OMB has established eight priorities as discussed in OMB's Federal Financial Management Status Report and the Five-Year Plan (June 1998). They are: (1) obtaining unqualified opinions on financial statements and issuing accounting standards, (2) improving financial management systems, (3) implementing the Results Act, (4) developing human resources and CFO organizations, (5) improving management of receivables, (6) ensuring management accountability and control, (7) modernizing payments and business methods, and (8) improving administration of federal assistance programs.

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

Instilling Performance-Based Management Through Implementation of the Results Act

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

As part of that commitment, we have recommended that OMB implement a concerted agenda aimed at substantially enhancing the usefulness of the agencies' performance plans for congressional and executive branch decisionmaking. That agenda should center on five key improvement opportunities that our work suggests are particularly important to improving the usefulness of annual plans. These key improvement opportunities are: (1) better articulating a results orientation, (2) coordinating crosscutting programs, (3) clearly showing how strategies will be used to achieve goals, (4) showing performance consequence of budget decisions, and (5) building the capacity within agencies to gather and use performance information.[16] More generally, we also have

---

[16] For more information on these improvement opportunities, see <u>Managing for Results: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans</u> (GAO/GGD/AIMD-98-228, Sept. 8, 1998).

recommended that OMB work with Congress and the agencies to identify specific program areas that can be used as best practices. We believe that this would help to demonstrate the use and benefits of performance-based management and how concrete information about program results can contribute directly to congressional and executive branch decisionmaking.

Improving Capital Decision-Making

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

Enhancing the Government's Human Capital

As federal agencies implement the performance-based management agenda established by the Congress in the 1990s, the government's human capital policies and practices will increasingly become prominent issues. Leading performance-based organizations understand that effectively managing their human capital is essential to achieving results. Organizational success hinges on having the right employees on board and on providing them with the training, tools, structures, incentives, and accountability to work effectively. Thus, human capital planning must be an integral part of any organization's strategic and program planning and human capital itself should be thought of not as a cost to be minimized but as a strategic asset to be enhanced. The challenge—and opportunity—confronting federal agencies as they seek to become more performance-based is to ensure that their human capital policies and practices are aligned with their program goals and strategies.

---

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

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

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

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

Reviewing Regulations

We also testified and reported on the inadequacies of OMB's efforts to meet congressional paperwork reduction goals.[19] In particular, we do not believe that OMB has fully satisfied the Paperwork Reduction Act's requirements to review and control paperwork, develop and oversee information resource management policies, or keep Congress and congressional committees fully and currently informed about major activities under the Act. OIRA does not attempt to set priorities for agencies' regulations on the basis of risk (e.g., the number of lives saved or injuries avoided). Concerns have been raised by experts in regulatory issues that federal regulations are not sufficiently focused on the factors that pose the greatest risk and that, as a result, large amounts of money may be spent to accomplish only a slight reduction in risk.[20] Using these

---

[19]Paperwork Reduction: Governmentwide Goals Unlikely to Be Met (GAO/T-GGD-97-114, June 4, 1997); Paperwork Reduction: Burden Reduction Goal Unlikely to Be Met (GAO/T-GGD/RCED-96-186, June 5, 1996); Regulatory Management: Implementation of Selected OMB Responsibilities Under the Paperwork Reduction Act (GAO/GGD-98-120, July 9, 1988).

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

same resources in other areas that pose higher risks could yield significantly greater payoffs.

Streamlining the Procurement Process

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

Implementing OMB's Circular A-76

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

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

---

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

Analyzing Crosscutting Issues

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

In addition, our work has provided numerous examples of mission fragmentation and program overlap within federal missions as shown in table 1.[22]

---

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

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

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

OMB, in the Fiscal Year 1999 Governmentwide Performance Plan, sought to present a thematic picture of federal performance that grouped together similar programs and allowed for different agency goals and performance measures to be related. To do this, OMB chose to aggregate agency

performance into budget functions—a well-known and long used budget classification structure that focuses on federal missions, or "areas of national need." We found in reviewing the Fiscal Year 1999 Plan that in several parts of the Plan, descriptions of program performance were presented in a sequential, agency-by-agency format that missed opportunities to address well-known areas of fragmentation and overlap. Organization-based presentations are appropriate to emphasize agency accountability but tend to "stovepipe" performance discussions and inadequately describe crosscutting governmentwide performance goals.

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

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

Sustaining Improvements in Federal Management

Mr. Chairman, the record of OMB's stewardship of management initiatives that we have highlighted today suggests that creating and sustaining attention to management improvement is a key to addressing the federal government's longstanding problems. In the past, management issues often remained subordinated to budget concerns and timeframes, and the leverage the budget could offer to advance management efforts was not directly used to address management issues.[23] The experiences to-date suggest that certain factors are associated with the successful implementation of management initiatives. Building and sustaining these factors appears to be pivotal regardless of the specific organizational arrangements used to implement the management initiatives.

---

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

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

Second, a strong linkage with the budget formulation process can be a key factor in gaining serious attention for management initiatives throughout government. Regardless of the location of the leadership, management initiatives need to be reflected in and supported by the budget and, in fact, no single organizational arrangement by itself guarantees this will happen. Many management policies require budgetary resources for their effective implementation, whether it is financial management reform or information systems investment. Furthermore, initiatives such as the Results Act seek to improve decision-making by explicitly calling for performance plans to be integrated with budget requests. We have found that previous management reforms, such as the Planning-Programming-Budgeting-System and Management By Objectives, suffered when they were not integrated with routine budget presentations and account structures.[24]

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

---

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

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

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

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

(410419/935297)