STRENGTHENING DEPARTMENTAL MANAGEMENT WITHIN THE FEDERAL GOVERNMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on May 9, 1995	1
Statement of:	
Dean, Alan, former Assistant Secretary of Transportation, former coordinator of President Nixon's reorganization plan; and William Hansen, former Assistant Secretary for Management/Chief Financial Officer, Department of Education	60
Finch, Johnny C., Assistant Comptroller General, General Government Division, General Accounting Office; accompanied by Gene L. Dodaro, Assistant Comptroller General, Accounting and Information Management Division, General Accounting Office	34
Glynn, Tom, Deputy Secretary, Department of Labor; and George Muñoz, Assistant Secretary for Management/Chief Financial Officer, Department of the Treasury	3
Sperry, Roger, director of management studies, National Academy of Public Administration	100
Letters, statements, etc., submitted for the record by:	
Dean, Alan, former Assistant Secretary of Transportation, Former Coordinator of President Nixon's Reorganization Plan:	
Message from the President	79
Prepared statement of	62
Dodaro, Gene L., Assistant Comptroller General, Accounting and Information Management Division, General Accounting Office, information concerning staff and functions they perform	56
Finch, Johnny C., Assistant Comptroller General, General Government Division, General Accounting Office and Gene L. Dodaro, Assistant Comptroller General, Accounting and Information Management Division, General Accounting Office, prepared statement of	37
Glynn, Tom, Deputy Secretary, Department of Labor, prepared statement of	6
Hansen, William, former Assistant Secretary for Management/Chief Financial Officer, Department of Education:	
Information concerning number of employees fired in Education	94
Prepared statement of	70
Maloney, Hon. Carolyn B., a Representative in Congress from the State of New York, prepared statement of	2
Mascara, Hon. Frank, a Representative in Congress from the State of Pennsylvania, prepared statement of	3
Muñoz, George, Assistant Secretary for Management/Chief Financial Officer, Department of the Treasury, prepared statement of	15
Riso, Gerald R., prepared statement of	110
Sperry, Roger, director of management studies, National Academy of Public Administration, prepared statement of	102

STRENGTHENING DEPARTMENTAL MANAGEMENT WITHIN THE FEDERAL GOVERNMENT

TUESDAY, MAY 9, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 311, Cannon House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Flanagan, Davis, Maloney, and Owens.

Staff present: J. Russell George, staff director; Mark Brasher, professional staff member; Andrew G. Richardson, clerk; Wallace Hsueh, staff assistant; Ron Stroman, minority deputy staff director; Don Goldberg, minority assistant to counsel; Dave McMillen and Matt Pinkus, minority professional staff members.

Mr. HORN. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order. We're meeting to look at how we might strengthen the management of Federal executive departments and agencies.

Good government management is the largest part of this committee's reason for being. Our objective is to exploit and replicate past management successes, while learning from and avoiding past setbacks.

We have heard much about reforming government. We recognize the urgent need to get on with restoring American taxpayers' faith that their government can and will be made more effective, as well as more efficient. We accept the challenge to cut government size, while preserving its most needed and useful capabilities. We will continue the government's diet to keep the muscle and lose the fat.

Congress and the administration have pursued separate efforts toward improving Federal Government management. In the 1993 National Performance Review, the administration, led by Vice President Gore, examined current management control systems and suggested ways to make them more flexible and responsive. Congress, for its own part, has tried to do much the same thing with laws such as the Chief Financial Officers Act of 1990, and the Government Performance and Results Act of 1993. They started here in what is now the Government Reform and Oversight Committee, which oversees all government operations.

Through this hearing and in more to follow, we want to bring together the best of private and public sector experience, wisdom,

and leadership to bear on recasting the mold for a lean and productive executive branch within the Federal Government.

With us today are several distinguished agency alumni with extensive public management service. Most of them have managed organizations in the midst of dramatic restructuring. We're delighted that so many of you have taken the time to share your wisdom with us this morning and this afternoon.

[The prepared statements of Hon. Carolyn B. Maloney and Hon. Frank Mascara follow:]

PREPARED STATEMENT OF HON. CAROLYN B. MALONEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Thank you Mr. Chairman. The subject of this hearing is an important one. Managers are the linchpin in any organization. They do not do the work, and usually they do not set the policy. But if they are not there, in more cases than not, the work does not get done.

Managers are especially important in service organizations like the government where coordination and communication are paramount. In fact, when governments get into problems, it is often not because the people on the front line are not working. It is because those responsible for organizing the work have made mistakes. Often these mistakes are the result of either poor training or no training at all.

The failure of management training is most obvious in procurement and contracting. All too often what is called bad government is really bad procurement.

Most of us are aware of the procurement problems that brought us the $400 hammer. Most people have also heard of the procurement and contracting problems with the B-2 bomber, which went from $500 million to $2 billion per plane. But these are just the tip of the iceberg. Throughout the government millions of dollars are wasted through bad procurement and contracting.

I could sit here all day citing examples of wasteful procurement and contracting. But that will not solve anything, and after a while it gets pretty disheartening.

I am a co-sponsor of Mrs. Collins' Value-Engineering bill, and agree that we need to change the way we approach managing the Federal government. But, in the area of procurement more focused action is needed. Consequently, I am writing legislation to improve the procurement workforce of Federal civilian agencies.

The bill, which I plan to introduce soon, will increase the qualifications and training of those managing government procurement and contracting. If we improve the quality of our workforce, we will improve the quality of service to the public. The best way I know to improve the quality of the workforce is to hire good people and then give them the training they need to improve.

My legislation has six key provisions. It would:

1. Make senior executives responsible and accountable for improving the procurement workforce;
2. Set standard qualifications for entry into the procurement workforce, and stress standards which emphasize judgement as well as education;
3. Establish a set level of funding for training which cannot be diverted to other activities;
4. Set training standards which focus on building business management and judgement skills;
5. Establish an intern program in conjunction with cooperative education programs, and provide for agency sponsored scholarships; and,
6. Provide a legislative mandate for strong leadership in the Office of Federal Procurement Policy to promote procurement professionalism in all Federal agencies.

The National Performance Review has made the point that investment in the Federal workforce is essential for reinventing government. My legislation goes one step farther in specifying the need for investment in training and qualifications.

If we hire qualified employees, give them the training they need to keep up with changes in their job, and give them a structure, like value engineering, within which to do their job, we will go a long way towards making the government work better and cost less.

Thank you Mr. Chairman.

PREPARED STATEMENT OF HON. FRANK MASCARA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Thank you Mr. Chairman.

As a former county commissioner who daily managed hundreds of local, State and Federal programs, I think I know a thing or two about government management.

I tend to concur with the points GAO will make this afternoon, namely that to operate efficiently, a program must above all else be well-defined. Moreover, those responsible for its operation must have a definite way of measuring performance and success.

As an accountant, I also demanded a strong system of cost controls and the best technology we could afford to keep track of the program's records and data.

Most importantly, we also had to empower our work force and give them the tools and flexibility needed to get the job done and to get it done right.

It is evident that Congress has long been interested in management issues and through enactment of a variety of legislation over the past decade taken some major steps to improve the quality of management in the Federal ranks.

In fact, it is clear that much of this effort has laid the ground work for the ongoing reinventing government efforts being so ably lead by Vice President Gore.

While I am very interested in today's testimony, I hope we are not going to make scapegoats out of the usual suspects—political appointees, middle managers and the Office of Management and Budget.

As I have stated previously, I am more concerned that the wholesale dismantling of departments and agencies being advanced by my republican colleagues will make this whole discussion irrelevant.

I think we would all be better off if we let these department and agencies work through their reorganization efforts and more precisely define their missions and goals. We would end up with a more fined-tuned government that would truly help and serve its citizens.

I am afraid that if we continue down the road my Republican colleagues want to lead us, we will be left with nothing but a shell of a government. And I do not think that is what the American public wants or expects.

Mr. HORN. Subcommittees of the House Government Reform and Oversight Committee will swear in their witnesses as a matter of course and tradition for this committee.

So I ask those witnesses that are on panel I, the Honorable Tom Glynn, Deputy Secretary of the Department of Labor, and the Honorable George Muñoz, Assistant Secretary for Management and Chief Financial Officer of the Treasury, if you would come forward and raise your right hands to take the oath, the committee would appreciate it.

Apparently, Mr. Muñoz is going to be late. We'll swear him in separately.

[Witness sworn.]

Mr. HORN. Thank you very much. The clerk will note that Secretary Glynn affirmed the oath.

Welcome. We're delighted to have you here. Our usual procedure is to limit testimony to about 5 minutes. We would appreciate a summary of your statement. Your complete testimony will be inserted at this point in the record, and that will be done with the other witnesses automatically.

So feel free to go ahead in any manner you would like to pursue it, and then that leaves us more time for questions.

STATEMENT OF TOM GLYNN, DEPUTY SECRETARY, DEPARTMENT OF LABOR; AND GEORGE MUÑOZ, ASSISTANT SECRETARY FOR MANAGEMENT/CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE TREASURY

Mr. GLYNN. Thank you, Mr. Chairman. I have been informed that Mr. Muñoz is on the way, and he'll be here in a few moments.

I want to just begin by thanking the committee for not only my opportunity to appear this afternoon but also for organizing this series of hearings to try to make more deliberative a lot of the central questions facing both the executive and the legislative branch about the organization of the executive branch.

I think the hearing last week and the ones in the weeks to follow will help shed considerable light on some very sensitive and complicated issues.

I come to the committee today with a background in State and Federal management. I served in a couple of posts in the Carter administration. And then in the Commonwealth of Massachusetts, I was the deputy welfare commissioner, and I ran the subway system.

And then I moved on to become the chief financial officer at Brown University and currently am the chief operating officer at the Department of Labor.

I do have a couple of charts I want to try to run through very quickly. I apologize to the people in the audience, because it's going to be a little hard for some people to see in each instance.

I thought I would begin the topic today by trying to address the question of what I inherited when I arrived at the Department of Labor on January 20, 1993, what was the organizational culture that I was managing against. And there were four key aspects of this.

The first one was that the Department of Labor during the 1980's had been reduced by about 25 percent. We had a large number of RIFs during the 1980's; so that the organization was very organized around doing RIFs.

The second kind of element of the Department was we had gone through a lot of management processes. We had gone through TQM; we had gone through quality circles; and we had gone through customer service. So there's a certain kind of cynicism about the reinvention effort at the beginning as the latest flavor of the month.

The third aspect of the Department of Labor in January 1993 was this skepticism about how long political appointees would last. And in conjunction with this, I did a little bit of research. There have been 26 Deputy Secretaries of Labor since 1913. And in my 2 years on the job, I have already outlasted 13 of them.

What's interesting about this is that over the last 17 years, the average tenure has been 1 year and 11 months, which kind of fits what we have all come to read about. But ironically, if you go back to the beginning, 1913, the average tenure for the 26 Deputy Secretaries is 2 years and 3 months.

So the idea that recently we have had a lot of turnover but in the good old days, people stayed for a long time does not seem to be the case, at least in this one position at this one agency.

The last element of the Department of Labor culture was, as I've described it on the chart, kind of "more British." By which I mean that from the time I worked in the Carter years till the time of the Clinton administration, it seemed to me that the career SES and senior managers in the Department had developed more of a distance with respect to the political appointees and adopted more of

a "This too shall pass" attitude from my experience in the mid-1970's.

So those were the four key things that we were trying to do management reform in the Department of Labor against that backdrop.

I want to talk about two things that the people in the Department of Labor have gotten done against this backdrop. But in doing so, I just want to point out two things. One, in 1980, we had about 24,000 employees; in 1995, we have about 18,000; and by the time we are done with the 12 percent reduction, we'll have about 16,000.

And the second chart—I'm sorry to do this to you, George. But this is a chart of the reductions between 1980 and 1992 of various Cabinet agencies. The Department of Labor is the second from the right. So we had the second biggest reduction after the Education Department.

And over on the left are some other Federal agencies which include the Justice Department and the Treasury Department. So I mention that because it affects the perspective of people in the Labor Department in terms of how they view another 12 percent reduction.

I want to talk about how we have gone about doing the 12 percent reduction with respect to streamlining. I think as everybody on the committee knows, in 1992, the President indicated he would shrink the size of the Federal workforce by 100,000 FTE. And then in the course of the NPR, that number was increased to 252,000. And then when the bill passed the Congress, the number became 272,000.

At the Labor Department, we have tried to focus this a little bit differently. As I said, in the 1980's, we had a lot of RIFs. So people in the Department were very focused on how to get the 12 percent reduction. We tried to put their focus on another question, which is, for the 88 percent of the people who will still be with us at the end of this process, how can we make their work make more sense?

So while the process has tended to focus on the 2,000 employees that would be leaving, we wanted to focus on the 16,000 employees who would be staying with us and try to make their jobs make more sense. We developed a kind of simple way of trying to tackle that question, which was asking how many steps it takes to perform basic core functions in the Department.

The first question was, "How many steps does it take to hire someone, a plain, vanilla hire, in the Department of Labor?" The answer was, "A hundred and 20 steps." So we challenged the people in the Personnel Office to reduce this by two-thirds. And they came up with a way of eliminating 79 steps.

Now, 41 steps is still not great, but it's a lot better than 120. We figured out that we were using the time of about 50 FTE to do all of this processing of the hiring of people even though it was a very routine function that we performed; so that by reducing the number of steps from 120 to 40, we could free up the time of about 50 people who could be used more productively for the core mission of the Department.

The next thing I want to talk about quickly are numerical goals, which is another system which the employees in the Department have implemented. Every year, the Secretary of Labor sends to each employee a letter outlining the goals for that fiscal year con-

sistent with the GPRA. He also sends them a list of accomplishments, how they did on the goals from last year.

This is a technique which I'm sure the committee is aware of which is often used in the private sector to try to make sure everybody in an organization with 16 to 18,000 people understands what we're trying to accomplish for the year.

In addition to this, we have also put in place a performance agreement with the President and a quarterly tracking system to make sure that we are actually achieving the elements in the numerical goal system. We have seen a very positive response on the behalf of career managers and political appointees to having some objective measure of what it is they are supposed to focus on in an environment where there are a lot of suggestions and recommendations generated.

Finally, I would say in conjunction with the goal system, we have put a lot of energy into reward and recognition systems for Federal employees that are hopefully timely that focus on performance. We discovered a lot of our recognition systems did not necessarily focus on performance. They focused on other good things to do, but not performance.

So we have made a lot of marketing to people in the organization, the Hammer Awards, award ceremonies. We try to use the annual report as a way of recognizing individual employee accomplishment, the thank you letters the Secretary has outside his office, and pictures of award-winning employees. We find that all of these mutually reinforcing notions of success help contribute to more of a focus with Department of Labor managers to the key issues that the Congress and the President expect them to accomplish year by year, goal by goal.

I guess I would just like to finish up by saying that I think that the key to good management is still getting the right person in the right job. I think that a lot of the structural proposals, which are being discussed, need to be balanced off by some consideration for getting the right person in the right job. I think we have tried to do that at the Labor Department.

And I would be happy to answer any questions that the committee has.

[The prepared statement of Mr. Glynn follows:]

PREPARED STATEMENT OF TOM GLYNN, DEPUTY SECRETARY, DEPARTMENT OF LABOR

Good afternoon, Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to discuss ways of strengthening departmental management as part of this Administration's effort to improve services to the American public.

I approach the topic today having served in a variety of management positions at the state and federal level over the last 20 years as well as teaching public management. These included:

- Several positions in the Carter Administration
- Deputy Welfare Commissioner in Massachusetts
- General Manager and CEO of the Boston Subway System, the Massachusetts Bay Transportation Authority
- CFO at Brown University in Providence, Rhode Island
- Deputy Secretary and COO of the Department of Labor

I particularly want to thank the Committee for holding this series of hearings and for the deliberative process you are managing to try to inform a difficult series of questions with real data and experience.

Improving the management of agencies has been an enduring theme in the Federal Government during the course of this century. Eleven major reform initiatives, starting with the 1904 "Keep Commission" appointed by President Theodore Roo-

sevelt, set out to reform the government. Before President Clinton took office, he had his management challenges set for him. In 1992, the Comptroller General began his transition report to then President-elect Bill Clinton with the observation: "The state of management in the federal government is not good."[1] The predecessor to this Committee issued a report at about the same time, concluding that executive branch management problems were caused by the "lack of leadership."[2] But they were not the only ones. Four in five Americans agreed. They felt the Federal Government required fundamental changes or a complete rebuilding.

The Administration set out to address these problems by providing sound leadership and strategic management in the agencies by creating the National Performance Review, headed by Vice President Gore. It provided sound leadership creating a consistent set of visions and values and measuring progress and sound strategic management by strengthening the management infrastructures within agencies, such as personnel, financial management, and information technology.

President Clinton and Vice President Gore laid out a clear vision: create a government that works better and costs less by:

- putting customers first
- empowering employees to serve their customers
- cutting the red tape that prevents employees from being empowered and
- cutting back to basics.

This array of NPR initiatives ties together into an integrated whole with the objective of improving performance and creating accountability for achieving programmatic results. They build on previous initiatives already underway in a number of agencies, as well as the Chief Financial Officers Act of 1990 and the Government Performance and Results Act of 1993. As a result, there is no one, single "right" way of doing this. Each agency is creating a management framework based on these initiatives and is putting them into a context relevant to their own agency's mission. Also, with Congress's leadership, we hope to reinvent government's other basic systems, such as budget, personnel, information management, and procurement.

These efforts have produced concrete results:

- In FTE terms the Federal Government is smaller by 100,000 and well on the way to 272,000 goal.
- Performance agreements have been signed by the President with 10 Cabinet Secretaries.
- Customer Service Standards have been issued for 100 agencies.
- Approximately $63b of NPR's $108b in proposed savings already are enacted.

And perhaps most importantly, management of Federal agencies is an important priority of the Clinton Administration as reflected in the work of the President's Management Council which last week addressed two issues on today's agenda: civil service reform and revitalizing the original purposes of the SES.

While the focus of today's hearing is the difficulties of managing a Federal agency (and I think management at the Federal level is more difficult than management at the state level) I think Federal employees are engaged in a lot of constructive improvements in management. I would like to offer two examples from DOL: streamlining and numerical goals.

I have taken the liberty of preparing a few charts which I would like to use to demonstrate these two projects.

First let me begin with what I discovered at DOL when I walked in the door on January 21, 1993.

The career employees and managers at the Department reacted somewhat skeptically to the Administration's plans to reinvent the Federal Government. The Department of Labor had experienced a 25% cut in personnel between 1980 and 1993. These cuts were larger than any other agency in the Federal Government save the Department of Education and stood in stark contrast to increases in the Justice Department and Treasury. Many of these DOL employees had seen several change programs come and go and viewed Reinvention simply as the "flavor of the month."

These employees and managers also more clearly view a distinction between the career civil service and political appointees (such as exists in the British government) and some even quoted to me the number of months, 18 to 24, that the average political appointee serves in the government.

It is not surprising, then, that these employees did not greet warmly the President's campaign promise to shrink the workforce by 100,000. Nor were they happy

[1] U.S. General Accounting Office, General Management Issues (GAO/OGC-93-3TR) Washington, D.C. December 1992. p. 4.

[2] U.S. Congress, House Committee on Government Operations, Managing the Federal Government: A Decade of Decline, (Washington, D.C.: December 1992). p. 1.

to hear the number increase to 252,000 in the NPR report and then go up to 272,000 when it was written into the Buyout Legislation in 1994. Our share of that reduction in FTE was calculated at about 2,000, or 12% of our workforce.

Our management approach has been to focus not so much on the 12% reduction, but on the 88% of employees who will remain.

A highly visible example of streamlining that we are working on now is our personnel process. Currently, it takes about 120 steps to hire an employee. Other personnel processes are similarly complicated. The first step in streamlining this process was to map it out. That is when we first discovered not only the sheer number of steps but also the extent to which they overlap and involve numerous sign-offs and approvals. In addition, there are multiple steps just to track an action so that when an employee calls to ask why the process is taking so long, he/she could be told precisely where the action was.

Approximately 6,600 staffing actions followed that complicated process last year of which about 10% were hires.

As the sponsor of this streamlining project, I challenged the manager and employees in the personnel department to cut the number of steps by 2/3, to about 40 steps. Some months later they presented us with a plan that called for doing just that: eliminating approximately 80 steps. Some of these steps were simply dropped—these included excessive reviews and approvals. Some were combined so that several steps became one, while others were slated for elimination through automation. In particular, many tracking functions are done automatically when a process is put on computer.

Parts of this plan have been implemented and other parts are awaiting automation or other developments. We will do a follow up analysis to determine what impact these changes have made. It's important to note that while the actual change to the process is critical, equally important is the effect of setting a visible example for other main-line processes.

We hope to gain some FTE savings from this streamlining and use those savings to reform resources on more mission-related work. Therefore, rather than sending our employees the message that streamlining equals more cuts, we are attempting to show that streamlining can lead to new opportunities for employees.

While we streamline our work process, we have worked hard to keep our eye on the big picture of what we want to accomplish. Therefore, we have sent our goals to our employees each of the last two years. The DOL goals are simply stated, quantifiable, and fit on one page of paper. We also sent out a list of accomplishments so that every employee would feel recognized for their hard work and, hopefully, motivated to keep it up for the following year.

We have taken other steps to recognize our employees as well. As you know, the Vice President has been awarding his Reinvention Hammer for outstanding work. I'm proud that our employees have earned seven of these awards, each of which afforded employees an opportunity to meet and be photographed with the Vice President.

At the end of last year we created a year in review management video that we call the "Thank You" tape. We showed this video at an awards ceremony and at other events as well.

We have used a similar approach in other forums as well, recognizing performance by featuring outstanding employees in our annual report, in pictures and posters on our walls, in the "huddles" with Secretary Reich, and on a calendar that was sent to all employees and adorns most offices and bulletin boards. In our Support Staff Day event, we also took the opportunity to recognize an outstanding support staff member in each agency.

We know we have a long way to go before we are finished reinventing but are encouraged that the NPR has recognized our accomplishments. We are on schedule to complete nearly all of the NPR recommendations issued in the September 1993 report. We are making substantial progress toward the goal of reducing our workforce and the number of employees devoted to "oversight" positions. We also issued our customer service standards—what customers can expect from DOL—last fall and have begun measuring ourselves against those standards.

As we continue to work on Reinvention, we must keep in mind what we have learned so far. Employees are skeptical until dramatic change is realized, and they will remain so. At DOL, our customer base—the American workers—have increased while our resources have shrunk. Hopefully, we can build momentum from our successes and make a difference that can be appreciated by America's working people.

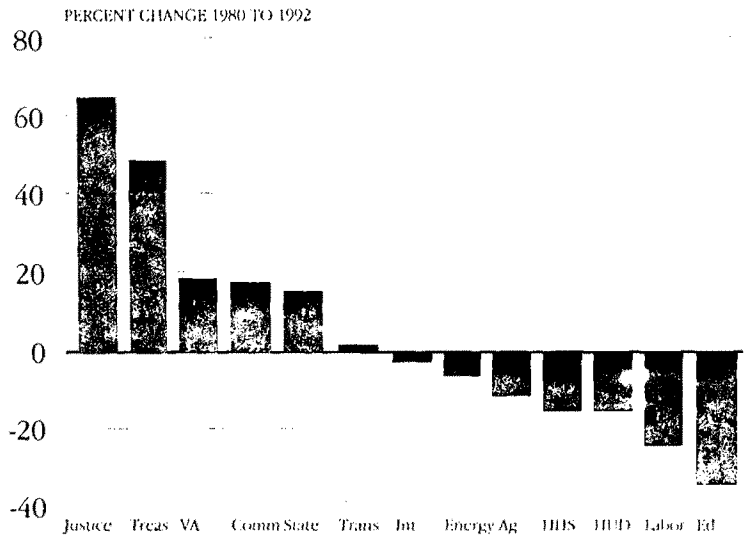
Thank you for your time.

DOL Organizational Culture

- 25% FTE Reduction 1980-1992
- Flavor of the Month
- 18 - 24 Month
- More British

Historical Staffing Trends Cabinet Agencies

Historical Staffing Trends
Cabinet Agencies



DOL Employment Down 25%

(1980-1995)

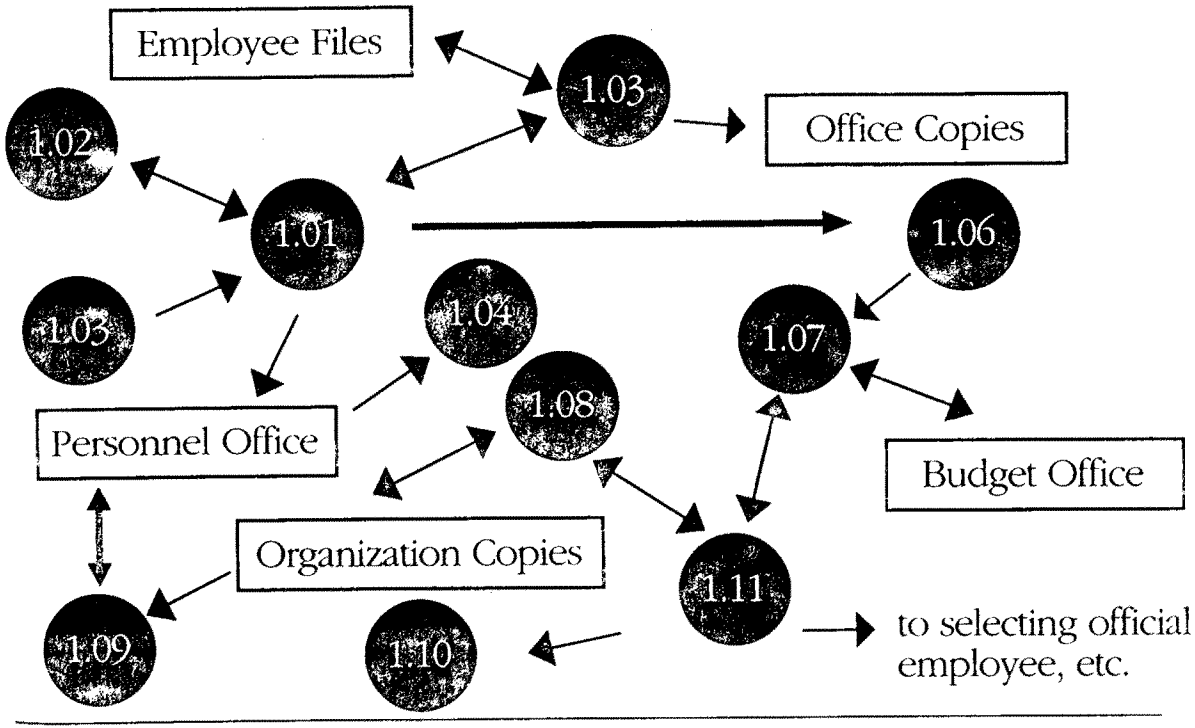
Employment	Year
24,000	1980
18,000	1995
16,000	1999

FTE Reduction—A History
- 100,000 1992 Clinton Presidential Campaign Commitment
- 252,000 1993 National Performance Review Recommendation
- 272,000 1994 Buyout Legislation

RIF vs Reinvention
- RIF Eliminate People
- VS
- Reinvention Eliminate Unnecessary Work

12% VS 88%
- 12% Attrition 2,000 Employees
- vs
- 88% Reinvented Reengineered work for 16,000 Employees

120 Steps to Hire an Employee



Reinventing the Personnel Action Process—After Reinvention
- Steps Remaining 34% 41 Steps
- Steps Eliminated 66% 79 Steps

Mr. HORN. I thank you very much, Secretary Glynn.

I would like to now swear in Mr. Muñoz. And then when he completes, if you don't mind, we'll take questions alternating between the majority and the minority in the process.

[Witness sworn.]

Mr. HORN. Mr. Muñoz affirms. Very good. Please proceed. We put your statement automatically in the record at this point. And if you could summarize it in about 5 minutes, we would appreciate it and throw it open to questions.

Mr. MUÑOZ. I will, Mr. Chairman. Mr. Chairman and members of the subcommittee, I thank you for the opportunity to appear before the subcommittee to discuss "Strengthening Departmental Management."

I am George Muñoz, Assistant Secretary for Management and Chief Financial Officer for the Department of Treasury. My comments will focus broadly on the effectiveness of Federal agency management, drawing from my Treasury experience.

Management is the responsibility of all the workers in an organization. It is the means by which the organization is guided to its goals and vision. Management by definition is required to maneuver the organization through barriers and challenges. But when barriers are put in its path unnecessarily, its success will be hampered.

This is the topic of today's hearing: What unnecessary barriers are keeping Federal agencies from performing the way the American public wants them to perform?

I am both an attorney and a certified public accountant with extensive managerial experience in both the public and private sector. Most importantly, I have had profit and loss responsibility in business. And just as my colleague from the Department of Labor, Tom Glynn, I have experience in managing large public sector organizations.

From this experience, I can tell you that a management barrier today may well have been a good management process from yesterday, codified to assure success at achieving a goal. But today, it is a barrier, an outdated good intention that seems out of place in a changing environment.

One of the public organizations in which I served was the Chicago Board of Education. I served as president of that organization during the mid-1980's. It, too, was going through management reform as the public asked for better performance from its schools and students. Just as this subcommittee is doing, we first had to ask, "What unnecessary barriers have we put in front of our principals and teachers?"

President Clinton and Vice President Gore are requiring that Federal agencies adapt to change. They want us to be more responsive to the American public, to render relevant services, and keep costs down. As stated in Vice President Gore's mantra, "Americans want a government that works better and costs less."

Treasury is committed to making management reform. Secretary Rubin and Deputy Secretary Frank Newman are serious about

management reform. We have Hammer Awards from the Vice President as evidence of that reform, and we're starting to receive positive customer response to our changes in how we do business.

I would like to submit for the record the accomplishments that Treasury has had in some of these areas.

Mr. HORN. Without objection, that will be placed in the record.

Mr. MUÑOZ. I would then like to turn, Mr. Chairman, to some specific questions that this subcommittee is contemplating as we try to reform our agencies for better management. One question that we had to ask ourselves is, "What prevents us from balancing the competing goals of ensuring control and promoting efficiency?"

There are several systems that prevent us from balancing the competing goals of ensuring control and promoting efficiency in government. One is the lack of flexibility in hiring, firing, purchasing, and budgeting. Another is a lack of prior investment in information technology and IT infrastructure.

We also have a risk-adverse culture of government organizations. We have a budget process that focuses on initiatives rather than the base, and we have an absence of capital budget mechanism to encourage long-term investments in infrastructure. I would be happy during the question and answer period to detail those more extensively.

Another question that we had to ask ourselves was, "Does the sheer volume of managers and control personnel create barriers to efficient management?" We think that effective management structures must be tailored to individual agency needs. We cannot take a one-size-fits-all approach, leading to the blind cutting of management.

There are some situations where the strengthening of management is necessary. For example, we created in response to congressional criticism the modernization executive at the IRS to oversee and direct all aspects of IRS modernization, including both tax systems modernization and the subsequent restructuring of IRS business practices.

Another example of tailoring management structures to the situation is IRS's recently announced restructuring of regional and district offices. IRS is reducing its regions from 7 to 4 and its districts from 63 to 33. This will offset approximately 600 manager positions and support staff and eliminate 36 SES positions. Management support will be redirected to front line compliance assistance.

But our main bottom line is, it's better to not standardize and have one-size-fits-all as we try to cut management layers. We have to understand that some of these layers were created for good reasons and some for bad. Those that were created for bad reasons were that in a particular agency, there may have been no other means of rewarding an employee who had performed well and needed to have some promotion.

For those that it was done for good reasons, those agencies in particular have a highly sensitive area that does require additional managerial oversight.

Another question that we asked ourselves is, "What do you think of the changes in the organization and staffing at OMB?" We think that OMB's efforts to link the budget and management sides of their organization together are commendable.

If we're going to have a highly centralized management and budget organization in government, which we do, then we must have the requisite expertise to guide management and budget reform from that position.

One other question that often gets raised is, "Do we have too many political appointees running government?" I want to disagree with the basic premise of that question. I believe that democratic government requires a high level of responsiveness to voter demands. The most flexible element in government are political appointees, who bring an up-to-the-minute perspective of the public's assessment of government performance.

This is as fundamental to our democracy as it is to our representative form of government. If there is friction between the political appointees and those in place, it may be because this fresh perspective may collide with yesterday's direction. This is a democracy at work, not a problem in and of itself.

And last, a question that we asked ourselves is, "Can the SES core be more effective?" Definitely. I'm strongly in favor of a better trained, more broadly experienced, and thereby more flexible SES core.

We could, for example, rotate senior executives throughout the Federal Government. And we should consider rotation in the private sector so that they stay in touch with benchmark levels of customer service, cost, and quality that are defined through competition in the private sector.

This exchange could be two ways, with private sector managers entering public sector jobs for discreet periods of time and in areas that do not present a conflict of interest for either party. They should receive more training. Ultimately, the SES could be developed into an elite core of flexible managers with state-of-the-art understanding of both private and public sectors.

Thank you, Mr. Chairman, and I would be happy to answer any questions you might have.

[The prepared statement of Mr. Muñoz follows:]

PREPARED STATEMENT OF GEORGE MUÑOZ, ASSISTANT SECRETARY FOR MANAGEMENT/CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Subcommittee:

I thank you for the opportunity to appear before the Subcommittee to discuss "Strengthening Departmental Management."

I am George Muñoz, Assistant Secretary for Management and Chief Financial Officer for the Department of the Treasury. My comments will focus broadly on the effectiveness of federal agency management, drawing from my Treasury experience.

Management is a responsibility of all the workers in an organization. It is the means by which the organization is guided to its goals and vision.

Management—by definition—is required to maneuver the organization through barriers and challenges. But when barriers are put in its path unnecessarily, its success will be hampered.

That is the topic of today's hearing: "What unnecessary barriers are keeping federal agencies from performing the way the American public wants them to perform?"

I am both an attorney and a certified public accountant with extensive managerial experience in both the public and private sector. Most importantly, I have had profit and loss responsibility in business. And, just as my colleague from the Department of Labor, Tom Glynn, I have experience in managing large public sector organizations. From this experience, I can tell you that a management barrier today may well have been a "good management" process from yesterday codified to assure success at achieving a goal. But today, it is a barrier—an outdated good intention—that seems out of place in a changing environment.

One of the public organizations in which I served was the Chicago Board of Education. I served as President of that organization during the mid 1980s. It, too, was going through management reform as the public asked for better performance from its schools and students. Just as this Subcommittee is doing, we first had to ask what unnecessary barriers had we imposed on our principals and teachers.

President Clinton and Vice President Gore are requiring that federal agencies adapt to change. They want us to be more responsive to the American public, to render relevant services, and keep costs down. As stated in Vice President Gore's mantra: "Americans want a government that works better and costs less".

Treasury is taking management reform seriously. We have hammer awards from the Vice President as evidence of that reform. And, we are starting to receive positive customer response to our changes in how we do business.

I would like to share with the Subcommittee what Treasury is doing in this regard. And, I would like to give my opinion on how the shackles that have been put on Management and the federal workers can be loosened or thrown away, as we become slimmer and yet more responsive to this body and to the American public.

FIRST: CUSTOMER SERVICE

- In response to the President's 1993 Executive Order on "Setting Customer Service Standards", Treasury developed a 7-step framework for long-term customer service strategies, including:
  - providing leadership;
  - identifying all customers;
  - surveying customers and front-line employees;
  - bench-marking against "best practices;"
  - setting standards and measuring results;
  - improving process drivers; and
  - evaluating and measuring progress.

This framework was used by each Treasury bureau to develop and publish its customer service standards in September 1994 as part of the NPR initiative on customer service.

- All Treasury bureaus have developed long-term customer service action plans including methods for surveying customers and measuring results. The plans integrate customer service into strategic planning, budget plans, and performance results reporting. Also, customer service is a good discipline for integrating the GPRA, CFO Act, and Regulatory Reform.
- This year, Treasury bureaus will begin publishing annual customer service progress reports and will seek customer input and incorporate it in revised plans.
- A major issue in federal agencies today is the declining, or at best flat budgets, accompanied by the drive to improve customer service and the effect of this conflict on employee morale. Management must give hope to employees by providing the tools to focus on customer service and making it clear that internal agency obstacles will be removed.

SECOND: STRATEGIC PLANNING

- In carrying out the Government Performance and Results Act of 1993, Treasury is taking a broader view than just the requirements of this law. Rather than a stand alone exercise, strategic planning will be one aspect of a planning process that integrates many performance-related initiatives.
- To that end, Treasury has recently created a high-level Office of Strategic Planning and Management, one of whose functions is to track bureau progress and ensure that planning, performance measurement, performance partnerships, customer service standards, and the budget process are integrated at the bureau level.
- All Treasury bureaus have created a strategic plan or have a plan in the draft stage. These plans will integrate GPRA and CFO Act requirements and will contain an inventory of key performance indicators to assist in performance measurement. These indicators are also used in budget development.
- Four Treasury bureaus comprising 80% of Treasury FTE's and Budget (and fully one third of all pilot programs government-wide) are participating in GPRA pilots (IRS, Mint, BEP, and Customs' Office of Investigations). GPRA has wide support in Treasury and our bureaus were eager to participate.
- We are creating a department-wide process to fully implement GPRA and to integrate all aspects into a coherent management plan. We will hold an additional, all-bureau meeting to discuss full implementation of GPRA, using experiences from the pilots.

THIRD: STREAMLINING

- Streamlining of management, operations and organizational structures is necessary for the creation of improved, more cost effective and customer-focused organizations.
- Streamlining, at various stages of the change cycle, may be accomplished using two very different models. First, the "corporate-raider" approach requires quick assessments of an organization's health, and rapid changes that have maximum, short-term impact on the bottom line. It is through this method that, for example, the "low hanging fruit" of change are rapidly identified and exploited. A second, more reasoned approach is based on careful, thoughtful and studied strategic planning. Each organization must know what its vision and mission are before it can determine what it should look like, what its core functions are, and how it should operate. Agencies must apply both approaches to streamlining to get the job done.
- Major Treasury bureaus are implementing or planning reorganizations.
  - An example of fundamental structural change is the reorganization at Customs. Customs will refocus the agency around management of work processes; reinvest 600 Headquarters positions into field operations; and replace 7 regions and 45 district offices with 20 Customs Management Centers.
  - The IRS recently announced the second-phase of an ongoing reorganization which puts more of its employees to work directly meeting frontline compliance and customer service initiatives. IRS was able to accomplish this by reinvesting savings realized from streamlining its National and Regional Offices and from consolidating its computer, returns processing, and telephone operation.
- A Treasury NPR II initiative, Streamlining Field Offices, calls for a study of opportunities for cost savings and performance improvement. Methods for office consolidation suggested in the PMC Report on Field Office Restructuring, including telecommuting, co-location, and consolidation of offices will be reviewed.
- Lessons we have learned include:
  - Strategic planning is an essential ingredient in a culture that promotes and supports organizational change.
  - Participation by senior management is critical in assuring long term success.
  - Senior managers must demonstrate their commitment through personal involvement. As you may know, Treasury's Chief Operating Officer, Deputy Secretary Frank Newman, personally chaired a PMC subgroup on Customer Service.
  - Use of quality management techniques eases implementation of change and helps in institutionalizing it.
  - Broad participation in the change process throughout the agency is important.
  - Continual information sharing with all participants is imperative.
  - Connection of change with the budget process is key to success.

As I have outlined, reinvention is moving forward at the Treasury. We recognize that there are issues which remain to be resolved if reinvention is to achieve optimal success. My remaining remarks will focus on areas of special interest to the Subcommittee.

What prevents us from balancing the competing goals of ensuring control and promoting efficiency?

There are several systems that prevent us from balancing the competing goals of ensuring control and promoting efficiency in government:

- Lack of flexibility in hiring, firing, purchasing, and budgeting.
- Lack of prior investment in information technology and IT infrastructure.
- Risk averse culture of government organizations.
- Budget process focused on initiatives rather than the base.
- Absence of capital budget mechanism to encourage long-term investment in infrastructure.

Does the sheer volume of managers and "control personnel" create barriers to efficient management?

Effective management structures must be tailored to individual agency needs. We cannot take a "one-size-fits-all" approach leading to the blind cutting of management. There are some situations where the strengthening of management is necessary. For example, we created, in response to Congressional criticism, the Mod-

ernization Executive at IRS to oversee and direct all aspects of IRS modernization, including both Tax System Modernization and the subsequent restructuring of IRS business practices.

Another example of tailoring management structures to the situation is IRS' recently announced restructuring of regional and district offices. IRS is reducing its regions from seven to four and its districts from 63 to 33. This will offset approximately 600 managers and support staff and eliminate 36 SES positions. Management support will be redirected to front line compliance assistance.

What do you think of the changes in the organization and staffing at OMB?

OMB's efforts to link the budget and management sides of their organization together are commendable. If we are going to have a highly centralized management and budget organization in government, then we must have the requisite expertise to guide management and budget reform from that position.

Do we have too many political appointees running government?

I want to disagree with the basic premise here. I believe that democratic government requires a high level of responsiveness to voter demands. The most flexible element in government are political appointees who bring an up-to-the-minute perspective of the public's assessment of government performance. This is as fundamental to our democracy as it is to our representative form of government. If there is friction, it may be because this fresh perspective may collide with yesterday's direction. This is democracy at work, not a problem in and of itself.

Can the SES corps be more effective?

Definitely. I am strongly in favor of a better trained, more broadly experienced, and thereby more flexible SES corps. We could, for example, rotate senior executives throughout the federal government. And, we should consider rotation in the private sector so that they stay in touch with benchmark levels of customer service, cost and quality that are defined through competition in the private sector. This exchange could be two ways, with private sector managers entering public sector jobs for discrete periods of time and in areas that did not present a conflict of interest for either party. They should also receive more training. Ultimately, the SES should be developed into an elite corps of flexible managers with state of-the-art understanding of both private and public sectors.

Thank you, and I would be happy to answer your questions.

Mr. HORN. Thank you very much, Mr. Muñoz. Let me just do a few ministerial duties before we begin the questioning.

Ms. Maloney, the ranking minority member on the subcommittee, was present here at the beginning. She had to leave for the Banking Committee because they have some key legislation in markup. But I would like to insert her opening statement in the record following my own opening statement. Without objection, it is so ordered.

Mr. Flanagan, who has been here from the beginning, also had an opening statement. I would like that to follow Ms. Maloney.

And if Major Owens or Mr. Davis has an opening statement, they can follow theirs. They do not.

One other ministerial item. I thought you made an excellent statement, Secretary Glynn. And what I would like the staff to do is take the charts that he showed us and sprinkle them through his testimony relevant to the words that he spoke so we have the full picture. And that will be inserted in the record.

Let me begin the questioning. We'll limit each of us to 5 minutes. We'll have another around after this.

Now, let me just ask a few questions here to start the ball rolling. Secretary Glynn, in March 1994, the GAO report surveyed 62 programs that provided employment training assistance to the economically disadvantaged and found that most agencies did not collect information on program outcomes or participant success.

This type of performance information—I think you would agree—is crucial if we're to terminate ineffective programs and to retain effective ones. Has the Department of Labor made any progress on performance management since the issuance of the March 1994 GAO report?

Mr. GLYNN. Mr. Chairman, I'm happy to be able to report that I think we have made some significant progress. Both the GAO report and the responsibilities under the GPRA have resulted in our spending considerable time with the Assistant Secretaries coming up with performance-based measures for them for the program year 1995, and the budget year 1996 and 1997.

So I think that you'll be starting to see the kind of performance measurements that the GAO called for, particularly in the employment and training area, but also in some of the other areas, as well.

Mr. HORN. And has the authorizing committee considered some of that evidence? Because obviously, they're making a key decision in this area.

Mr. GLYNN. I think the evidence which is available is being considered by the authorizing committee, although to be fair to the authorizing committee, not as much evidence is available as should be or as will be in the near term. But what evidence is available, I think, is under consideration by the authorizing committee.

Mr. HORN. Next question. Since you're the chief operating officer at the Department of Labor—and I might say parenthetically, I have great fondness for the Department of Labor, since I was administrative assistant to Secretary of Labor Mitchell for 1½ years at the end of the Eisenhower administration.

I have a feel for some of your earlier comments about attitudes and environment. I found excellent people throughout the Department, so I left thinking very kindly of the Department of Labor. And in that period, I also thought very kindly of the Department of the Treasury, because I recall Secretary Humphries' remarks when he came here as President Eisenhower's first Secretary of the Treasury.

He was very critical of what he thought the "bureaucracy" was like in Washington. He went away singing the highest praises of the members of the civil service in the Department of the Treasury. Both of these Departments have a very good tradition. And we're glad to have you representing them.

Getting back to your role as chief operating officer, Mr. Glynn, I'm interested in the division of tasks between you, the Secretary's Chief of Staff, the Inspector General, the Assistant Secretary for Management, and the Chief Financial Officer. Do you ever meet as a group to coordinate management improvement efforts?

And who's responsible for some of these areas such as agency buyouts, monitoring investments in information technology, collecting delinquent debts, workforce training, and so forth? Describe how the system works with you as the principal deputy.

Mr. GLYNN. Just before I forget, of the four specific items you mentioned, the CFO oversees the responsibility for the debts with each of the Assistant Secretaries, and then the Assistant Secretary for Management is responsible for the other three tasks which you identified.

We have a management meeting once a week, which includes all the people that you mentioned which focuses on management issues affecting the whole Department. And then there's a follow-up meeting also every week which focuses on the budget issue, which includes most of the people that you identified. So I think we do a reasonable job in coordinating the work of those different managers.

Mr. HORN. How does the Secretary play a role in this? Do you report to him on it? Does the Chief of Staff report to him? Whom?

Mr. GLYNN. The Chief of Staff and I meet with the Secretary on management issues on a weekly basis and report to him the various issues that he needs to be concerned about. And I guess I would say occasionally, as needed, we meet with him on specific issues. But usually, we're able to tackle most of the management issues in the weekly meeting.

Mr. HORN. Has there been a general review of the structure within the Department and also the relationship between the headquarters staff in Washington and the field offices and regional offices across the country?

Mr. GLYNN. Well, I guess I would answer in three parts. First of all, I think both the Secretary and I have a little bit of a prejudice against government reorganizations. So neither of us upon arrival thought that was a good way to use our time. So we did not do that as a first order of business and instead tried to make the existing organization work better.

Second, obviously, as part of the reinvention I and then more specifically reinvention II exercises, every agency is being asked to go back and look at functions and things that do or don't make sense and things that need to be restructured. So obviously, we are part of that.

We have identified a number of areas with the Assistant Secretaries in the field structure layers or offices not on the service delivery side but the overhead side that are opportunities for consolidation or reduction. And those are going forward, although in each instance, we have to sit down with the authorizing and appropriations committees and explain what we're planning to do almost office by office. So that takes a little bit of time, but we are committed to doing that. And they have been cooperative.

Mr. HORN. I thank you.

I now yield to the gentleman from New York, Mr. Owens.

Mr. OWENS. Good morning. I only have a couple of questions related to these very fascinating charts that you introduced, Mr. Glynn.

On the chart that shows historical staffing trends for the Cabinet agencies, Department of Labor from 1980 to 1992 had almost a 25 percent decrease.

Now, was this due to the institution of exceptional new management policies whereby the mission of the agency remained the same, the results you were trying to achieve remained the same, the people you were serving remained the same, but you just found more efficient and effective ways to serve those people? Or did the mission of the agency change or the people served change?

Let me just put it in blunt political terms. Is this an example of exceptionally good management, or was this driven by politics and

you were told ahead of time, "You've got to reduce for reasons other than the mission of the agency"? You don't have to answer that question, but just did the mission——

Mr. GLYNN. I was ready to answer it.

Mr. OWENS. Did the mission change? Did the number of people being served change? What changes took place from 1980 to 1992 to make us accept this as a good management move?

Mr. GLYNN. The mission of the Department did not change in any fundamental way. If anything, it probably expanded a little bit in a couple of regards. The number of working Americans for whom the Department is responsible through our various regulatory programs actually increased during this period from about 100 million to about 125 million. So the number of people that we were responsible for protecting their situation in the workplace expanded.

The only reduction that really took place programmatically during this period was a reduction in some of the training programs which had reached a peak in the late 1970's. But two-thirds of the people who work in the Department work in the enforcement area, and there was no change in the mission in enforcement.

So I think it is probably fair to say that the Department, along with one or two others, just came out on the short end of the stick in the budget process over a series of years.

Mr. OWENS. So it had nothing to do with the improvement of management?

Mr. GLYNN. I don't think there's anyone at the Department, any career person, who would argue that this chart could be defended in terms of the improvement of the management of the Department. At least I have not run into such a person in my tenure there.

Mr. OWENS. Because you have another chart here which says that "reinvention" means "eliminate unnecessary work." So I just wondered how much of what was happening between 1980 and 1992 was the elimination of unnecessary work and how much was really driven by sound principles of management in an effort to seek a more efficient operation and how much was really driven politically by a determination to send a message to the people served by the agency that they were not a priority anymore.

Mr. GLYNN. I understand.

Mr. OWENS. But it's not an irrelevant observation, in that we're talking here about—you mentioned politics before. The political appointees and the relationship between political appointees and the people who are the regular folks, we talk about how good they are. Throughout the Department, you have these marvelous employees who are permanent no matter what party's in power.

How much are the people who are permanent and professionals harassed and cajoled and threatened and pushed into making decisions that are not sound management decisions as we move toward reductions that are politically very popular but have nothing to do with the mission of the agency?

I'll just shift to Treasury Department. From the Treasury Department, you've got a 45 percent increase in the same time, Mr. Muñoz.

Mr. MUÑOZ. Yes.

Mr. OWENS. Mr. Muñoz, was that increase due to the fact that the mission of the Treasury Department changed and it accepted a lot of new responsibilities?

Mr. MUÑOZ. In part, sir. And in part, it experienced the same thing that all of the Federal agencies have been doing, which is that as its mission—for example, in Internal Revenue Service, it's to process tax files; as that expands, then your personnel must expand.

But I would like to point out to your basic question to Mr. Glynn that we can show, despite the fact that our budget has been growing, that, we have nonetheless within that because of good management tools, we have been able to shrink the size of the Treasury Department, despite its increasing budget and at the same time shift some of the savings from its shrinking into new areas.

I'll give you an example. At the Internal Revenue Service, we have reduced the number of FTEs by approximately 10,000 just from 1993 to today. And that is through productivity savings in information technology. And we can sort of measure that more work load can be done by less number of people if they have the right technology in front of them or right process.

And so what we were able to do out of that 10,000 reduction and FTE requirement, we put back 4,000 of that in an area that this body wanted us to concentrate more on, which is some of the tax compliance measures. So through some of those tools, we were able to shift our workforce.

Mr. OWENS. The chart doesn't deal with your budget. It deals with the staff trends.

Mr. MUÑOZ. With the FTEs.

Mr. OWENS. So your staff increased by 45 percent almost during this period. And with computerization and modernization of technology and so forth, it seems like it's still a tremendous staff increase. I just wondered. It's true when one deals with the IRS, we know their function.

Mr. MUÑOZ. Yes.

Mr. OWENS. But how many other different functions were increased during the time? I've run out of time now, so you don't have to answer that. You can give it to me in writing.

Mr. HORN. Let him answer. We'll round it out.

Mr. MUÑOZ. Our two major agencies, the IRS and Customs, both make up—you'll be getting close to 90 percent of our total workforce. And the same thing with Customs, in terms of foreign trade, exports and imports, and managing and facilitating trade, as well as drug interdiction. And their basic activity increased, much like the same as the IRS.

Mr. HORN. Thank you very much.

Mr. Flanagan, gentleman from Illinois.

Mr. FLANAGAN. Thank you, chairman. And I thank the panel for coming today.

Mr. Glynn, I was very happy to see that the Department of Labor used the glass is 88 percent full as opposed to 12 percent empty. And I was further pleased to see that you've gone from the utterly asinine 120 steps for employment to the merely ridiculous 41 steps for employment and the reduction in, I guess, a grand total of 6,000 FTEs in the Treasury Department.

Gentlemen, what do we plan for the future? What more is on the brink and on the horizon? We have heard a lot about what has happened in the near and far past in your departments insofar as reduction. But I believe this Congress was elected on the presumption—and I fervently believe—that government is too big and it costs too much.

Where are we off to now? What is the plan for the immediate future insofar as whether we're going to RIF, or is the glass going to stay 88 percent full, or are we going to move that further down yet?

Mr. GLYNN. I guess I would begin on the Labor Department side of the equation, and then George can——

Mr. FLANAGAN. Perhaps if I help. Maybe I can help narrow the question for you, because that is kind of broad. If we're still 41 steps to employment, that is plainly evident of a management top-heavy view of how it's done.

If there are 41 steps between I have a position and I'm presenting myself for a job to actually achieving the job, there's a lot of managerial, I would believe, duplication involved there. Where are we going to try and eliminate some of the management steps and, consequently, the support that goes with it and utterly the size of government?

Mr. GLYNN. Well, the Labor Department, as every other executive branch agency, is committed to reducing by 12 percent against the base that we inherited on January 20, 1993, which is one of the reasons why I did the historical chart, because a 12 percent reduction is on a quite different basis.

The way we have chosen to approach it is to try to go and take a look at these core processes, much like they have done in the private sector recently. And we have identified processes, as you have pointed out, that are excessively cumbersome and have too many checks and balances. So we are committed to achieving our 12 percent reduction through that process.

And so far, we think we have been relatively successful at getting to the 12 percent, reducing the size of the headquarters staff, reducing the size of support positions, and reducing the number of supervisory personnel. And we would propose to stay on the track. We think that we have demonstrated that we can hit those targets.

We have also proposed consolidating 70 training programs with the Department of Education. This is something which GAO had also pointed out; that there were a large number of training programs in the Federal Government, and that the customer would benefit if they were consolidated. This is contained in legislative discussions with the authorizing committees.

So we think we are trying to be about the business of making the government make more sense both on the FTE side and the program side. And we continue to look for additional opportunities.

I think in the next few weeks, the White House will be making some additional announcements with respect to the Labor Department which would address some of the questions which you are raising. So from a Labor Department perspective, that is how I would size it up.

Mr. FLANAGAN. Thank you.

Mr. Muñoz.

Mr. MUÑOZ. From the Department of Treasury, we look at it in two ways. No. 1, the Secretary and Deputy Secretary have required that the bureaus plan for a reduction and show them exactly how that would come about and at the same time do a cost-benefit analysis as to what we're trading off.

Of our budget, 99.99 percent is in operations; that is, we don't have program money or grant money that we administer or oversee. And because the Treasury collects 98 percent of the revenues of the Federal Government, it is a sensitive matter whenever we have cutbacks.

So we normally are pretty good at providing our statistics in terms of what one more FTE would mean at the IRS or at Customs or at any of our bureaus and what one less FTE would mean in terms of impact on the total Federal Government revenue.

And we have presented that kind of planning and streamlining to OMB, and OMB has in all cases looked at it from, "If we are insisting on the reduction, here's where we want it, but we want some reinvestment, and we want reinvestment here, reinvestment there."

Take, for example, debt collection. Many organizations in the Federal Government have no incentive to collect delinquent loans. Just because of the way the budget works, there is no incentive, no payback for that agency. We nonetheless at Treasury feel that's money that is being lost from the Treasury—not from our Department's Treasury, but from Congress's ability to appropriate that.

And we think it's only fair that everybody who owes the government money be able to pay that. So we do our analysis as to how, if we could have some FTEs dedicated to that, how that would serve the total government good. And usually, OMB responds and takes one FTE from one side and puts it in another.

Mr. FLANAGAN. Pardon my naivete, and with the chairman's indulgence, departments of the U.S. Government have to be cajoled with FTEs spent by the Treasury Department to collect outstanding debt that's owed the Federal Government of the United States?

Mr. MUÑOZ. Well, sir, as you know, everything is driven by built-in incentives. And if you get a budget cut in—let's say Agency X is in the providing of services, which includes an extension of some sort of loan. If that loan is delinquent, there may not be an incentive by—that agency has no incentive to spend a lot of its resources there, because the money that is collected does not go into their budget, it goes into the general Treasury fund.

And its incentives may be weighed so that they put an FTE to provide further services, as opposed to collection. They may not be as oriented to collecting that.

Nonetheless, that very assumption that is based on your question is being addressed right now by Federal agencies to provide the impetus, if you will, to make those collections.

Mr. FLANAGAN. Mr. Chairman, I would be very interested in hearing more about this at some time. And perhaps hearings can be constructed to find out why Federal agencies have to be enticed to do the good government that this Nation needs done.

I am mildly appalled at what I like to call the "lotus position" of management, when we sit around thinking about doing the good thing, as opposed to driving it home. I thank the panel.

Mr. HORN. Well, I completely agree with the distinguished vice chairman. I was going to pursue debt collection. I'm glad you did. And I think we'll have a few more questions on it today.

One incentive, it seems to me, to an agency that is supposed to collect the debts and hasn't is to cut their budget about 5 percent until they get the message that that's a prime responsibility. But I have a very hard-nosed view, as does the gentleman from Illinois, that anybody that owes the Federal Government money ought to pay up.

Having been a former university president, I'm aware that a few people abuse the privilege of not paying back their loans.

The gentleman from Virginia, Mr. Davis. Five minutes.

Mr. DAVIS. Thank you, Mr. Chairman.

I have a question for Mr. Muñoz. This is a little bit off the track, but while I've got you here today, I want to call your attention to it. We had in the Falls Church Post Office over 500 checks issued from the Treasury lost that need to be reissued.

We have called this to the attention of the Department's financial management services, but I would appreciate your doing everything you can to get those reissued right away. They are Federal retiree checks, and a number of these people are living paycheck to paycheck. They were due May 1st.

And if you could check that when you get back and do everything you can to make sure they're reissued. It looks like it was an area-wide glitch and not limited to specific individuals at this point.

I wanted to ask some questions about the buyouts. I wanted to ask each of you, how have the use of agency buyouts affected the agencies' success in retaining the most needed contributors to government missions and programs in separating those least needed? Or has it not worked out that way?

Mr. GLYNN. I guess if we start again with the Labor Department, I would say our experience may be a little bit different from some other agencies. Precisely because we had a fair degree of RIFs and reductions in the 1980's, our workforce is somewhat older than average, and the people who were RIF'd, by and large, were people who had less tenure and, therefore, tended to be younger.

So we have used about 389 buyouts. The average age of the people who have taken them is 58. Ninety-six percent were either eligible for retirement or eligible for early retirement. And as a result of the buyouts, we have actually seen our average age in the Department go down slightly.

But again, we're a little bit of a different situation. Because of the reductions, our workforce was older to start with. We had more of a pool.

The second thing I would say about the buyouts at the Labor Department was, since we had required every Assistant Secretary to do a streamlining plan, as I discussed earlier, it meant that they were able to target the buyouts a little bit more to critical positions.

And so the bottom line from our point of view was very positive, and we did not experience the kind of loss of critical personnel that it sounds like they may have in some other places, although obviously, any Federal employee with 20 years of experience is an asset in the organization.

Mr. DAVIS. I've got a follow-up to that, but let me see if Mr. Muñoz——

Mr. MUÑOZ. Before I get into buyouts, let me point out that FMS, which is responsible for replacing those stolen checks that you made reference to, has received some good recognition for reinvention. It improved the processing time for replacing lost or stolen checks, reducing the processing time from 62 days to 14 days or 2 weeks.

So if you can imagine, as you said, people that live from paycheck to paycheck, and they really are in desperate, dire need for this—it used to take us 62 days to process that. It's now 14 days, and I think that comes from reinvention.

Buyouts, we want to thank all of those of you who were very supportive of that. That's a good example of a flexibility that managers have. And at Treasury, we used it very conservatively. But where it was used, it was very important.

We decided that we wanted to be conservative because we just did not want to make an all-out offer for it and have people take money that maybe would not have been leaving government but for the money or even losing our better talents.

So we put it on each of our bureau heads. Our law enforcements, for example, Secret Service, ATF, and Customs were very conservative with their use of buyouts because of the very disciplined hierarchy that they have put in place, that they did not want to risk a very sensitive mission to be put at risk.

Other bureaus where we did want some downsizing to occur, such as at the IRS and a few other bureaus, did make use of the buyouts. We very much made good use of them, we feel. We did not lose any of the important talent that was still necessary to run the operation. We did lose some talent, but nothing that was not replaceable by others.

Mr. DAVIS. Let me ask each of you, given that, do we end or can we effectively use additional buyout authority? And are there any other suggestions as to how you would use or alter the buyout program if it were further extended?

Mr. MUÑOZ. If I may just follow up. One of the problems with buyout authority, if it looks like—it loses its bang when it looks like it may keep going or may come up again; then some of the strength that it has, it may loosen up. There are other management flexibility tools that we can use for managing a reduction. But that's my only comment on that.

Mr. GLYNN. Yes. I would agree with the Treasury Department. And I think if there were going to be another round of reductions in FTE, then it's something to take a look at. But if we keep holding it out, then it has a way of retarding normal attrition. So you have to balance those two things off.

Mr. DAVIS. Let me just ask another kind of off-the-wall question. Well, no. My time's up, and I'll yield back. I was just going to ask—as you know, a significant portion of the cost of a Federal worker's benefits come in the form of their retirement benefits.

Many workers won't leave the Federal service until they're retirement eligible. Do you think it would be wise to offer those not yet eligible for retirement some fraction of their pension as an in-

ducement to leave the Federal service? Would that be a tool that could be utilized? Say someone leaves at age 40 after 15 years.

Would agencies benefit from giving those individuals a percentage of their pension beginning at age 65 if they left now? Would that be a tool that would have any utility at all? And if you don't want to answer that off the cuff, I can understand.

Mr. GLYNN. Well, I would say that we anticipate we're going to meet our 12 percent target under the current assumptions. If there were a different target on the table, then it might make sense to go back and take a look at the proposal such as you are outlining. And I think it would be an advantage.

But under the current assumption of 12 percent, we anticipate that we will hit that with the buyouts that we have already taken advantage of. And so it wouldn't be necessary for that purpose.

Mr. MUÑOZ. The same.

Mr. DAVIS. Thank you. I yield back, Mr. Chairman.

Mr. HORN. Thank you.

Let me pursue the loan a minute. Then, I'll finish up with Mr. Glynn on that previous question. It seems to me that one of the possibilities to solve the loan collection problem is centralizing loan collection authority, regardless of agency of issuance, in the Department of the Treasury. What do you think of that, and is that being considered?

Mr. MUÑOZ. Well, giving you an unbiased response to that, at the Treasury Department, we do feel that we have an obligation to collect as much money that is owed to the government as is out there. Because we do collect 98 percent of the revenues of the Federal Government, we take this job seriously, whether it's someone else's loan or it's taxes that we ourselves collect.

Nonetheless, I do believe that centralizing debt collection can make some sense if you have the expertise, which I do believe the Treasury people do. They just think that way. That's how we're structured.

Other agencies may not have as highly built a staff to administer collections of debt. They may be better at administering their programs. But I don't want to necessarily conclude that that is the only answer. One of the things of reinvention is to introduce competition. Because even Treasury, if it has an exclusivity on it, may not be as good as what competition may prompt it to be.

We do have examples of agencies that are good at—Veterans Affairs, for example, is quite progressive in debt collection, and they have experimented with different pilots. And we like what we see there. At times, we like what we see at other agencies.

So we would welcome the opportunity for Treasury to take a strong lead in reporting to Congress how we're doing on debt collection and perhaps even issuing guidelines on how that should be done. But we think we would like to have some competition in that field.

Mr. HORN. Along that line, to what degree have you explored the use of the income tax system as the method of collecting loans from individuals, perhaps even other entities, if it's appropriate?

I'll give you an example. Thirty, 40 years ago, Admiral Zacharias proposed what I thought was a good idea at that time and I've ad-

vocated ever since; and that is that in the case of student loans, you would collect them back through the income tax system.

If the person was ahead of expected earnings for a college graduate, perhaps they would pay a little more accelerated rate. If they were behind, perhaps that loan would be stretched out. It seems to me the income tax mechanism is a very logical way to go on some of this loan collection, work out some arrangement scheme. And then it's simply either added to the bill or deducted from the bill.

Mr. MUÑOZ. So you're basically referring to like a student loan that would be income contingent?

Mr. HORN. Right.

Mr. MUÑOZ. So that if the student gets a low-paying job——

Mr. HORN. That's one way. I'm just saying, you could just leave it with the present system and say, "Look, here's what you owe the Federal Government. If you haven't paid during the year or on a quarterly whatever the agreement is, we're going to take it back through the income tax route."

Mr. MUÑOZ. I see. Through withholding, for example?

Mr. HORN. You can do it through withholding or just send them the bill at the end of the year, and then they're in trouble with the IRS, which I don't think too many people want to get in trouble with.

Mr. MUÑOZ. Right. I do think that opens up some difficulty if the Internal Revenue Service were to get into the business of collecting other than taxes.

Nonetheless, I do believe that there are some loans like students loans, to give you a perfect example, where if the government were more flexible in collecting it so that it was income contingent, those who have higher earnings can have a higher payback period or faster payback period than those that have lower earnings. And I believe that there is some of that thinking taking place already for the Department of Education.

Mr. HORN. So any other place in government where they're giving this some thinking before we lose billions?

Mr. MUÑOZ. Yes, sir. I think the principle applies across the board. I don't think it's limited to students. I think that it just makes common sense that when you have more revenues coming into an individual, more income, that the government should expect a faster payback for what it's owed.

Mr. HORN. Is there any effort by OMB or the National Performance Review team to stimulate this kind of issue within the agencies and departments?

Mr. MUÑOZ. Yes, sir. There is already. In fact, there is an interagency team that's working with Department of Education and Department of Treasury that OMB is heading that precisely is looking at income contingent student loans, in particular. And outside of that, I'm not familiar with it. But I do believe the President's proposal does talk about having students pay back their loans based on income.

Mr. HORN. Well, I thank you for that. We'll probably follow up with a few questions in a number of these areas.

Mr. Glynn, let me get back to one aspect of the previous question. What proportion of the Department of Labor personnel are

outside Washington in some regional office or other entity that is a little distant and requires communication with headquarters?

Mr. GLYNN. About two-thirds.

Mr. HORN. Two-thirds are out in the field. Has that been a dramatic increase over the last 20 years, and what has led to that?

Mr. GLYNN. Mr. Chairman, I'm not sure I can really say with any precision if it has gone up or down in the last 20 years. My impression from talking to people in the Department is that it has been relatively constant.

Mr. HORN. In other words, Wage and Hour Administration traditionally has been in the field. They have to go to investigate plants and factories and so forth.

Mr. GLYNN. Right. OSHA, Pension & Welfare Benefits Administration, Mine Safety and Health Administration. Again, two-thirds of our agencies really are involved in the enforcement side. So they tend to be very field oriented. The Employment and Training Administration, many of their programs are run out of their regional offices. So it tends to be a fairly high percentage.

Mr. HORN. Are you satisfied with the level of communications between the field and the headquarters?

Mr. GLYNN. I think the level of communication is adequate. I think that one of the things we have been trying to do is reduce the number of people in the headquarters and expand the percentage of people in the field since that's where the direct service delivery is taking place.

I think in any large organization, every large organization I've ever worked in, there's always a question about to what extent information passes through the organization down to the front line employees, which is one of the reasons why with Secretary Reich, we try to communicate occasionally directly with front-line employees, so people really know what the mission and the tasks to be done are.

But I would say relative to other large organizations I've worked in, I would say the Labor Department seems to have an adequate communication system.

Mr. HORN. My time is up.

Does the gentleman from Virginia have any more questions?

Mr. DAVIS. No.

Mr. HORN. Let me continue to pursue this, then. It seems to me that one of the great gaps in most organizations is the gap between people in the field doing the "real work" of the agency and those in headquarters at staff levels in particular that sometimes, there are too many of them.

They're preventing the real work of the agency, even though they're well meaning, with all the clearances that have to be involved. Do you feel you've been able to achieve some direct line of leadership from the Secretary, Office of the Secretary, which would include yourself, other Assistant Secretaries, down there to the managers that are actually supervising operations of real people going out and trying to get the mission of the Department of Labor carried out?

Mr. GLYNN. I would say we have done an adequate job at that. I think, as I indicated before in my opening remarks, there's a lot of cynicism and skepticism on the part of career managers and

front line staff toward any political appointee in any administration. And as an example of that, I would cite, again, the chart comparing the various Cabinet agencies.

I think that people at the Department were kind of surprised, having taken a 25 percent reduction between 1980 and 1992, when a Democrat was elected and said, "We're going to reduce it by 12 percent further." So I think there's a lot of skepticism out there in the field offices, but I don't necessarily think that there's a lack of communication.

I think people understand what it is that we're trying to accomplish. I think there may be some reluctance to go along with things because either they don't agree with them or they don't think they make sense or because of the turnover problem with people turning over every 18 to 24 months or making some of these decisions, in their view. So that's more of an implementation issue than a communication issue.

Mr. HORN. Some would argue that with modern means of communication, conference calls, and faxes, you can immediately make an impact as the Secretary or the Deputy Secretary. Perhaps we don't need some of the people in the headquarters we have had communicating with the field, if not micromanaging them, and perhaps we don't need as much regionalization, that maybe you just have a much flatter line and less layers people have to get through to get the message up or down that hierarchy.

What do you think of that? Does that make some sense to you? And if so, is the Labor Department doing anything about it?

Mr. GLYNN. It's not as well known as the 12 percent mandate, but last summer, every Federal agency had to submit to OMB a proposal of how they were going to reduce their headquarters and oversight staff by 50 percent. So we have a plan, as do other Federal agencies, for making the kind of reductions that you are talking about.

And what we have discovered in some of the regional offices, which is consistent, I think, with your hypothesis is that there is a tendency to duplicate the overhead functions again at the regional level. So it's not the case that every person in a "field office" is doing service delivery.

And that's one of the areas that we have tried to target in coming up with our reductions. But every agency had to submit a plan and is being monitored by OMB to make the kinds of reductions which you are suggesting although, as I say, it hasn't been as well publicized as the 12 percent reduction.

Mr. HORN. Is that being monitored by the associate director for management, or on the budget side?

Mr. GLYNN. I would say both.

Mr. HORN. As you know, they have tried to integrate them now working on budget review. Do you accompany the Secretary to some of those budget meetings when you're presenting the Department of Labor budget? Do you get a feel that management issues are given any attention in that process, or is it strictly budget issues that get the attention of OMB?

Mr. GLYNN. I guess I would say in this instance my view is probably quite different from maybe the Chair's and others. I think that, first of all, there's an advantage in having them combined.

Because I think that people pay more attention to management issues if budget dollars are at stake.

Mr. HORN. I agree with you on that. As an executive, I combined them, and I got their attention.

Mr. GLYNN. Yes. It has a way of focusing people's attention. And I think that if you look at the track record of—while people might give out different grades for the effectiveness—this administration has gone through the 12 percent process, a 50 percent process, a streamlining process, and a customer service process.

We're all now going through a regulatory reinvention process. There are a lot of management issues on the table as a result of the OMB and NPR processes. So it's hard for me to envision as a manager what else we could possibly be asked to take a look at from the management perspective. So to me, the system is working a little too well, because people have a hard time doing all the staff work to answer all of these questions.

Mr. HORN. You face a difficult situation, to say the least.

Mr. GLYNN. Can I quote you on that?

Mr. HORN. Well, let me just say in conclusion here—because I know you're busy, and we have three more panels. And we really appreciate the testimony of each of you.

Are there some questions you would have liked to have seen us ask that we're not bright enough to ask and you would like to get on the record the answer before we let you go? What comes to mind? You can see what we're trying to explore. We don't have a set view on a lot of these things. We want to see what's out there and what makes some sense.

Mr. GLYNN. Well, I would just reiterate what I said at the very beginning, which is, I appreciate the chance to come up here for an hour with someone from the Treasury Department and have a thoughtful discussion back and forth about these very sensitive issues, because I do think there's a lot at stake.

There are a lot of Federal employees whose careers are at stake in a lot of these decisions, and I think a deliberative process in the end will produce a much better outcome. So I would just thank the committee for the opportunity to appear and to be involved in the give-and-take.

Mr. HORN. Thank you.

Mr. Muñoz, anything?

Mr. MUÑOZ. I do have a question you might want to ask. And that is, how does the Federal Government compare to other governments and other countries, especially in Europe, with respect to measuring its performance, its achievements, and how does it compare to States in this country in terms of that arena? I think that would be a good question.

Mr. HORN. Consider it asked. What's the answer? I might say, we had in a previous hearing a representative from Oregon and a representative from New Zealand, so we're not completely off.

Mr. MUÑOZ. It's a good question, Mr. Chairman, because it will show you the importance of this subcommittee's work. And that is, by you bringing this to the attention of at least these two agencies and, I'm sure, those who sit behind us, finally, the Federal Government is paying attention to what other countries—I'm ashamed to say that other countries have beat us out on this one; that is, they

quickly and especially in Europe have decided that the purpose of government was to make sure it rendered the services to the satisfaction of those who were receiving them.

And, therefore, it built into the budgets performance measurements and performance evaluations. OCED, for example, has a whole division in this area, and they're quite advanced in that.

Second, there are some States—not all of our 50 States—with respect to comparison there, the Federal Government does have some advantages. We have the GPRA in law, and I think that's very positive; we have a hearing, such as this one, and others that are looking at this. Some States have beat us out because they're already integrating it. Other States are somewhat behind.

So I think there's still a leadership role that can be played by the Federal Government in this country, but when you compare it with some of our Western industrial States, we may not rank as high.

Mr. HORN. This would affect a number of agencies. It certainly would affect the Department of Labor. Many in Congress, as you know, have long favored the block grant approach, where you would have the States be much more of the implementer of Federal policy.

Let's face it. We have done that in social welfare since the Second World War—during the Second World War in some areas. It was a Federal-State system, but it's really a county system of welfare administered under the guidelines of the State of California, in my case, and the Federal Government in relation to that State.

To what degree is some thought being given that philosophical thrust to devolve power out of Washington down to the States in the areas under your jurisdiction? Is there any discussion of that, just a little advance planning and thinking about it?

Mr. MUÑOZ. In terms of devolution, NPR phase II did require us to look at our core mission and what could be devolved from that. Again, Treasury does not administer programs. It's basically operational. We're in the collection of money, the printing of money, and the payment of money.

Nonetheless, we nonetheless went through the exercise and identified some areas that could maybe have some devolution consideration on them. But we do think it's a legitimate question to ask. But again, I want to emphasize one thing that I did say in my opening remarks.

And that is that the best management reform is to not have a standardization or one-size-fits-all. Let's assume that devolution is ideologically, politically, and administratively accepted. My advice would be to not mandate it across the board. Because in some agencies like Treasury, it may not make any sense.

Mr. HORN. Well, I think you're absolutely right. It has got to make sense, and if it doesn't, we shouldn't be doing it just because somebody thinks it's a good idea. What areas did you find, even in Treasury, that you thought might be "devolved" as you put it?

Mr. MUÑOZ. There are some training programs in the law enforcement area.

Mr. HORN. Like what's done at Glyncoe?

Mr. MUÑOZ. Yes. Yes, and the FLETC and others where we did some consideration. Because a lot of it, it does work with State and

local law enforcement officials. And those were the areas that we were looking at. We did not want to have devolution in the printing of money or collecting of money.

Mr. HORN. Even though some Governors would anxiously bid on that. [Laughter.]

I take it in terms of what they do at Glyncoe and do very well is also done in the postcertification in California, which all police officers must go through and keep up to date.

Mr. MUÑOZ. Yes.

Mr. HORN. And a number of States have very fine programs in that area. Again, it's a mixed bag. You would have to look at a particular State to see how well that works. Were there any other areas that you thought of?

Mr. MUÑOZ. Those were the primary areas that were considered.

Mr. HORN. Mr. Glynn, what about the Department of Labor?

Mr. GLYNN. Beginning last summer, actually, OMB led an exercise on consolidation and devolution which Director Rivlin was very involved in, in part because of work she had done previously. And that is what gave rise to the initial proposal to consolidate the 70 programs and give the States a greater role.

And as we prepare for the 1997 budget exercise, I anticipate there will be other issues like that raised. It's not that well recognized, but actually, OSHA in roughly half the States is run as a State program, for better or for worse.

Mr. HORN. Right.

Mr. GLYNN. And we haven't had a lot of States volunteering to expand on that number.

Mr. HORN. Well, in California, as you know, there is a State OSHA. And when Governor Dukemejian was in power, as I recall, they couldn't work over the private sector, so they rested on the State universities and worked them over for a few years. I well know the impact of State OSHA and Federal OSHA in that sense.

Let me just say, Mr. Muñoz, we'll probably be holding a hearing on the role of the Chief Financial Officer. I think you and I probably had this discussion in a hearing in the preceding Congress.

And that was the fact that the Assistant Secretary for Management is also the Chief Financial Officer. I worry about that. I worry if the Chief Financial Officer role can possibly be given full attention.

And, as you might remember, when we got to the IRS, I think my colleague from California, Mr. Cox, said to the IRS that "If a corporation presented you with that financial statement you've just presented us, that one, you would find it unacceptable and probably ask the U.S. Attorney to indict."

But we'll be looking forward to seeing how the financial statements are going across the Federal Government. We think that position is an immensely important position, as are the Inspector Generals, which we will also have separate hearings on. So any wisdom you can give us when we get to that—and whether you're overworked or saving a separate salary, I don't know. But we just want to make sure the job's done. So let's hope it's getting done.

Mr. MUÑOZ. Thank you.

Mr. HORN. I thank you both for your very excellent testimony. We appreciate your spending the time with us. There might be

some questions we follow up on. All of your comments, charts, everything will be put in the record. If you have some more thoughts, send them to us. We'll add letters to the record. Thanks a lot.

Mr. GLYNN. Thank you, Mr. Chairman.

Mr. MUÑOZ. Thank you, sir.

Mr. HORN. Will panel II come forward, Johnny C. Finch and Gene Dodaro, the Assistant Comptroller Generals.

[Witnesses sworn.]

Mr. HORN. Both witnesses affirmed. And unless you have a different arrangement worked out, the first one on my list is Johnny C. Finch, the Assistant Comptroller General for the General Government Division, General Accounting Office. We're delighted to have you here. Would you like to go in that order, or did you have something else worked out?

Mr. FINCH. I think we're going to make it easy for you, sir. Being from GAO, we work well together. So we prepared a joint statement.

Mr. HORN. OK.

Mr. FINCH. And, as you had suggested earlier, we'll submit that detailed statement for the record. And in the interest of time, I will briefly summarize both parts of the statement, if I might. And then, we'll take questions.

Mr. HORN. Very good. Let's do that. Your full statement will be inserted at this point in the record. And we're talking about 22 pages plus an attachment.

Mr. FINCH. Right. And I'll try to get that down to 5 minutes if I can, sir.

STATEMENT OF JOHNNY C. FINCH, ASSISTANT COMPTROLLER GENERAL, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY GENE L. DODARO, ASSISTANT COMPTROLLER GENERAL, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. FINCH. Perhaps I should do some stage-setting in terms of why both Gene and I are at the table. Gene and I share responsibilities for GAO's work on Federal management issues.

Gene is the Assistant Comptroller General responsible for our accounting, financial management, budget, and information technology work, while I have responsibility for our work on general cross-cutting management issues, human resource management, and an array of program areas, such as IRS, Justice, financial institutions, et cetera.

And with that stage-setting, I'll move right into the summary of our key points. In recent years, Congress has enacted landmark legislation that seeks to greatly improve Federal management practices and emphasize accountability for achieving results.

The Government Performance and Results Act, the Chief Financial Officers Act, the Government Management Reform Act, and the forthcoming reauthorization of the Paperwork Reduction Act have established a basic framework that should help agencies to improve their performance and business processes.

As the subcommittee requested, our statement today focuses on basic management problems that Federal agencies urgently need to

address. We want to highlight four problems in this regard. First, agencies need to develop more precise program and business goals and better measure performance against these goals.

Our work over the years has shown that many Federal agencies lack consensus on their mission and the outcomes sought. Also, most agencies have not established a systematic process to identify and address critical issues affecting their ability to meet their mission and achieve their desired results.

Moreover, reliable program and financial information was not routinely collected and used to gauge programs, improve performance, and establish accountability.

In passing GPRA in 1993, Congress created a statutory framework for addressing these types of problems. Congress recognized the magnitude of the changes GPRA will require in most agencies and created planning and reporting requirements that will be phased in over a number of years.

In fact, our work has shown that setting the right goals and using performance information to make substantial improvements in agencies' effectiveness and to guide resource allocation decisions will not come quickly or easily for most agencies.

Second, agencies need to improve operational effectiveness by taking fuller advantage of reengineering opportunities and investments in modern information technology. Moving to a smaller, more efficient government that stresses accountability and managing for results will require reengineering Federal operations and supporting them with modern information technology.

Reengineering inefficient work processes and using modern technology offers unprecedented opportunities to improve the delivery of government services and to reduce program costs. Unfortunately, Federal information systems projects are frequently developed late, fail to work as planned, and cost millions, even hundreds of millions of dollars more than expected.

We studied a number of successful private and public sector organizations to learn how they reach their own ambitious improvement goals. In our resulting report, we describe a strategic integrated set of fundamental management practices that were instrumental in these organizations' success. These practices can be readily adopted by Federal agencies and are summarized in our prepared statement and in our material we supplied to the subcommittee.

Congress can play an important leadership role in building governmentwide consensus on a need for adopting proven practices for effective strategic information management. Recent congressional reauthorization of the Paperwork Reduction Act of 1995 incorporated essential changes in line with the principles and practices we have identified from our research.

The third need is for agencies to strengthen financial management, to instill accountability, and to control costs. Reliable financial information is a fundamental prerequisite for improving management of government programs and providing needed accountability for program results. But our work shows that most government financial systems are not able to routinely perform the most rudimentary bookkeeping functions.

Without accurate and timely financial information, government leaders continue to be hampered in their ability to control costs, measure performance, or achieve needed management improvements.

With passage of the CFO Act and the Government Management Reform Act, Congress paved the way for the Federal Government to have the same kind of financial statement reporting as is required in the private sector and by State and local governments. Effectively implementing this legislation must be a top priority, and continuing congressional oversight will be important to ensure results.

Fourth, we need to build the capacity of the Federal workforce to more effectively and efficiently implement and manage programs. Our work has found that agencies' workforce planning processes do not always work well. And this has impacted adversely on mission effectiveness and critical management support functions.

For example, workforce planning problems have affected mission effectiveness in a number of agencies and in critical management functions such as financial management and information technology. This is disturbing, because strong workforce planning processes are especially important during downsizing.

In a recent review, most of the private companies and State governments we contacted regarding their downsizing strategies emphasized the importance of workforce planning to target the right positions for elimination. They stressed that strategic planning decisions about what an organization does and why it does it is an essential first step before making decisions on the appropriate size and composition of the workforce.

The management weaknesses and lack of workforce capacity in agencies across the government are long-standing problems that will require the sustained effort of Congress and agencies to make needed improvements. Agencies have had difficulty in effectively dealing with these problems due, in part, to a lack of continuity in leadership.

For example, our work has shown that the median length of tenure of political appointees in key leadership positions was just over 2 years, that some key positions had as many as five different appointees serving in the same position within a 10-year period, and that some positions, in fact, remained vacant for years. Mr. Glynn mentioned this scenario in his statement and in his situation at the Department of Labor.

The lack of leadership continuity in the executive branch makes continuing congressional oversight even more important. Congress, as a prime user of performance and financial information, has a major interest in ensuring that agencies give the proper attention to addressing critical management issues.

In this regard, we believe that Chairman Clinger and the Committee on Government Reform and Oversight took an important step earlier this year when they recommended that House committees conduct oversight to help ensure that GPRA and the CFO Act are being aggressively implemented and use the financial and program information required by these acts in overseeing agencies within their jurisdiction.

In summary, Congress through GPRA, the CFO Act, the Paperwork Reduction Act, and other initiatives has legislated a basic management framework for focusing Federal management and accountability on the outcomes of Federal programs.

We are encouraged by the subcommittee's plan to monitor agencies' progress in implementing these key laws through a series of hearings in the coming months. Such congressional oversight is essential to attaining the improvements that we all desire.

Mr. Chairman, we look forward to working with you and your subcommittee in your efforts to improve the management of Federal programs. This concludes our combined statement, and we would be pleased to answer your questions.

[The prepared statement of Mr. Finch and Mr. Dodaro follows:]

PREPARED STATEMENT OF JOHNNY C. FINCH, ASSISTANT COMPTROLLER GENERAL, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE AND GENE L. DODARO, ASSISTANT COMPTROLLER GENERAL, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss actions needed to strengthen management in the federal government. A wealth of GAO reports and testimonies over the last decade have identified numerous opportunities for improving agency and departmental management. While a wide array of issues were raised from this work, four basic management problems consistently emerged. They are the need to

(1) develop more precise program and business goals and better measure performance against these goals,

(2) improve operational effectiveness by taking fuller advantage of reengineering opportunities and investments in modern information technology,

(3) strengthen financial management to instill accountability and control costs, and

(4) build the capacity of the federal workforce to more effectively and efficiently implement and manage programs.

In recent years, Congress has enacted landmark legislation that seeks to greatly improve federal management practices and emphasize accountability for achieving results. The Government Performance and Results Act (GPRA), the Chief Financial Officers (CFO) Act, the Government Management Reform Act, and the forthcoming reauthorization of the Paperwork Reduction Act have established a basic framework that should help agencies to improve their performance and business processes. This framework also will provide managers and other decisionmakers with the critical information needed to make more informed policy and programmatic decisions and achieve more accountability for results.

We are encouraged by this Subcommittee's plan to monitor agencies' progress in implementing these key laws through a series of hearings in the coming months. Such congressional oversight is essential to encouraging sustained attention to and attaining the improvements that we all desire.

IMPROVING RESULTS BY SHARPENING THE FOCUS ON GOALS AND PERFORMANCE MEASURES

Our management and program reviews of departments and large agencies across government have shown that many federal agencies lacked consensus on their mission and the outcomes sought. Most agencies also had not established a systematic process to identify and address critical issues affecting their ability to meet their mission and achieve their desired results. Moreover, reliable program and financial information was not routinely collected and used to gauge progress, improve performance, and establish accountability.

Our March 1994 report on the federal government's 62 programs that provide employment training assistance to the economically disadvantaged illustrates just one example of where better data are needed to determine if federal efforts are effective. It found that most agencies did not collect information on participant outcomes nor did they conduct studies of program effectiveness—both of which are needed to

know how well programs are helping participants enter or reenter the workforce.[1] As a result, agencies that manage these 62 programs do not know whether their programs, as currently configured, are providing assistance that results in participants getting jobs.

In passing GPRA in 1993, Congress created a statutory framework for addressing these types of problems. The Senate Committee on Governmental Affairs report that accompanied GPRA noted:

> "At present, congressional policymaking, spending decisions, and oversight are all seriously handicapped by the lack both of sufficiently precise program goals and of adequate program performance information. Federal managers, too, are greatly disadvantaged in their own efforts to improve program efficiency and effectiveness by that same lack of clear goals and information on results. The goal-setting, performance measurement, and results reporting requirements of (GPRA) are intended to address these needs of Congress and of federal program managers."[2]

GPRA's implementation is being phased in, beginning with performance planning and reporting pilots at selected agencies during fiscal years 1994 through 1996. Already, the Office of Management and Budget (OMB) has designated more than 70 programs and agencies as pilots, ranging in size from small programs to entire agencies, such as the Internal Revenue Service (IRS). OMB plans to select a subset of these programs and agencies to further pilot GPRA's managerial flexibility provisions in fiscal years 1995 and 1996 and performance budgeting provisions in fiscal years 1998 and 1999.

GPRA is to be implemented governmentwide on September 30, 1997, when virtually all agencies are required to submit 5-year strategic plans, to be based on congressional and stakeholder input, to OMB. Beginning in fiscal year 1999, all agencies will be required to annually submit the performance plans and subsequent performance reports.

On the basis of our discussions with senior officials in 24 departments and large agencies, most departments and agencies have recognized the difficulty of setting the right goals and using performance information to make substantial improvements in agencies' effectiveness and to guide resource allocation decisions. The experiences of state and foreign governments confirm that implementing the changes required by GPRA will not come quickly or easily.[3]

As agencies proceed with implementing GPRA, it will be important to identify and communicate the best practices that are evolving from agencies' efforts. Recognizing this and working with Congress and experts in the public administration community, we developed a methodology to facilitate the identification of best practices in clarifying goals, developing strategic plans for achieving those goals, establishing performance measures that focus on results, and communicating and using performance information. We recently began using our methodology in reviewing a sample of departmental and major agency GPRA implementation efforts. We also are making our methodology available to agencies to use as they assess their own progress in implementing GPRA.

IMPROVING OPERATIONAL EFFECTIVENESS BY TAKING FULLER ADVANTAGE OF REENGINEERING OPPORTUNITIES AND INVESTMENTS IN MODERN INFORMATION TECHNOLOGY

Moving to a smaller, more efficient government that stresses accountability and managing for results will require reengineering federal operations and supporting them with modern information technology. Reengineering inefficient work processes and using modern technology offer unprecedented opportunities to improve the delivery of government services and reduce program costs. Moreover, using technology

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[1] Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively (GAO/HEHS-94-88, Mar. 2, 1994). More recently, we reported earlier this year that the Department of Health and Human Services does not know whether the Job Opportunities and Basic Skills Training (JOBS) program is reducing welfare dependency because the program does not gather enough critical program information on program outcomes, such as the number of participants entering employment and leaving Aid to Families with Dependent Children. See Welfare to Work: Measuring Outcomes for JOBS Participants (GAO/HEHS-95-86, Apr. 17, 1995).

[2] Committee on Governmental Affairs, United State Senate, Report to Accompany S. 20, Report number 103-58, June 16, 1993.

[3] See, for example, Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms (GAO/GGD-95-120, May 2, 1995); Government Reform: Goal Setting (GAO/AIMD/GGD-95-130R, Mar. 27, 1995); Managing for Results: State Experiences Provide Insights for Federal Management Reforms (GAO/GGD-95-22, Dec. 21, 1994); and Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD-93-41, Feb. 17, 1993).

well is central to enhancing the quality and accessibility of information available to federal managers and the public.

Federal agencies must close the large and widening gap between the public's expectations for efficient, modern service and the government's performance—a gap that is undermining the effectiveness and credibility of our government's institutions. More and more, the American people are enjoying the everyday benefits of technology-driven service improvements in the private sector, such as 24-hour one-stop customer service numbers, automated bank tellers, overnight package delivery, and point-of-sale or telephone credit card payment.

Unfortunately, the federal sector lags leading private firms that have used process improvement and information technology to cut costs, streamline operations, and enhance service levels. After having spent more than $200 billion on information systems over the past 12 years, our work has shown that the federal government is in the worst possible situation—having invested heavily in costly information system projects that often fail to produce dramatic service improvements or significant reductions in personnel and administrative costs.[4]

Information systems projects are frequently developed late, fail to work as planned, and cost millions—evens hundreds of millions—more than expected. In an environment of shrinking resources and with the demand for service improvement, the government can ill afford to continue spending such large amounts of money with so few results.

We consistently found huge, complex computer modernizations at great risk from two basic management problems: (1) the failure to adequately select, plan, prioritize, and control system and software projects and (2) the failure to use technology to simplify, direct, and reengineer functional processes in ways that reduce costs, increase productivity, and improve service quality. These problems permeate critical government operations in key agencies, such as the Federal Aviation Administration (FAA), IRS, the Department of Agriculture (USDA), the Department of Veterans Affairs, and the Social Security Administration (SSA). The vast potential for improving government performance through information technology investments cannot be fully realized until these problems are addressed.

To illustrate, let me point to just a few examples of the criticality of information management to reining in costs and improving government programs and service.

- After investing over 12 years and more than $2.5 billion, FAA chose to cut its losses in its problem plagued $6 billion Advanced Automation System (AAS) by either cancelling or extensively restructuring elements of this effort to modernize the nation's air traffic control system. The reasons for AAS's problems include FAA's failure to (1) accurately estimate the technical complexity and resource requirements for this effort, (2) stabilize system requirements, and (3) adequately oversee contractor activities.[5]
- Similarly, our work on IRS' estimated $8 billion Tax System Modernization (TSM) designed to automate selected tax processing functions has identified many management and technical issues that need to be addressed to mitigate critical risks and better position IRS to achieve success. In a May 3, 1995, briefing to the IRS Commissioner on our recent assessment work, we noted that IRS lacks a comprehensive business strategy to cost-effectively reduce paper submissions and has not yet fully developed and institutionalized the requisite management, systems development, and technical infrastructures necessary to successfully implement such an ambitious world class modernization effort. IRS has agreed with the need to put the needed business and technical foundation in place to better achieve TSM's objectives.
- In 1994, we found that USDA's $2.6 billion Info Share project, designed to improve operations and provide better service to farmers, was being managed primarily as a vehicle to acquire new information technology, rather than an opportunity to fundamentally improve business processes.[6] Key steps in process reengineering had not been followed, including adequately analyzing current business processes and establishing improvement goals. Additionally, we cited the failure of senior USDA officials to integrate Info Share into USDA's structural reorganization efforts as a key accountability shortcoming.

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[4] Information Management and Technology Issues (GAO/OCG-93-STR, Dec. 1992); Government Reform: Using Reengineering and Technology to Improve Government Performance (GAO/T-OCG-95-2, Feb. 2, 1995).

[5] Advanced Automation System: Implications of Problems and Recent Changes (GAO/T-RCED-94-188, Apr. 13, 1994).

[6] USDA Restructuring: Refocus Info Share Program on Business Processes Rather Than Technology (GAO/AIMD-94-156, Aug. 5, 1994).

There is much to be done to bring our federal government into the information age. To help federal agencies achieve their potential for improvement, we studied a number of successful private and public sector organizations to learn how they reached their own ambitious improvement goals. In our resulting report,[7] we describe a strategic, integrated set of fundamental management practices that were instrumental in these organizations' success. These practices can be readily adopted by federal agencies.

The most critical factor for success was the leadership and personal commitment of top executives to improve strategic information management. These executives recognized that technology is integral to providing the information for effective decisionmaking and supporting the work processes that accomplish the organization's mission. They actively spent the time to manage down risks and maximize the return on scarce investment funds. These leaders managed through three fundamental areas of practice.

- First, they decided to work differently by quantitatively assessing performance against the best in the world and recognizing that program managers and stakeholders need to be held accountable for using information technology well. In contrast, the federal government frequently fails to benchmark itself against the best, delegates information issues to technical staff, and sustains rates of management turnover that seriously hinder true ownership and accountability.
- Second, they directed scarce technology resources toward high-value uses by reengineering critical functions and carefully controlling and evaluating the results of information systems spending through specific performance and cost measures. Federal agencies, on the other hand, often buy computer hardware before they evaluate their business functions, lack discipline and accountability for their investments, and fail to rigorously monitor the results produced.
- Third, they supported major cost reduction and service improvement efforts with the up-to-date professional skills and organizational roles and responsibilities required to do the job. The federal government all too often is held back by an antiquated skill base and confused roles and responsibilities that consistently inhibit the effectiveness of major system development and modernization efforts.

Figure 1 provides additional detail on the specific practices within these fundamental management areas.

FIGURE 1: KEY MANAGEMENT AREAS AND FUNDAMENTAL PRACTICES

Decide to Change:
- 1. Recognize and communicate the urgency to change information management practices
- 2. Get line management involved and create ownership
- 3. Take action and maintain momentum

Direct Change:
- 4. Anchor strategic planning in customer needs and mission goals
- 5. Measure the performance of key mission delivery processes
- 6. Focus on process improvement in the context of an architecture
- 7. Manage information systems projects as investments
- 8. Integrate the planning, budgeting, and evaluation processes

Support Change
- 9. Establish customer/supplier relationships between line and information management professionals
- 10. Position a Chief Information Officer as a senior management partner
- 11. Upgrade skills and knowledge of line and information management professionals

We have found that many agencies need and want help to close the cost and performance gap with the leading organizations. Over 14,000 copies of our report on best practices of leading organizations have been requested, and we have given 120 briefings to over 2,000 federal decisionmakers to explain our work. OMB has also incorporated the essence of these practices into its revision of Circular A-130—the basic policy circular for federal information resources management.

The following additional steps are needed to get these practices implemented in the government, not just talked about.

- Agencies should benchmark their current information management practices against the practices of successful, leading organizations to (1) understand where they are deficient and (2) develop an action plan for putting the leading

[7] Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology—Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

practices in place. We have developed a methodology for agencies to use in doing self-assessments and are working with several agencies, such as the IRS, Coast Guard, and Pension Benefit Guaranty Corporation, to help them do this.

• Agencies need to identify and prioritize reengineering and technology improvement initiatives that can offer tremendous improvements in service delivery and reduced costs. Current efforts at IRS, Defense, Agriculture, SSA, and Veterans Affairs all have tremendous potential if properly designed and managed. For example, SSA has recognized the need to improve service and has initiated an effort to reengineer its disability determination process. SSA reports that the average claimant waits up to 4 months from first contact with SSA for an initial decision, although less than 10 hours of this time are actually spent working on a claim. The remainder of the time is associated with waiting for medical evidence, handing off the case to the next step in the process, and waiting between processing steps.

• Agencies' top executives must assert control over technology investment decisions and ensure that improvement efforts are well-managed and directed toward achieving maximum value in improving operations. The vital area of information technology expenditure warrants a new level of scrutiny—governmentwide—to determine just where the risks are highest and how they can be managed more effectively. To this end, we are working with OMB and the General Services Administration to infuse more discipline and accountability into the government's decisions regarding information technology expenditures. For example, OMB, with our assistance, is developing guidance for agency officials and OMB analysts to bring more rigorous evaluations of technology investments.

Congress can play an important leadership role in building governmentwide consensus on the need for adopting proven practices for effective strategic information management. Recent congressional reauthorization of the Paperwork Reduction Act of 1995 incorporated essential changes in line with the principles and practices we have identified from our research. For example, the law now provides a clear focus on applying technology to improve the productivity, efficiency, and effectiveness of government programs, including improvements in the delivery of services to the public. It also requires agencies to assume responsibility and accountability for maximizing the value and assessing and managing the risks of major information systems initiatives through well-defined processes used to select, control, and evaluate technology investment decisions.

STRENGTHENING FINANCIAL MANAGEMENT

Reliable financial information is a fundamental prerequisite to improving management of government programs and providing needed accountability for program results. But our work shows that most government financial systems are yet unable to routinely perform the most rudimentary bookkeeping functions. Without accurate and timely financial information, government leaders continue to be hampered in their ability to control costs, measure performance, or achieve needed management improvements. Also, without better information on the costs and consequences of government programs and activities, tough budget decisions will continue to be compromised.

Further, the government's financial systems are aging fast. OMB reports that approximately 70 percent of them were installed over 5 years ago; 39 percent have passed the 10-year mark. Agencies' antiquated financial systems simply do not adequately meet critical user needs for accurate, timely, and comparable data. OMB has reported that only one-third of agency financial management systems comply with federal core financial systems requirements, and less than one-half of those systems meet existing financial data standards. Moreover, almost all of the government's major departments and agencies have not been able to pass the test of an independent financial statement audit.

Our February 1995 reports on areas we have designated as high-risk clearly demonstrate that poor financial management and ineffective management controls in the federal government are, unfortunately, the rule and not the exception.[8] For example:

• The Department of Defense cannot accurately account for its over $250 billion annual budget and over $1 trillion in assets worldwide. Inventories—valued by Defense at $36 billion but no longer needed for current operating requirements—are being held. Another $29 billion disbursed to vendors cannot be matched to supporting documentation, and the Department has relied on con-

[8] GAO High-Risk Series (GAO/HR-95-1 through GAO/HR-95-12).

tractors to voluntarily return billions of dollars in duplicate and erroneous payments.

• Our financial audits at IRS, which collects and accounts for 98 percent of the government's revenues—currently $1.3 trillion—showed that IRS did not know for certain the amount of delinquent taxes included in its inventory of tax debts of about $166 billion and thus little meaningful analysis of what can be collected or of the effectiveness of IRS' collection efforts could be done.

While today's financial systems have no shortage of paper output, they provide agency managers and Congress little meaningful financial information. Greatly improved financial reporting is essential to (1) link program and budget data for use in both management control and planning and (2) report on program cost trends and other performance indicators from which managers can make informed decisions on running government operations effectively and efficiently.

Before 1990, this information was not required and the reliability of financial information for only a minor part of the government's $1.5 trillion annual spending was independently checked. With passage of the CFO Act, Congress paved the way for the federal government to have the same kind of financial statement reporting as required in the private sector and by state and local governments.[9] Financial statements for 10 agencies prepared and audited as part of a pilot program under the 1990 act have resulted in:

• Significantly more accurate and useful information on the government's financial status and its operations. For example, audits have yielded important insights into the collection and accounting for revenues, surfaced million of dollars in unknown liabilities, and provided valuable information on expected future costs.

• A better understanding of the limited extent to which Congress and program managers can rely on the financial information they receive. Audits have detected hundreds of billions of dollars in accounting errors—mistakes and omissions that can render information provided to managers and Congress virtually useless.

• Substantial savings through the recovery and more efficient use of funds. In response to an audit of its fiscal year 1992 financial statement, for example, the U.S. Customs Service revamped its debt collection efforts resulting in the collection of $32 million of severely delinquent receivables.

• A much better understanding of the extent and pervasive nature of internal control and financial management systems problems. For example, about $7.8 million in improper military payroll payments were made primarily because people no longer serving in the Army were not removed from active duty payroll files.

• Improvement in management's accountability for, and focus on, strong financial management. CFOs and inspectors general, in commenting on results of financial audits, have reported that the process of preparing and auditing financial statements brings much needed rigor to accounting and financial reporting and highlights where the real problems are.

In 1994, the Government Management Reform Act made permanent the CFO Act's requirements for agencies to prepare entitywide annual financial statements and to have those statements audited. Also, the act expanded those requirements to cover, beginning in fiscal year 1996, the 24 major agencies that constitute virtually the entire executive branch budget.[10] The act also gave GAO new responsibility, beginning in fiscal year 1997, to audit reports showing the federal government's overall financial status. These comprehensive financial statements will provide a wealth of critical information about the performance of government programs and dramatically increase the government's accountability to the American public.

The CFO Act is landmark in establishing accountability and is central to achieving broader management reforms. Effectively implementing this legislation must be a top priority and continuing congressional oversight will be important to ensure results. Key implementation issues include:

• Foremost, agency CFOs and inspectors general must ensure that the CFO Act's time frame for preparing audited financial statements for fiscal year 1996 does not slip.

• Agencies must give short-term priority to implementing basic accounting practices, such as reconciling agency accounting records with Department of the Treasury accounts.

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[9] Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD-94-149, June 21, 1994).

[10] Attachment includes a listing of the 24 CFO act agencies and their fiscal year 1994 outlays.

- Over the longer term, agencies must upgrade their financial systems and operations to meet reporting requirements and provide reliable performance data.

To meet its statutory requirement, GAO, as auditor of record for the governmentwide financial statements, must ensure the adequacy of inspector general agency-level financial audits. This is a fundamental requirement of government auditing standards and will be met by working with the inspectors general and in some instances independently reviewing and testing the their work. Part of this assurance will be provided through the continuing help GAO gives to inspectors general in building their capacity to do the required financial audits. GAO will also be required to audit major operations that will materially affect our opinion on governmentwide financial reports but would not be done by inspectors general such as the Treasury's central accounting functions and debt management operations.

Together, the CFO Act and GPRA requirements provide a powerful incentive to improve data and management controls and an important means to transform the way the federal government is managed. Ultimately, full implementation of the CFO Act in tandem with the actions being taken under GPRA will heighten emphasis on effective program management and help restore citizens' confidence in government.

However, to produce effective change both accounting and performance measurement information ultimately must be brought to bear on budget decisions. Some have suggested that the structure of the federal budget itself has a bearing on how decisions are made concerning the federal government's investments. The lack of distinction in the federal budget between a dollar spent on consumption is often cited as a fundamental weakness. We have addressed this issue over the years, most recently in a report that discusses how an investment component might be incorporated into the unified corporate budget.[11]

In an environment of budgetary constraint, it is important to ensure that structural obstacles to reengineering are removed. In this vein, we are now beginning an effort examining historical trends in federal capital spending and reviewing current capital planning and budgeting practices at selected federal agencies. As part of our work, we will explore how budget process and scorekeeping rules affect capital decisions and whether recent OMB guidance on capital planning has made a difference at the agency level.

BUILDING AND MAINTAINING A MORE CAPABLE WORKFORCE

While clearer goals, better strategic planning, improved performance measures, enhanced use of technology, and more useful financial information can lead to improved management, a capable workforce is essential to successfully implement these improvements. We support efforts to move to a smaller and more efficient government. We believe that this can best be accomplished through outcome-based goals and sound workforce plans. Agencies must reengineer outdated systems and structures and enhance the quality of the remaining staff to ensure that downsizing does not diminish program performance or increase the potential for fraud, waste, and abuse. Without such changes, it will not be possible to correct other management problems. In fact, those problems may be exacerbated.

Unfortunately, agencies' workforce planning processes do not always work well, and this has impacted adversely on mission effectiveness and critical management support functions. For example, in the 1980s we reported on workforce planning problems that affected mission effectiveness in FAA's air traffic control system, SSA's automated data processing operations, the Environmental Protection Agency's Superfund program, and in various parts of USDA and the Department of Labor.[12] As a more recent example, in 1993 we reported on how the Department of Veterans Affairs lack of workforce planning affected its health care system. A major component of the Department's strategic vision involved moving from inpatient to outpatient care. However, decisions on the staffing allocations did not keep pace with the shift from inpatient to outpatient. Data on the best mix of skills, occupations, and levels to staff Veterans Affairs' outpatient clinics was lacking, and resulted in inconsistency in planning and implementing staffing decisions. Improper allocation

[11] Budget Issues: Incorporating an Investment Component in the Federal Budget (GAO/AIMD-94-40, Nov. 9, 1993).

[12] The Public Service: Issues Affecting Its Quality, Effectiveness, Integrity, and Stewardship (GAO/GGD-89-73, June 6, 1989); U.S. Department of Agriculture: Need for Improved Workforce Planning (GAO/RCED-90-97, Mar. 6, 1990); Strong Leadership Needed to Improve Management at the Department of Labor (GAO/HRD-86-12, Oct. 21, 1985).

of staff and skills can contribute to unneeded, costly admissions and readmissions to acute care facilities.[13]

Strong workforce planning processes are equally important to ensuring that critical management functions have people with needed skills. For example, managing and operating the wide array of agency management systems requires specialized skills in information technology, process reengineering, financial management, and cost analysis. The federal government continues to pay the price for not having an adequate cadre of professionals in the information and financial management areas who can help make change happen and improve the accountability of agencies. The private sector has learned that reengineering and streamlining projects can easily be delayed or fail, if personnel issues are not addressed. Information technology is becoming more complex and changes rapidly, leading to increasing opportunities to improve business processes. The reengineering of processes changes the status quo, by altering employees roles, responsibilities, and skill needs and changing or eliminating jobs.

OMB has reported that many agency CFOs believe that staff capabilities need to be strengthened in the areas of financial systems, financial operations, and financial policy. Our financial statement audits in the Department of the Treasury, including IRS and the Customs Service, and the Department of Defense confirm these needs. Further, the growing scope of the financial management function and the ever-increasing move toward automation will make these needs even larger and more complex in the years ahead. Recognizing the limited opportunities to enlarge the size of existing staffs, agencies and their CFOs need to ensure that investments are made in training and other professional development so that existing staffs can increase their professional skills and keep pace with emerging technology and developments in financial management.

The scope of the workforce capacity challenges confronting the federal government are reinforced by the experiences of state governments and private sector organizations that have undergone significant downsizings. In a recent review, most of the private companies and state governments we contacted regarding their downsizing strategies emphasized the importance of workforce planning to target the right positions for elimination. We were told that strategic planning decisions about what an organization does and why it does it is an essential first step that should be taken before any decisions on the appropriate size and composition of the workforce are attempted.[14]

Private and state officials told us that difficulties arose in the downsizings where workforce planning did not occur or was not effectively implemented. One company, for example, said that in an earlier downsizing effort the company decided to use across-the board personnel cuts but did not base this decision on sound workforce planning. The result was a loss of key employees whom the company had to rehire or replace. In a later restructuring, the company evaluated its workforce and found three major human resource problems: (1) excess people, (2) shortage of skills, and (3) poor distribution of talent. Company officials said that they now recognize the need for good workforce planning. Their earlier experiences showed them that an across-the-board cut can solve a problem of excess people but will not necessarily address shortages of skills or talent distribution problems.

Our work has shown that effective workforce planning encompasses (1) continually monitoring and assessing emerging workforce issues in the context of external and internal trends; (2) projecting workforce requirements by identifying the number of people and types of skills needed to accomplish agency goals, both short-term and long-term and comparing these requirements against the current workforce; (3) developing broad human resource goals and related action plans to address identified gaps between future requirements and the current capability; and (4) assigning accountability for plan accomplishment, including linking the plan to the budget, implementing planned activities, and evaluating results.

When federal agencies began the current downsizing effort, OMB initially expressed disappointment with the quality of agencies' workforce planning efforts. OMB has since issued additional guidance on workforce planning and now believes the quality of agencies' planning efforts has improved. We plan to monitor the agencies' downsizing plans as they are developed and implemented.

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[13] Management of VA: Improved Human Resource Planning Needed To Achieve Strategic Goals (GAO/HRD 93-10, Mar. 18, 1993).

[14] Workforce Reductions: Downsizing Strategies Used in Selected Organizations (GAO/GGD-95-54, Mar. 13, 1995).

NEED FOR EFFECTIVE OVERSIGHT

The management weaknesses and lack of sufficient workforce capacity in agencies across the federal government are longstanding problems that will require the sustained efforts of agencies and Congress to make needed improvements. Agencies have the primary responsibility for ensuring that their programs are well-managed, funds are properly spent, and initiatives are achieving the intended results. However, agencies have had difficulty in effectively dealing with this responsibility due, in part, to a lack of continuity in leadership.

In a report prepared for this Committee in April of last year, we raised concerns about the frequent turnover of senior appointees in executive branch agencies.[15] Among other things, we pointed out that the median length of tenure of such appointees was just over 2 years, that some key positions had as many as five different appointees serving in the same position within a 10-year period, and that some positions remained vacant for years. Generally, the median length of service of appointees in cabinet departments was below the governmentwide median. Cabinet departments also generally had higher-than-average turnover rates. Earlier assessments of the lack of management continuity by observers, both in and out of government, such as the National Academy of Public Administration and the National Commission on the Public Service (the Volcker Commission), had similar findings.[16]

The lack of leadership continuity in the executive branch makes continuing congressional oversight even more important. Congress, as a prime user-of performance and financial information, has a major interest in ensuring that agencies give the proper attention to addressing critical management issues. In this regard, we believe that Chairman Clinger and the Committee on Government Reform and Oversight took an important step earlier this year when they recommended that House committees conduct oversight to help ensure that GPRA and the CFO Act are being aggressively implemented and use the financial and program information required by these acts in overseeing agencies within their jurisdiction.

In summary, Congress through GPRA, the CFO Act, the Paperwork Reduction Act, and other initiatives has legislated a basic management framework for focusing federal management and accountability on the outcomes of federal programs. The key now, as agencies seek to streamline their programs and processes to improve effectiveness while spending less, is to do so in a focused and planned way that reinforces accountability for modern management systems that produce results.

Mr. Chairman, we look forward to working with you and your subcommittee in your efforts to improve the management of federal programs. This concludes our prepared statement. We would be pleased to answer any questions.

AGENCIES REQUIRED TO HAVE ANNUAL AUDITED FINANCIAL STATEMENTS

(in billions)

Agency/Department	1994 Outlays	Percent of total
HMS	278.9	17.6
Defense	299.0	18.9
Treasury	307.6	19.4
SSA	345.8	21.8
USDA	60.8	3.8
Labor	37.0	2.3
OPM	38.6	2.4
Veterans Affairs	37.4	2.4
Transportation	37.2	2.3
Education	24.7	1.6
HUD	25.8	1.6
Energy	17.8	1.1
NASA	13.7	0.9
Justice	10.0	0.6
Interior	6.9	0.4
EPA	5.9	0.4
AID	2.5	0.2

[15] Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation (GAO/GGD-94-115FS, Apr. 21, 1994).

[16] See, for example, Leadership in Jeopardy: The Fraying of the Presidential Appointments System National Academy of Public Administration, Washington, D.C.: November 1985 and Report and Recommendations of the National Commission on the Public Service, The National Commission on the Public Service, Washington, D.C.: 1989.

AGENCIES REQUIRED TO HAVE ANNUAL AUDITED FINANCIAL STATEMENTS—Continued

(in billions)

Agency/Department	1994 Outlays	Percent of total
State	5.7	0.4
FEMA	4.2	0.3
Commerce	2.9	0.2
NSF	2.6	0.2
SBA	0.8	0.1
GSA	0.3	0.0
NRC	0.05	0.0
Total CFO entities	$1,566.15	98.8
Non-CFO entities	18.23	1.2
Total government	$1,584.38	100.0

Source: High Risk Overview (GAO/HR-95-1, Feb. 1995).

Mr. HORN. Mr. Dodaro, do you want to add anything at this point?

Mr. DODARO. No. Mr. Finch has summarized it nicely. We would like to allow more time for questions.

Mr. HORN. Let's just start in here with a few. Mr. Finch, you mentioned information technology which, as we all know, is a perennial problem area before Congress and various committees. I sat on the Aviation Committee in the last Congress. Needless to say, we have numerous problems with that situation.

And you properly identified them as a high risk area in terms of your series. How can we improve the cost effectiveness of information technology investments? What would you suggest the executive branch and/or Congress do compared to what we're currently doing, which seems to go awry one way or the other?

Mr. FINCH. Right. Mr. Chairman, you've hit on Gene's strong point. May I defer that question to him?

Mr. DODARO. One of the things, Mr. Chairman, that we did after looking at these problems over about the last decade or so, where the Federal Government spent about $200 million and has little to show for it in the past decade, we went out to answer that particular question and studied leading organizations in the private sector and in State governments.

And we produced this report here that is an executive guide. It lists out 11 fundamental practices that we found these leading organizations had in place to successfully manage technology. And there were really three key factors.

One, they decided to work differently. The top executives were involved in monitoring technology decisions. They benchmarked their practices against the best in the industry. And they made a definite commitment. In the Federal Government, rarely do we benchmark against other operations. Everything is unique in and of itself.

Also, the technical decisions are delegated to lower levels within the organization. And there's not enough accountability and involvement by top agency officials.

The second thing that successful organizations do is, they reengineer their business processes first before they buy the technology. Typically, the Federal Government runs out and tries to buy hardware before they have really looked at their processes. And we have several examples I could share with you about the opportuni-

ties that are available in the Federal Government to really reengineer their processes put in place.

Also, these leading organizations broke down their investments in technology into discrete pieces and managed it and evaluated it, managed on the risks and evaluated whether or not they were getting a good return on their investment. As you know from your experiences with FAA and the IRS tax system modernization effort, the Federal Government launches into multiyear efforts, modernization efforts, and does not monitor progress adequately along the way.

The third major area is, they really have the adequate skills and technical expertise to manage these efforts effectively. The Federal Government is devoid, in a lot of cases, of enough talent and expertise to really carry off these large-scale computer modernization efforts.

Now, what we have done in order to get these practices implemented and not just talked about is work with OMB. They have incorporated these practices into their guidance to the agencies recently, Circular A–130, which sets forth the Federal Government's requirements for information technology. We have also worked extensively with the Congress.

Many of these best practices were incorporated into the recent revisions that this Congress passed to the Paperwork Reduction Act, which sets forth the Federal Government legislative framework for information technology. We were very heartened to see that this Congress passed that legislation, since that act had not been reauthorized for about 15 years. And everybody knows the changes that have taken place in information technology.

So those are the essential findings. We're working very extensively with agencies to try to get them to implement these practices.

Mr. HORN. That's a very helpful list. What do you find is the main factor that these experiments to invest in information technology—why they go awry? I've seen it happen at universities. I've seen the various Federal examples.

The Pentagon's notorious for some of these things. And you mentioned the business that we are unique as part of the attitude. And often, they're going after information technology simply to adapt it to a bad practice and process they have got without facing up to that. But it seems to me part of it is executive will to say—somewhere, we have got to say, "This is where we stop; and now, it's going on line."

What I found with the FAA is that everybody had a new idea, and it was sort of the same way. I remember that fighter under Secretary McNamara 30 years ago. Everybody wanted their own bells and whistles. Trying to be accommodating, it was constantly under redesign.

And there doesn't seem to be a point where you say, "Hey, we're out of generation the day we start." We know that, but we're better than what we have got. And so you cut your losses, and you say, "Let's do it." And I don't know how you feel about that, but what have you seen from your own experience?

Mr. DODARO. That's a very, very valid point, Mr. Chairman. There's a couple things. Let me give you a couple examples of what

I think is the problem. One is that the Federal agencies' practices have evolved over the years and have sort of adapted over time. And nobody really knows how the business processes really work.

For example, in the Social Security Administration, when somebody's disabled and applies for a claim, it takes them 4 months in order to get back to the person with their initial decision on the disability claim. And they were going to go out and buy computers in the hopes of shrinking that time down. We said, "Time out. Before you do that, analyze your business processes."

And we found that in that 4 months, they only spent 10 hours working the claim. The rest of the time is spent in que, moving pieces of papers around. At the Defense Department, it takes 100 different transactions through a dozen organizations to make one progress payment on a complex weapons system.

So the processes are very complicated. They are very manual, labor-intensive. So No. 1, agencies don't take the time to analyze and streamline those processes first.

No. 2, the top executives are not involved enough in these decisions, because they're basically business decisions. They just hand it off to the IRM people in the shop and let them go figure it out. And they really in that case are delegating responsibility. And we think that's wrong.

What we have worked for in these recent changes to the Paperwork Reduction Act in our guidance is to make sure that the top officials get involved in making those business decisions and monitor the investment. Typically, the agencies look at it as an expense item in their budget and not an investment to get a return on, either in reduced costs, improved quality of service, or better delivery times. And they're not involved in monitoring this.

Recently, we briefed the IRS Commissioner on problems we found in the tax system modernization effort. They really don't have the right business strategy. They want to move to a paperless process, but their business strategy was only going to result in the year 2002 in having 17 percent, roughly, of all the tax returns submitted electronically. And that's way off target. So we recommended that they refocus their business strategy.

And then the other problem is that you really don't have the discipline once you make a good business decision to develop the software in a lot of the agencies. I think they make a mistake in trying to develop it themselves. So there's a whole raft of technical issues associated with it, as well.

Mr. HORN. Let's take the IRS. Were you called into that, or did you just have them on your list of people to take a look at in your normal review of agencies? How did you get involved with them?

Mr. DODARO. It was a combination of our own initiative. It became of concern to the appropriation committees because of the large investment that has been made. There has been about $2½ billion spent by the end of this fiscal year, and they're estimating to be at least $8 billion-plus.

So we looked at it. We just added IRS tax system modernization as a high risk item to our list in February, as we did with the FAA. And we have been monitoring that and trying to help give them specific recommendations to put them on track. They are a long

way from having things in place to adequately monitor that modernization program.

Mr. HORN. It seems to me in an orderly world, when that request came for that investment through the President's budget process, that somewhere in OMB, the management office, the budget office—if they have a specialized information resource technology unit, so much the better—those questions ought to all have been raised in the budget process before it was ever submitted to Congress.

Mr. DODARO. That's correct.

Mr. HORN. Do you know if they ever were? Have we gone back through the process to say what 5 fiscal years ago was the process by which that potential major investment was considered at the very beginning? Because they had to make a judgment somehow of at what phase do we go and what pace and how much money for the fiscal year.

Mr. DODARO. There were at least two breakdowns, Mr. Chairman, not only at OMB but also within the Treasury Department. Those budget requests flow up through IRS through the Treasury Department. The tough questions were not asked.

A lot of people were not involved. I think people were drawn to the allure that if we modernize, things are going to go better, and everything's going to be OK, without looking at the details and without asking for real cost-benefit information, or whether or not they had the right talent to manage it and to develop the software. Nobody monitored it on a real incremental basis. And then, all of a sudden, we find we have a big problem.

We have been making recommendations for years along these lines. At OMB, what we have been trying to do there is we have been working jointly with them to develop a guide, an investment guide, for the OMB budget examiners to use in evaluating technology portfolios that are imbedded in agency budget submissions. And we're trying to help educate them along.

They have some talent at OMB in this area, and they're trying to do this. But they need to have some additional guidance. We're also trying to put in place some guidance to the agencies so they could develop these systems. The information wasn't analyzed adequately at IRS's level before it was even submitted. And there wasn't good oversight, either, at Treasury and OMB.

They're trying to correct these things now. Mr. Muñoz, for example, is heading up a joint board with Commissioner Richardson to try to get the tax system modernization effort on track. But they're way behind the curve there. And they obviously spent a lot of money.

Mr. HORN. What role, if any, does the General Services Administration have in this type of decision?

Mr. DODARO. They are involved in approving agencies to go forward with major procurements. And they will delegate procurement authority to the agencies to go ahead and make the computer buy.

So they come in after the budget authority has already been approved by the agency. The agency is getting ready to actually procure the information systems, hardware, software, whatever.

GSA didn't really focus a lot on exactly what performance measures and improvements and services were going to be accomplished as a result of the money. And we have been recommending that they get more involved, as well. They have withdrawn some delegations of procurement authority based upon our studies.

For example, at the Agriculture Department, there was a $2.6 billion delegation of procurement authority given to the Agriculture Department for this information sharing project they were trying to put in place. And we recommended that they did not do the reengineering first, they weren't ready to buy this equipment. And GSA then acted.

But GSA has been more reactive than proactive in the process. And there's some question as to whether or not they can be made more effective. We're looking at that issue now.

Mr. HORN. If you and others in GAO could wave a wand, at what point in the process would you put the unit that would understand the complexities and the timetables and the actions that have to be taken on a major investment in information technology?

Mr. DODARO. That has to be built in into the agency. The agency has to have——

Mr. HORN. So you would start at the agency level?

Mr. DODARO. Right. Because it's basically a business decision. And the agency has to decide how they want to deliver services. They need to understand who they're delivering the services to, whether it's directly to the public, or another government agency. You really have to have that capacity, and that capacity has not been there. I mean, there has been a lot of——

Mr. HORN. Do you mean you have to have that capacity in every agency just for ongoing operations purposes; and then, when a new investment comes, that same team would be competent to handle the new investment potential in information resource technology?

Or do you need it at a higher level where they can service all agencies as they come through and share the common experiences and pitfalls of all agencies as they come through?

Mr. DODARO. I think you need at least two dimensions. One, you need a good, strong management team in the agencies that can continuously improve how they operate and deliver services.

Mr. HORN. Whether they have information resource technology or not?

Mr. DODARO. Right.

Mr. HORN. Just basic flow of decisionmaking?

Mr. DODARO. Decisionmaking and the right technical support to put the systems in place. Then, you need a central body to share that information and provide support and guidance. We have been trying to work with OMB to play that role in terms of sharing experiences.

This is the role that OMB and GSA should be playing. They're trying to operate more in that role in trying to support agencies, share of information, provide good guidance. But there's a long way to go. You really need it in both places in order for it to work effectively.

And to date, there have been efforts to make it work better, but it hasn't really been pulled off successfully. A lot of these organizations, as you know, Mr. Chairman, are large. And they're as large

as some of the Fortune 500 companies. And you need good, state-of-the-art knowledge of good, modern business practices.

And in information technology, we have people in agencies that are used to operating technologies that were put in place in the 1960's and 1970's. They don't have a lot of experience.

Mr. HORN. I take it from the comments you made, GAO has looked at successful and unsuccessful private sector procurements in this area to see how they went about it; am I correct?

Mr. DODARO. That's correct. We studied in this case——

Mr. HORN. And that's what you shared with the executive branch agencies?

Mr. DODARO. Right.

Mr. HORN. Let me move to another question, Mr. Dodaro. As I remember, in a March 1995 GAO report on the Defense Business Operations Fund, GAO pointed out some serious deficiencies in DOD management practices. Could you summarize what those findings were?

Mr. DODARO. Yes. I would be happy to. I think this Defense Business Operation Fund both points out some good things the Defense Department is trying to do—it's about a $75 billion fund. And it's intended to get DOD managers more focused on the costs of their operations and managing those costs down.

But it also illustrates the weaknesses in DOD's financial management systems. Our findings here were that the financial reports on the fund's operations were inaccurate consistently over the last 3 years they have attempted to operate.

We also pointed out that they were moving from about 80 financial systems down to 17 systems, without considering how much it was going to cost to develop good financial management systems.

Mr. HORN. When you say they were "inaccurate," do you know why they were inaccurate, what happened?

Mr. DODARO. Yes. We tracked that through, and what we found is that of the 80 different financial systems that feed in, they had developed ad hoc over time—they had different data definitions.

There were actually numbers in the reports that were being consolidated by the Defense Finance and Accounting Service that had negative balances for inventories and accounts receivables on the statements. Things that were on the face of it were completely wrong.

So the systems were incompatible. You didn't have standard data definitions. In the Defense Department, right now, they have over 100,000 data elements. And they have now studied it. They think they can get away with less than 1,000. So you have a lot of mishmashes of systems.

And here, you've tried to take data from the Army, the Air Force, the Navy, and some of the other components and put it together in this fund. The fund was good in concept, but they didn't have the financial systems in place to support it.

Mr. HORN. Under what Assistant Secretary of Defense did this whole project operate?

Mr. DODARO. The DBOF operates under Defense, Finance and Accounting Service and under John Hamre, the Comptroller.

Mr. HORN. The Comptroller of the Department of Defense.

Mr. DODARO. To his credit, he has been responsive to some of our recommendations. For example, they're now trying to come up with a good cost estimate of what it would take to develop the financial management systems that they really need in place.

We assisted them in scoring some of the 80 statements. None of them met any of the current accounting requirements that they should meet. And only three of them met some of the ADP requirements, some of the technical requirements on data requirements, et cetera. So it's going to require a substantial investment in the financial management systems to bring them up to speed.

Also, we pointed out some concerns we had about how they were recovering prior year losses. The way they were doing that is just increasing the prices that they charged the services in the next year.

We recommended that they seek an appropriation through Congress to recover their prior year losses so that the Congress could have adequate oversight about why they are losing money, and what are they doing about it, rather than passing the price increases on, which are just then buried in the O&M accounts in the individual services, and you have diffuse accountability for fixing the problems.

We also were concerned that they were returning the management of cash to the different services rather than having it centralized. This was one of the major advantages of setting up the fund in the first place, which was to minimize the Federal Government's cash requirements for operating these industrial funds. We have pointed that out and I would be happy to provide a copy of that report for the record.

Mr. HORN. Give me an example of the type of definitions that they did not seek to have unified to describe the same phenomena, even though it might have had a value put on it based on purchase or amortization, if any, by different services. Give me an example.

Mr. DODARO. Some of it would be the inventory that's on hand, what kind of parts that are available.

Mr. HORN. Does the Army call it what the Air Force calls it what the Navy calls it?

Mr. DODARO. Exactly.

Mr. HORN. Did they try to reconcile any of those as they started into this new plan?

Mr. DODARO. They're trying. But basically, what you're up against is about 30 or 40 years of ad hoc proliferation of financial systems and a large, decentralized operation, one of the largest in the world. And so they have put groups together to try to come up with consistent policies.

As you know, it has always been a problem trying to get the services to standardize and work across DOD. Here, you just have inadequate systems. In addition to inventory, accounts receivable and how much they were billed—that was part of the problem. Those are some of the examples of the problems. But they really run the gamut of what you would have on hand.

We're also looking at their pricing policies right now. And once that report's available, I would be happy to share it with the subcommittee.

Mr. HORN. I suspect if the Department of Defense—sometimes haltingly—is capable of developing a complex weapons system that reaches into outer space and into the ocean depths, they ought to be able to practice good financial management like any business in America, not that every business does it. But some businesses do it very well. We ought to emulate them.

Mr. DODARO. I agree with you. For example, we just looked at how they do a rather mundane task such as process travel vouchers. They spend about $3½ billion. About 30 percent of that amount of money goes to process the travel vouchers.

We compared that against the private sector and found that private sector only spends about 10 percent and some of the leading organizations, 6 percent. So we recommended changes that could save hundreds of millions of dollars a year just in processing travel vouchers within DOD.

Mr. HORN. Was some of that contracting it out on a bid basis to private travel agencies?

Mr. DODARO. Some of it was to get it down to a very few travel agencies, get the regulations down. They have about 1,400 pages of regulations. We tried to get them down to 20 or so, and to use a credit card rather than cash.

Mr. HORN. Which is what we use in Congress. When the bill comes in, you've got to certify, indeed, you did travel, and it's paid.

Mr. DODARO. That's right, and getting rid of a lot of the paperwork up front. So they're looking at this. And Comptroller Hamre's going to take action on it. But I think the significant watershed at the Department—and a lot of this was attributable to the Chief Financial Officers Act—is that they now recognize they have a problem in financial management. Before, they wouldn't even recognize that they had a problem.

They recognize now, too, it's costing them money that's undermining their ability to maintain readiness and training. So they're trying to work hard on it, but they have got a real big problem, and we're trying to help them out.

Mr. HORN. Does GAO feel that contracting out is a worthwhile alternative that will save money?

Mr. DODARO. I think that that is definitely an option that ought to be pursued, Mr. Chairman, as we go forward. There are many operations, such as payroll and other things, that we're going to start looking at in detail.

Through the audits in the Chief Financial Officers Act, we found out how bad the problem is. Now, we're trying to work to find some solutions. Contracting out could be a viable solution in some cases.

Mr. HORN. Let me ask a few other questions before we wind this up. The National Performance Review has been criticized for determining what number of employees should be eliminated before determining what work would no longer be performed. They're starting at the wrong end of the equation.

While Congress bears a portion of the responsibility for determining what work agencies are required to perform, I'm concerned that if substantial efficiencies aren't realized and work eliminated, that this downsizing will really be temporary. Do you think this is a fair criticism, or have agencies taken steps to eliminate work or substantially increase the efficiency of current operations?

Mr. FINCH. I think that's a very valid question and a very valid issue, Mr. Chairman. We did some work recently where we checked with 17 companies, 5 States, and 3 foreign governments about their downsizing experiences and what really went on in the area, why they downsized and how they went about it.

Basically, it was interesting. The private companies, their objectives were directed toward making their operations more efficient and eliminating less profitable parts of the operations. The States went into it primarily from a cost-cutting mode. They just needed to cut costs without regard to the work requirements.

The foreign governments tried to streamline to make their operations more efficient. All three of them found that a failure to plan and really retain viable workforces resulted in them cutting needed employees, having skills and in balances, rehiring or replacing separated employees.

So it's a key issue of knowing what your workforces are. You really need to know what business you're in, what services you want to provide, trying to, as Gene mentioned, reengineer through information technology to try to tie into that mission, and then thinking about the workforce issues in terms of the capacity and those kinds of issues.

So sometimes—and this was a point that one of the earlier witnesses made, is one size doesn't necessarily fit all, that it can be wrong to think about the numbers in the aggregate. Because you really need to think about the numbers in the situation. They need to be situational.

So as we proceed with the downsizing, I think these are some very real issues. And workforce planning is going to become even more critical.

Mr. HORN. Let me move to the management issues at OMB. As I understand it, the management side of OMB declined over the past several decades. Management staff decreased from 224 in 1970 to 47 in 1987.

And this decline was cemented into the 1994 reorganization of OMB when the management side, then leaderless due to the resignation of Philip Lader, was folded into the dominant budget staff, as the long-term decline in OMB emphasis on management degraded governmentwide leadership for management reform at the agencies. How do you feel about it?

Mr. FINCH. Well, we have recently started a review, Mr. Chairman, of OMB 2000 and are trying to get our hands on exactly that issue. And I think it's not so much an issue of the numbers of OMB staff but more the staff's focus in terms of how they go about doing their reviews.

And I think it was Mr. Glynn in his statement made the comment that you can get a tremendous amount of leverage on agencies through the budget process. And there's a great deal of truth to that.

Mr. HORN. My bias, as I told you, was with that, which doesn't mean that you decimate the management staff. But I think people do listen to budget.

Mr. FINCH. That's right. You really get their attention in a hurry. And our work is just getting underway. We haven't been in there too long yet. We do have some anecdotal evidence that the manage-

ment issues are being emphasized in the budget process. This is really preliminary. We have got a lot of work to do yet.

And one of the questions that we have is whether the budget process may be too time constrained for dealing with some of these long-standing management issues. Because that's a fairly quickly moving target. It's our intent to provide periodic progress reports as OMB moves toward 2000. So hopefully, we'll be able to share with you information on that issue.

Mr. DODARO. If I can, Mr. Chairman, I want to add a couple of thoughts onto what Johnny articulated.

Mr. HORN. Sure.

Mr. DODARO. We did a management review of OMB back in 1989. And in that review, we found that they needed to integrate more their management activities with the budget process and really called for that at that time. And they have begun to do that, as Johnny pointed out and other people have, as well. So that's encouraging.

Second, we pointed out that OMB needed to move to more of a support role, rather than an oversight role and a compliance organization. And, as you pointed out, there's a need for a central body to have management expertise that could be shared throughout the government. They're trying to make that transition, as well.

Another good move was the establishment of the Deputy for Management Operations over at OMB. And Frank Hodsoll, the first person who was in that role, and now John Koskinen, although it hasn't been filled all the time—and as you mentioned, Phil Lader, the three individuals that were in there, that attention has brought a little bit more focus.

On the cautionary notes, however, you want to make sure that the statutory offices responsible for the management activities, the Office of Federal Financial Management, the Office of Information and Regulatory Affairs maintain that focus and expertise. That's something we're a little concerned about. And we're going to watch that as we're monitoring.

Mr. HORN. Let me ask about GAO's own capability to analyze management. Describe to me how it works in GAO, how many people you have, how many did you have 10 years ago, this kind of thing.

Mr. DODARO. Basically, the overall staff levels in GAO had been stable for about 20 years at around 5,100 until recently.

Mr. HORN. And what do we call that unit within GAO?

Mr. DODARO. In terms of the management unit?

Mr. HORN. The management unit.

Mr. DODARO. Oh, OK. I was just giving overall figures. Basically, we're organized into four divisions that divide up all the Federal agencies. To a certain extent, those divisions do management activities. But we have a special management group that Johnny heads up. And then we have the accounting and information management division in GAO, which I head. And we have a budget group in that, as well.

We have in my division, for example, about 600 people that are here both in headquarters and in our regional offices. We have about 400 here and about 200 in the regional offices. That's down, as GAO has been downsizing over the past 2 years from what we

have had traditionally in that area. And then Johnny has a general management group. And I'll let him talk about——

Mr. HORN. At this point in the record, I would like to see a table, chart, whatever that has both of your particular divisions, both the Washington staff, field staff, the functions they perform, and so forth.

[The information referred to follows:]

The Issue Areas within the Program Divisions all deal with management issues specific to the programs or departments within their jurisdiction. This is also true of some of the issue areas within the General Government Division (e.g. Tax and Administration of Justice). The cross-cutting staff in the Accounting and Information Management Division (AIMD) and the General Government Division (GOD) are shown below as of September 30, 1995.

GENERAL GOVERNMENT DIVISION CROSS-CUTTING ISSUE AREAS

Issue area	Washington staff	Field staff
Government Business Operation	33	16
Federal Management and Workforce Issues	101	9

ACCOUNTING AND INFORMATION MANAGEMENT DIVISION CROSS-CUTTING ISSUE AREAS

Issue areas	Washington staff	Field staff
Budget Issues	27	0
Accounting/Financial Management Issue Areas	144	113
Information Resource Management Issue Areas	130	40

Mr. HORN. And then I would like to hear more about those that focus exclusively on management issues. And I take it that's Mr. Finch?

Mr. FINCH. Right. And would you like me to talk about that now, sir?

Mr. HORN. Please.

Mr. FINCH. Yes. We have about 500 people in our division. And I have two groups that really focus on management. One of those groups deals with management issues, cross-cutting themes.

They deal with GPRA issues and the implementation of GPRA. They track NPR issues, NPR recommendations, the status of that, and many other things that relate to cross-cutting management issues. That group has around 50 people in it.

I have another group that has about the same staffing level that looks at the human resource management side. It focuses on the old OPM and the civil service.

Mr. HORN. Now, does the management group nonpersonnel, shall we say, do they have a fairly good knowledge of what has happened in the private sector in the last 10 to 15 years with reference to management analysis, how downsizing has occurred, the tremendous elimination of central support staffs?

Mr. FINCH. Yes, sir. We have done a lot of work in that area. And we are continuously touching base with the private sector. And all of the work that we do, when we focus on the Federal sector, one of the things that we try to do is benchmark against the private sector and go out and see what's happening.

Mr. HORN. So you've had leading authorities in the field come in, have a seminar with you, this kind of thing?

Mr. FINCH. Absolutely. And, in fact, we just said we know that civil service reform is going to be a big issue as the Federal Government downsizes. And we just conducted a 2-day symposium at GAO where we had leading representatives—we had someone from New Zealand, in fact. You mentioned New Zealand earlier.

We had New Zealand, we had Canada, we had representatives from New Zealand and Canada from the foreign perspective. We had leaders from the private sector. We had Xerox, we had AT&T, we had those kinds of companies. We also had Herman Miller Furniture Co., which has a real unique management style, which is a lot different from Federal Express. We had Federal Express there.

Those are two great contrasts in terms of management style. Herman Miller is a very enlightened management style, if you will. And Federal Express is run by an ex-Marine. And they go at it from completely different approaches, but each are very successful.

Mr. HORN. Both are successful. That's right. It takes a lot of different styles in this world, but you can make them work.

Mr. FINCH. It truly does. We also had State representatives there from State governments. We also had city representatives there, as well. We had Hampton, VA. Sunnyvale, CA, was booked, but we had John Mercer from Senate Governmental Affairs in the crowd, and he would speak up periodically on behalf of Sunnyvale. So we do that sort of thing to really try to stay on the cutting edge of what the leading practices are.

Mr. HORN. That's good.

Mr. DODARO. One of the things, Mr. Chairman, I would just add on for the record, though, that really concerns me is the proposals to reduce the size of GAO and what impact that will have on our capability in this management area.

We have spent a lot of time building up our staff to help promote implementation of the Chief Financial Officers Act. We have been on the cutting edge in information technology, as I've talked about. We have a statutory role in the Government Performance and Results Act. And I really worry that if we sustain any further significant reductions, we're not going to be able to stay on the cutting edge as we have before.

Mr. HORN. Yes. Those proposals, presumably, would come to this subcommittee. I'm not familiar with them. Are there some floating around somewhere, either within the executive branch or——

Mr. DODARO. There have been proposals that have been flowed by our appropriations subcommittees, both in the House, the legislative branch Appropriation Committee, and also in the Senate, in terms of the Oversight Committee. And so those are things that we just worry about.

Mr. HORN. Sure. Let me ask you, on the idea of measuring government performance, most of you are familiar with the Oregon benchmarking system. What type of creative work is being done by GAO in this area, and in whose shop is it?

Mr. FINCH. Do you want to take a shot at that?

Mr. DODARO. Yes. We both participate in developing benchmarking data. One of the things that we are doing in that regard is developing a methodology to do business process reengineering in the government and help develop the agencies.

I mentioned the study that we did with DOD travel voucher processing. We're going to then expand that to other components of DOD's management operations. We have also done a lot of work in GAO and DOD in the inventory area.

This was a high-risk area we pointed out and where DOD has about $36 billion as unneeded inventory, which is about 47 percent of their current inventory. And this is after they have just disposed of about $40 billion over the past few years.

One of the things in the Defense Logistics Agency that GAO has been able to do is to get them to move to what's called a "prime vendor program" for medical supplies. Instead of buying supplies and warehousing them and then finding—and particularly medical supplies, some of them go bad and expire—they're now collocating vendor suppliers close to the hospitals, cutting out the storage requirement. And so——

Mr. HORN. The Japanese inventory system.

Mr. DODARO. That's exactly right.

Mr. HORN. Let me ask you, on measurement, has the GAO ever done a comprehensive study of how various government departments measure success in their programs and put it all in one place with appropriate comments? Does that study exist? And if so, how late is it? How old is it?

Mr. DODARO. I'm not aware of——

Mr. FINCH. I don't think so, Mr. Chairman. One of the things that comes to my mind—and there's a lot of corporate history here in memory between the two of us—but one of the things that comes to my mind was, several years ago, one of the other divisions in GAO, our program evaluation and methodology division, took a look at the capacity of Federal agencies to really do the kind of evaluations that are necessary to know whether or not they were meeting their missions.

And as I recall, the results of that study indicated that that capacity had been diminished considerably over the years in the Federal agencies.

Mr. HORN. You're thinking of the role of various Assistant Secretaries for planning and evaluation?

Mr. FINCH. Yes.

Mr. HORN. Is that where the focus was?

Mr. FINCH. Yes.

Mr. DODARO. That would have been where it would be focused.

Mr. HORN. I might have mentioned to some of you before, one of my frustrations when I was chairman of the National Institute of Corrections—so that would have been mid- to late 1980's—was when we got a Justice Department analysis of our program. It was utter nonsense.

All they had counted was things they could count. No one had ever consulted with the National Institute of Corrections. They just had a bunch of hot shots somewhere send out a study, which we had great fun destroying from sentence one to the last sentence.

But it just seems to me that what they're doing in the Oregon benchmarking, what they're doing in New Zealand, we ought to be able to not reinvent the wheel but profit from looking at what wheel is doing what.

Mr. FINCH. Absolutely.

Mr. HORN. I would think GAO would have a major role in pulling all that together.

Mr. FINCH. One of the things that we are doing in that regard, Mr. Chairman, is in my division in response to our GPRA requirements in terms of monitoring GPRA—and then we have a statutory requirement to report out in 1997 on how well the implementation went—we have put together a methodology for assessing GPRA performance.

And, of course, performance measurement is a key part of that. We're in the process now of looking at how that is going, how GPRA implementation is going across various departments. And we're getting into some departments in some detail. We're just beginning work in Justice. We're just beginning work at the Internal Revenue Service, in terms of GPRA implementation.

And one of the first things that we're focusing on is the performance measures. One of the things that we want to do is really try to identify best practices that are occurring in all these different pilots and be able to help communicate that so we don't have to reinvent the wheel.

Mr. HORN. That's an excellent idea. I've always thought that if we showed the success stories of government, it would help us all.

Mr. FINCH. Absolutely.

Mr. HORN. There's a feeling out there that we don't know how to order pencils. It's like university faculty think presidents and their administrations aren't competent to order pencils.

But the fact is there are success stories. There are people doing outstanding work every day of the year. There ought to be some way to get that story out. GAO is as good a group as I can think of, gentlemen, to get that story out.

Mr. FINCH. And we're headed in that direction, sir.

Mr. HORN. Good. Well, I thank you both for your testimony. It's very enlightening.

We'll bring the next panel up, panel three, Mr. Alan Dean, former Assistant Secretary of Transportation, and former coordinator of President Nixon's reorganization plan; and Mr. William Hansen, former Assistant Secretary for Management, Chief Financial Officer, Department of Education.

[Witnesses sworn.]

Mr. HORN. Thank you. The two witnesses have affirmed. I don't know if you've worked out how you would like to proceed, but Alan Dean is first on my list. It's good to see you.

Mr. DEAN. That's as good an order as any, Mr. Chairman. Let me say, it's a particular pleasure to appear before you today.

Mr. HORN. Well, I want you to know I said in the campaign I would join the Government Operations Committee just to occasionally see an old friend.

Mr. DEAN. I'm delighted that you have taken this committee. And let me say that the program you've laid out is very encouraging to all of us who are concerned with the quality of management in the Federal Government.

Mr. HORN. Well, I thank you.

STATEMENT OF ALAN DEAN, FORMER ASSISTANT SECRETARY OF TRANSPORTATION, FORMER COORDINATOR OF PRESIDENT NIXON'S REORGANIZATION PLAN; AND WILLIAM HANSEN, FORMER ASSISTANT SECRETARY FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER, DEPARTMENT OF EDUCATION

Mr. DEAN. My name is Alan Dean, and I'm a senior fellow of the National Academy of Public Administration. But I'm going to base most of my comments today on work I actually did on government management and departmental management either in OMB, in the Department of Transportation, or in HEW or recent work with Energy and HUD. And I'll try to make comments which have some general applicability to the work of this committee.

One, I kind of worry about the complexity of the task that you've undertaken, glad though I am that you're doing so. The reason is that our departments vary so enormously in history, size, character, and mission, role of political versus career people, culture, et cetera.

And what this does is it makes it rather difficult to develop templates or models that can in a procrustean way be applied to all departments under all circumstances. And, therefore, one of the cautions I would be inclined to give is that care be taken to sort out those things that can be made generally applicable from those which need to be tailored to the particular requirements and needs, size and traditions of a particular department.

Now, there have been a lot of illustrations of what can happen here. Lyndon Johnson tried to apply PPBS, planning, programming, budgeting system, across the entire government, no preparation other than what had been done in the radically different Defense Department. The result was unmitigated disaster. And when President Nixon came into office, the effort to apply this program, which had some meritorious features, to the civil departments was abandoned.

The Inspector General Act, with all of the meritorious purposes behind it, was applied instantly to all executive departments and many independent agencies without adequate investigation of how those agencies and departments were, in fact, handling waste, fraud, and abuse at the time or the effect on things like internal audit or management analysis.

And I hope in this Congress there will be an opportunity to really reevaluate how the Inspector General Act has worked and how to make it more effective.

In contrast, the Government Performance and Results Act is approaching it in the right way. Agencies have been given several years to develop tests, to develop procedures and to learn how to do what the Congress really intended. I'm very complimentary of that act and the way it's being administered.

I'm going to briefly touch on several general points, so my remarks will be short, and you can rely on questions. One, good departmental management requires decentralization of administrative authority. The National Academy of Public Administration documented that in 1983. I'm glad to see that the current efforts are in this direction, but with one caution.

With delegation must be safeguards to assure that fundamental policy objectives are consistently followed and that funds are pru-

dently used. But if you do not allow a department to handle administrative matters on its own authority in day-to-day things, it is not going to function well.

Now, something that has been mentioned much today, but one question was directed. We have way too many noncareer officials in the government for good departmental management. Volcker in his study a few years ago documented this, and he was certainly no career civil servant.

Virtually every observer of government management has concluded that the excessive number of political appointees overburdens the President, causes too much turnover in office, suppresses the positions to which career people can aspire, and reduces the level of management sophistication.

A good example of where this has happened is the career Assistant Secretaries for administration. Pursuant to the first Hoover Commission's report, these once existed in every department. Now, only Transportation and Justice have such a career position.

As a result, we have Assistant Secretaries for administration who have been there a shorter period of time than their Secretaries, who know less about the internal operation than their Secretaries, and whose turnover is at least as great as other political appointees.

Many of us feel we have got to reestablish a point of management leadership within the departments. This can be done either by putting Assistant Secretaries for administration back in the career service or, what we're now thinking about in the National Academy, the creation of an under secretary for management.

This we recommended in our HUD report, and President Nixon recommended that in each of the four departments that he proposed. Such an official would have enough rank to pull together now scattered administrative functions on behalf of the Secretary.

But another thing that's badly needed is a center of management leadership for the President in the Executive Office of the President. This was discussed with GAO. The last reorganization of OMB virtually destroyed the management side, able though John Koskinen is. I've served for 14 years in OMB and BMB. You cannot put cross cutting government management types in five different budget-oriented offices and get governmentwide leadership.

Also, the budget is now such a pressing function that it drives out management. If you put people allegedly concerned with management in a budget role, they're soon pure budgeteers.

Many of us now feel that you can no longer build a strong management side in OMB, and we urge the creation of a separate Office of Federal Management in the Executive Office of the President where a relatively small but cross-cutting staff not tied to budget cycles, not dominated by the budget, could tackle the long-term problems of cross-government management improvement.

Other things we can do is take a look at the internal structures of executive departments. Many now have obsolete, ancient techniques of overseeing their programs based upon Assistant Secretaries who try to coordinate small operating entities. I would suggest the committee look at the DOT model, which groups the programs in a relatively small number of program administrations and puts

the Assistant Secretaries in cross-cutting positions, where they really help the Secretary.

But that leads me to stress this point. As we improve departmental management, we need to recognize that departments have to move slowly when they're very big. You cannot take a department like DOT, with 10 major operating entities, and overnight convert it into 1 of 3, which is now being proposed.

The Congress ought to take a very careful look at this, because the academy has repeatedly studied DOT, and I'm a former DOT official. It is possible to reduce DOT from 10 to 8 operating entities, but not to 3. Agriculture is proud of reducing it from 50 to 30. I submit that if the Pena plan goes through, the DOT will be practically destroyed as an effective operating entity.

I would like to say a word, too, about FTEs. Of all the management devices, they are the worst. If you want to control government outlays, look at the budget. Because use of FTEs is so easily allayed if the money is there through devices like contracting out. And frequently, the effect is to weaken the ability of the department to oversee its programs and to really administer them.

In most agencies in which I served, we did not have tight FTE controls, but we were very, very conscientious about matching our staffing to what the real work load requirements were. Those are my introductory comments, Mr. Chairman. I'm open—well, we have another witness and then questions.

[The prepared statement of Mr. Dean follows:]

PREPARED STATEMENT OF ALAN DEAN, FORMER ASSISTANT SECRETARY OF TRANSPORTATION, FORMER COORDINATOR OF PRESIDENT NIXON'S REORGANIZATION PLAN

My name is Alan L. Dean, currently a Senior Fellow of the National Academy of Public Administration. I am pleased to appear before this Committee to discuss a topic as critical to the effective functioning of the Federal Government as the strengthening of departmental management. In presenting my views, I shall draw upon experience gained as the Assistant Secretary for Administration of the Department of Transportation, as Management Adviser to the Under Secretary of the Department of Health, Education ad Welfare, and as the coordinator of President Nixon's effort to restructure and rationalize seven domestic executive departments.

I will base some of my remarks on NAPA reports and sponsored papers, including the "Evaluation of Proposals to Establish a Department of Veterans Affairs" (1988), "Reviewing HUD: A Long-Term Agenda for Effective Performance" (1994), "Revitalizing Federal Management" (1983), "The Management of Executive Departments" (1989), and "The Organization and Management of the Department of Transportation" (1991). Copies of these studies and papers have been furnished to the staff of the Committee.

Any successful effort to strengthen departmental management must start with recognition of the complexity of the task. Executive departments have been the principal administrative organs of the Executive Branch since 1789, and the heads of the departments have been members of the President's Cabinet since the administration of George Washington. With the passage of time the number of departments has grown from the initial four to the present fourteen—a development which has raised questions as to how many the Federal government really needs to discharge its functions effectively.

The executive departments, as they now exist, vary widely in size, importance, scope and cohesion of mission, number of political appointees, culture, and traditions of management. This complicates the development of templates into which all these agencies can be fitted. Many reforms will produce lasting beneficial results only when they take into account the realities generated by a department's history, mission, and size. This calls for caution in seeking by either legislation or executive orders to impose universal solutions for perceived management deficiencies. Some weaknesses in management may respond only to measures tailored to the situation prevailing in each department.

What can happen when the differences among departments are inadequately considered is illustrated by President Johnson's unsuccessful effort to install the Defense Department's Planning, Programming and Budgeting System (PPBS) in the domestic agencies without an opportunity for adaptation. The Inspectors Generals Act was also made applicable to all departments and many independent agencies without adequate consideration of how waste, fraud and abuse was being handled in each department, and the impact of the legislation on such key management tools as internal audit and management analysis. More recently, the Chief Financial Officers Act mandated that each CFO be appointed by the President and confirmed by the Senate, when in some departments, such as DOT, a career official would have been the logical choice. On the other hand the Government Performance and Results Act (GPRA) does permit a testing period and a phasing in of the law's provisions—an approach which should enable most agencies to achieve the Congressional intent in a manner that will make positive contributions to their management.

Although differences among the departments militate against Procrustean edicts with respect to their management, there are some government-wide reforms that could produce significant benefits. These include:

1. Decentralizing Personnel, Procurement, Space Management, Printing and Related Authorities to the Individual Departments. There has been some progress in reducing the over-regulation and centralization documented in the Academy's 1983 report "Revitalizing Federal Management" and, the National Performance Review has given added impetus to this desirable reform. Placing the authority to take definitive action in matters of internal administration in the departments, can improve responsiveness, encourage innovation and reduce costs.

Such empowerment must be accomplished, however, with arrangements to ensure that the agencies observe such fundamental policies as merit in personnel actions, pay comparability, competition and fairness in contracting and purchasing, and prudence in the use of available funds.

2. Reducing the Number of Non-Career Officials in Most Executive Departments. The Commission chaired by Paul Volcker concluded in its 1989 report on "Rebuilding the Public Service," that the number of political employees in the Executive Branch Agency should be reduced by about twenty-five per cent. Many managers and observers have also concluded that the executive departments have more non-career appointees then is required to provide policy direction and to assure responsiveness to the goals of an administration. The results of this excess include (1) burdening the President with more appointments then he should have to be concerned with, (2) excessive turnover in the leadership of agencies, (3) reducing the level of expertise in management positions, and (4) limiting the opportunities of competent career executives to advance and serve their agencies effectively.

In spite of problems generated by the proliferation of non-career officials and staff, the number continues to expand. The General Accounting Office recently found that from 1981 to 1991, the number of political appointees actually grew by 414 with the largest increases being in the Departments of Commerce (58), Agriculture (52) and Education (52). In contrast the Department of Transportation added but one non-career position during that decade. Paul Light in his new book "Thickening Government", notes that from 1980 to 1992, the number of Federal officials compensated at Executive Levels I through IV, most of whom are non career, expanded from 928 to 1626. This occurred in a period in which civil service employment was stable and few new programs were authorized.

An example of what has happened in this area is the conversion of most Assistant Secretaries for Administration from career to non-career status. The Hoover Commission in its 1949 report on "The General Management of the Executive Branch" proposed that each executive department have an "administrative assistant secretary" who would be in the competitive civil service and would be concerned with matters of internal management and house keeping. Subsequently each department was supplied with such a career position. This was the Post I held in DOT from 1967 to 1971.

Now only the Department of Transportation and the Department of Justice have such career officials. The so called assistant secretaries for administration or management in all other departments are appointed by the President, subject to Senate confirmation. They often know little about their departments or Federal agency management, and their turnover is at least as great as that of the other political appointees.

3. Reestablishing a Center of Management Leadership in Each Executive Department. Along with the politicization of the position of assistant secretary for administration has come a decline in the effectiveness and influence of the officials now bearing the title. This has often been accompanied by a dispersion of management

functions among several departmental officials, and the disappearance of a focal point for the direction and improvement of internal management.

The functions now divided among non-career assistant secretaries for administration, chief financial officers, and inspector generals were once all within the purview of such career assistant secretaries for administration as Dwight Ink in HUD, and myself in DOT.

A recognition of the need to restore a center for continuing leadership in all aspects of internal departmental administration recently led an Academy panel, in its report on "Renewing HUD," to recommend the establishment of a position of Under Secretary for Management. The under secretary would be required to be qualified to manage a large public organization. The four restructured executive departments recommended by President Nixon in 1971 would all have had such an under secretary.

4. Improving the Internal Structure of the Departments. Many departments are still organized with Executive Level IV assistant secretaries supervising the major program units. This approach has tended to make the assistant secretaries into advocates of specific programs rather than real aides of the Secretary.

The DOT legislation of 1966 took into account the deficiencies of the line assistant secretary approach and provided that all the assistant secretaries of the new department would deal with cross-cutting areas such as administration, policy, public affairs and governmental relations. The substantive programs were placed in a small number of administrations based on transportation modes, each to be headed by an administrator who would report only to the secretary and deputy secretary. This model proved so successful under DOT secretaries Boyd and Volpe that it was made a feature of each of the four new executive departments proposed by President Nixon in 1971.

The DOT model is also in tune with modern management thinking in many countries. The objective is to decentralize technical program operations, and for the secretary to be free to concentrate on significant policy issues, relations with the President and Congress, and matters requiring coordination of two or more administrations. The individual administrations are expected to carry out established policy without micro-management by a gaggle of political appointees in the Office of the Secretary.

5. Restoring an Effective Center Concerned with Government-Wide Management in the Executive Office of the President. From 1939 until 1973, the former Bureau of the Budget and the successor OMB contained strong and effective units concerned with the organization of the executive branch and the improvement of agency management. After 1973, this capability steadily eroded and now has virtually disappeared as the result of a recent reorganization of OMB.

The intent of the Nixon Administration and the Congress, when the OMB replaced the Bureau of the Budget in 1970, was to give greater emphasis to the management role of this powerful arm of the President. Again, when the Congress, in the Chief Financial Officers Act, created the position of Deputy Director for Management, it sought to assure that there would be a high ranking official concerned with how well the government worked and with the improvement of agency management. This action did not prevent the Deputy Director for Management from being stripped of most of his staff in the latest reorganization of OMB.

As long ago as 1983, a panel of the National Academy, under the chairmanship of Dwight Ink, recommended a different approach to providing an effective management capability in the Executive Office of the President; namely, the creation of a separate Office of Federal Management. The need to take such a step is more urgent now than in 1983. Only when such an entity staffed with a permanent cadre of persons who are experts in government organization and agency management matters will the President, the Federal agencies, and the Congress receive skilled advice and assistance in this area. The OMB should be recognized for what it has become—an "Office of Budget."

I, and many of my associates who have served in the former management offices of the Bureau of Budget and the OMB, believe that legislation establishing an Office of Federal Management should receive high priority in the current Congress.

6. Rationalizing the Current Roles and Structures of the Executive Departments. Not since the first Nixon Administration has there been a serious effort to reconsider the roles of the domestic executive departments, to identify opportunities to regroup their functions, or to develop new approaches to their internal organization and management. The subsequent creation of the departments of Energy, Education and Veterans Affairs were responses to specific crises or political pressures, and little attention was given to their cumulative impact on the functioning of the Executive Branch.

Now we are hearing many suggestions that certain departments be abolished or consolidated or radically restructured. In my judgment, there are opportunities to do all of these things. The danger is that these "re-invention" efforts will be undertaken without a well-thought out plan to achieve genuine improvements in the distribution of programs among surviving departments. There is also the risk that individual departments will launch massive internal reorganizations with inadequate analysis and produce more disruption than benefits.

I am particularly alarmed at current proposals to radically reorganize a department which has on the whole proved effective and is concerned with a major segment of our economy. I refer to the Department of Transportation.

In addition to having been involved in the drafting of the DOT Act and serving s the Department's first Assistant Secretary for Administration, I have closely tracked DOT's evolution over the years. This includes participation in the Academy's responses to Secretary Sam Skinner's requests for advice in implementing both his national transportation policy and the Intermodel Surface Transportation Efficiency Act (ICETEA) of 1991.

The conclusion reached in the Academy reviews and suggested in the history of the Department's organization and management is that DOT is basically a sound department with a high level of management effectiveness. However, there was and remains a need to adjust to the ICETEA legislation, which in effect, makes all surface transportation a single mode. What is called for here is the consolidation of the Federal Highway Administration (FHWA), the Federal Transit Administration, and the non-safety portions of the Federal Railroad Administration (FRA) into a new Surface Transportation Administration. At the same time, the existing National Highway and Traffic Safety Administration could be combined with the Office of Pipeline Safety, FRA's safety functions and those of FHWA. The result would be the replacement of four administrations by two new entities better suited to the Department's current needs. Ten operating administrations would be reduced to eight through these reforms. To carry them out with minimal disruption would take two or three years of intensive effort by DOT's leadership. The Academy Panel, which was chaired by former DOT Secretary Alan S, Boyd, described in detail how this should be accomplished in its August 1991 report "Organizing the Administration of Surface Transportation Policies and Programs to Meet National Needs."

Instead of pursuing the surface transportation reorganization for which the need has been documented, the Administration is now proposing a radical compression of six modal ministrations into three—an action which, if approved, would combine the present Maritime Administration with such unrelated programs as mass transit. In addition, the FAA would be split and the operation of the Air Traffic Control System would be placed in a corporation outside the Department. Finally, the St. Lawrence Seaway Development Corporation, which was deliberately placed in the DOT in 1967 because it is a transportation agency, and because it has many dealings with the Coast Guard would be made independent and left to shift for itself.

In my judgement, the need for changes of such magnitude has not been established. Nor can they be accomplished without major disruption, destruction of employee morale, and considerable expense. The proposed ITA will add to layering, not reduce it, and will deprive important programs of the direct access to the Secretary contemplated by the Department of Transportation Act of 1966.

LOOKING TO THE FUTURE

This testimony has addressed ways to strengthen the management of the existing departments. I have only briefly referred to the need to examine the current responsibilities of the 14 departments with a view to a comprehensive effort to clarify and rationalize their missions, because I understand that this Committee will take up this matter in a later hearing.

Such an effort is badly needed because no department can be fully successful in carrying out its programs if what it is expected to accomplish is unclear or if it lacks jurisdiction over government entities with closely related or inter-related missions.

The Congress and the Executive Branch should now provide for a careful examination of the best way to group Federal programs of the kind previously conducted by the first Hoover Commission in 1947-1949 and during President Nixon's first term. Such an approach is needed to avoid mere box shuffling or the piecemeal abolition of departments without a clear vision of what the departmental structure should look like in the years ahead.

I would be happy to respond to questions from the members of the Committee.

Mr. HORN. Very good. I thank you.

And now, Mr. Hansen, please proceed.

Mr. HANSEN. Thank you, Mr. Chairman, and thank you for the opportunity to be here this afternoon. My written statement, I put it together purposefully to provide a history and background of the Department. It's a relatively new agency, and I think it's important to have that background and history about the Department as we look at it and other departments as a case history in how to better manage the government.

I also do have work experience from the Commerce Department and the Energy Department, and I'm going to share a couple of thoughts and ideas, as well, from my tenure in those agencies. Also, by way of history, what we have heard about here earlier was that we can learn from history.

There were a couple of things that were done at the Department of Education back in the early 1980's that I think were helpful tools from a management perspective. The first was through legislation. There was the Budget Reconciliation Act of 1981 that consolidated 42 categorical programs down into the block grant program for school districts.

This enabled the Department to downsize by several hundred employees, do away with a number of regulations, and help streamline the funding flow to local school districts. We also canceled the Federal Direct Insured Loan Program at the time and privatized the Loan Collection Service.

And as a result of those two activities, primarily, was why the chart that was shown at the beginning of this hearing that showed the Department of Education had the biggest reduction in employee FTE in the 1980's. Those were the two results. We started out in the early 1980's with 7,500 employees and by the early 1990's, it was down to 4,500. And it was primarily through consolidation of programs and through privatizing programs.

There were some things at the senior level management of the Department that were done, as well, under former Secretary Ted Bell back in the early 1980's that were done administratively. We reduced the number of Deputy Assistant Secretaries from 47 down to 11. We got rid of 36 Deputy Assistant Secretaries, most of them political appointees, which would have been nice for President Reagan to have filled at that time, but it was important, he felt, to downsize the political leadership in the Department.

We also abolished five Assistant Secretaries early on in the early 1980's. And those were things that were done without statutory legislation that we were able to do administratively.

I would like to point out that the Department during the 12-year time period between 1981 and 1993 had the number of programs that were responsible for managing double from 130 to over 250 programs. And at the same time, our staff went down by about 60 or 70 percent. We had to do things differently.

There were times, though, that is was very tough, having a different party control Congress than who served in the executive branch. There are always frictions on personnel funding and allocations.

And I would caution this committee and Congress in general where we have the same scenario, but the world has now flipped over in the last couple of years, that there were some very important budget requests that went to Congress on getting National

Student Loan data systems up and running, other technological proposals, and they were never adequately funded and, as a result, took years and years to get these types of activities up and running that would help the integrity of multibillion dollar programs such as the Student Loan Program.

So there is a tendency sometimes for political posturing on both sides and have that impact on the budgets within the Department. And I would just caution that there are many serious recommendations and needs that the Department does have that need to be adequately looked at.

I do think the Department of Education is unique in a lot of ways. It is the smallest agency, and I think, as Mr. Dean said, the agencies are so different and so diverse. Education has 5,000 employees but has a $30 billion budget. The Commerce Department has probably five times the number of employees yet less than one-tenth the size of the budget. They're different animals. They do different things.

The Department of Education is basically a grant-making organization and probably requires stronger financial management controls than something like the Department of Commerce just because of the exposure of the Federal resources that are available through the Department of Education. So I totally agree that a one-size-fits-all approach is not the best way to institute management improvements.

I do think that the things that have gone on in Congress the last couple of years with the CFO Act and the other comments that have been made are positive movements. The Office of Management and Budget, I know from my prior life, was very weak on the management side of things. There were things that were done to help improve it, with the CFO Council under Frank Hodsell's tutelage that were very helpful.

But there was a comment made by the earlier panel that we need to use the budget process for leverage in putting budgets together to help financial management and other activities. That is helpful inside the administration, but I really think the pressure needs to come from Congress. Departments will submit budgets, agencies will submit budgets.

But as I remember from Ronald Reagan budget days, most of those budgets were DOA. And it's Congress that will set the budgets and set the priorities. We can do all the fighting within the administration, but if there's not the zeal in Congress to take serious the management needs of agencies, it's going to be, I think, a fruitless task.

I also think that there's an education that needs to go on with the authorizing committees, the budget committees, and the appropriation committees to have the same understanding that the Oversight Committee has on the needs of Cabinet agencies. I know from running both the Budget Office and the Financial Management Office at the Department that the financial management side is still perceived as the weak stepsister inside Cabinet agencies.

And you need to make sure that in terms of downsizing governments, zeroing out programs, block granting programs, restructuring the government, I think now more than ever, the Inspector General and the CFO functions are going to be the most important

functions in these agencies to make sure the current programs are wound down effectively and efficiently and that whatever new structure needs to be created, that those new structures have integrity woven throughout them. And you're not going to get that through weak financial management systems.

There are just a couple of comments on the questions that you had in your letter. I'll try to be brief. In terms of barriers to effective management, I do think that statutorily, the one-size-fits-all approach is not the best way to go.

And I frankly think that in terms of even the CFO Act, that if you took the Department of Education Organization Act or the other Cabinet Agency Organization Acts and independently weave these types of control structures into those organization acts, it would probably be more helpful to where you can fine-tune and work with the authorizers on what needs each agency really has.

I think likewise with the Inspector General Act. I do think also Presidential leadership is very important from the White House on who serves in those types of positions. Right now on the Senate side, the confirmation process for CFOs and others goes through the authorizing committees. The Government Affairs Committee basically is given a courtesy wink, but they don't have a strong role to play.

And I think if the President and the executive branch had to go through your committees for courtesy purposes, but for advice and consent purposes, the Government Affairs Committee, there might be some important changes there.

I do think in terms of political appointees, I would concur with Mr. Dean's statement that there are too many political appointees. I worked for Secretary Alexander, who actually called political appointees "Christmas help" because we were there for a season, and then we were gone. And I think that that was a pretty accurate assessment to a large degree.

I think that also, we need to make sure that through the political appointees—I think there are some things that can be done through the confirmation process to help things along. I just know from my situation, I served in an acting capacity for over a year before I was confirmed by the U.S. Senate.

And there was some blame in that type of situation to be thrown at the executive branch and also the Congress, but there are some things that can be done, I think, to help speed up the process, as well, of getting people through the confirmation process.

In terms of the SES area, I do think that the one problem I found with the SES is it is very inflexible. Most of the officers in SES end up serving in the same position year in and year out. There would be a lot to be said for having opportunities for SES people to transfer and to serve in other agencies and other bureaus within the Cabinet agency. They get locked into their jobs and get a very parochial perspective on things.

I also think that, frankly, it is very difficult to get anybody out of an SES position. The 3-year process you have to go through, the performance review system, to remove somebody from an SES position is ridiculous. There ought to be ways to move them into a GS–15 position without negative repercussions and get them into another position.

But a lot of times, you have a lot of people that are just put into other areas because they're not pulling their weight. And I'll tell you, most of the top SES people that I know from my work in these three agencies are in the program offices. And that's where I think the real expertise lies.

From my prior experience, whenever there's a problem SES employee or somebody's not pulling their weight, they're usually dumped into the management type offices, whether it's OIRM, grants and contracts, or other offices. And you end up having some of those management service offices serve as a dumping grounds, where they should be recruiting the top people in those offices.

In terms of downsizing, I do think that even all this talk right now about abolishing the Departments of Energy and Commerce and Education—I'm glad I didn't work at HUD, or I think there would be a little cloud over my head of all the places in which I've worked. But I think that those are important tasks at hand on how we can better structure the government.

But I do know from the talk in the early 1980's about abolishing the Department of Education when Ronald Reagan was President that there are some severe morale problems. There are questions about if people's jobs are going to be intact. There are questions from a manager's perspective.

And I think that in all this talk about devolution or abolishment, that Congress should probably also send clear signals that the important functions in terms of job training, student loans, aid to the disadvantaged, and handicapped education are going to be there, and we're going to need Federal managers to handle that.

What we're talking about is if we can achieve some economies and consolidating agencies or if we can achieve some cost savings and restructuring the way in which agencies are managed. But I think that there's a lot of talk about abolishing or dismantling. And I think that if the political leadership can get across that a lot of the primary functions are going to be there, they may be delivered differently, I think that's important for morale purposes.

I would like to say, as well, that the only way a Cabinet Secretary—and this is in closing—will take the management functions of the Department seriously is if that Cabinet head is held accountable.

And I think that the work that this committee is doing and the aggressive agenda that you have laid out in the coming months is a very important step in that to have Cabinet officials up here, subcabinet officials up here, having them understand that this is important to Congress, that all this talk about downsizing government and abolishing government, and cutting the budget is important.

But all of those things are not going to happen in an effective way if the work that your committee is about is not instituted. And I do know from working for six previous Cabinet Secretaries that some take it more seriously than others.

And the best way for a Cabinet Secretary to take serious the financial management and the other management issues within his agency is if he's held accountable by having to come up to Congress and testify that he knows that that's as important on his radar

screen as the political and the budget debates that he has to wrestle with inside the administration.

And I think that it's incumbent upon this committee to make sure that the Cabinet and the President understand the importance of what is expected from them in financial management. And with that, I would again like to thank you for the opportunity to be here today.

[The prepared statement of Mr. Hansen follows:]

PREPARED STATEMENT OF WILLIAM HANSEN, FORMER ASSISTANT SECRETARY FOR MANAGEMENT/CHIEF FINANCIAL OFFICER, DEPARTMENT OF EDUCATION

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before you today to testify on strengthening Departmental Management at the Department of Education. My comments today reflect my experiences during the Reagan and Bush Administrations as well as my observations related to the direction that I believe federal education policy should be headed.

As the Subcommittee carries out the heavy issues of departmental oversight and management review, it is important to understand the broader context of the Department's mission. By first determining a mission, answering questions relating to cost savings, program consolidation and elimination, administrative actions, internal management, and control systems may be more appropriately addressed.

The development of a coherent federal education policy requires that budget and program priorities are founded upon a set of principles. During the Bush Administration, Secretary Lamar Alexander identified such principles in the form of a mission statement for the Department. The statement said that the Department's mission is, "to ensure equal access to education and to promote educational excellence throughout the Nation." I believe this mission statement should continue to guide any federal involvement in education.

It is with this mission statement in mind that I will address several areas relevant to the Department of Education's programs today:

- the Federal Role in Education;
- Proposals to Dismantle the Department of Education;
- the Funding History of the Department;
- the Size and Scope of the Department; and,
- Management Improvement and Cost Saving Opportunities.

FEDERAL ROLE IN EDUCATION

Mr. Chairman, the federal contribution to education today consists of only six percent of the total elementary and secondary dollars spent nationwide. It is in the context of this limited contribution that the appropriate federal role in support of elementary and secondary education should be established. Six percent of total elementary and secondary spending nationwide can and should be directed toward ensuring equal access and promoting educational excellence. Such limited funding cannot and should not be represented as a substitute for the local resources available and should not be provided to states in a manner that undermines the proper administration of the 94 percent of resources provided at the state and local level.

My experience suggests that true local control of education priorities at the elementary and secondary level promotes local support for education and parental involvement. Local support will become increasingly important in the coming years. Parental involvement, in my view, is an absolute necessity if the problems in our schools are to be addressed. Unfortunately, many of the federal initiatives of the past several years appear to run contrary to these principles.

Two former Secretaries of Education, Lamar Alexander and William Bennett, recently called for the return of control of education to states, school boards, and parents. In their report entitled, "Local Options," the Secretaries suggest that literally dozens of federal programs should vanish and with those resources being available for federal tax cuts or through an expanded version of the Chapter 2 program to states and communities to do with as they judge best.

My experience in managing programs and personnel at the Department of Education suggests that the benefits derived from dozens of the federal elementary and secondary programs may be outweighed by the administrative burdens associated with administering those programs. For example, a 1991 survey of Ohio school districts determined that each school district in the state was required to complete 330 reports and forms, of which 157 were submissions to the state, and 173 were feder-

ally required. This study suggested that the federal government was responsible for 55 percent of the paperwork burden while federal funds accounted for only six percent of the resources available to the school district.

Secretaries Alexander and Bennett recommended that the guiding principles for federal education programs should be choice, deregulation, innovation, accountability, and serious assessment. I believe that if the Department of Education adopted these principles as a standard by which to review existing programs, many of the programs would be found in need of repeal or substantial revision.

PROPOSALS TO DISMANTLE THE DEPARTMENT OF EDUCATION

The call for change at the Department of Education has also come from Congress and its leaders. Since last November, the Senate Majority Leader, the Speaker of the House, and many Committee Chairmen have also called for the abolition or consolidation of the Department of Education. It is anticipated that numerous bills will be introduced shortly to achieve these objectives. Proposals have varied from abolition to dismantling the agency and transferring or consolidating functions with other cabinet agencies.

A member of this Committee, Mr. Scarborough from Florida, has been leading the freshman leadership effort to develop a bill to work toward sending education back to parents and local officials. Mr. Scarborough has stated, "Obviously, the future of our economy and further economic growth depends on (reforming education) . . . if the federal government would retreat from this area, allow parents, teachers and students who want to take control of the academic agenda, this country would be better off."

Alternatively, Mr. Gunderson, a senior member of the Economic and Educational Opportunities Committee, has joined Chairman Goodling in calling for the Education and Labor Departments to be merged. Upon announcing the outline for their bill, Mr. Gunderson stated that, "As America plans for the challenges of the global economy, and the information and technological revolution that goes along with it, the federal government clearly will play an important role in education and employment."

Such efforts to achieve the appropriate federal role in education should be pursued vigorously by this Committee. However, Congress should oppose any effort to simply change the name on the door of the Department. Transferring functions and shifting duplicative, intrusive, and inefficient programs elsewhere will get us nowhere. Rather, Congress should start with a clean slate and determine what the appropriate federal role should be in education, and determine how to best address targeted needs, and develop a delivery mechanism that best serves families and taxpayers. Reforms such as block grants to states or schools, tax cuts, vouchers or scholarships to families, and functional swaps between the federal and state governments would reduce bureaucracy, regulations, and federal control of education.

FUNDING HISTORY OF THE DEPARTMENT OF EDUCATION

The current appropriation for the Department totals nearly $33 billion which funds 240 categorical programs. The Department's first budget year as a cabinet agency was FY 1980. In 1980, the budget was just over $14 billion, funding about 150 programs. The Department's budget has grown over 50 percent in real dollars since its creation. This expansion of programs has led to obvious duplication and increased federal intrusion at the state and local levels.

Since 1980, more than $350 billion have been appropriated to carry out the Department's programs. Of course, there has been some good accomplished with these funds. Millions of disadvantaged youth have received Chapter 1 services, disabled youngsters have been given opportunities they may not have known thirty years ago, and millions of students have had a postsecondary education made more affordable. However, any success could have been achieved whether education programs were housed at ED, HHS, Labor, or some other federal office. For example, when P.L. 94-142 was enacted in the early 1970's, it was housed at the old HEW. Clearly, this special education law has made a positive difference in the lives of millions of children and in society. Earlier this century, over 90,000 disabled children were institutionalized. Today, only 6,000 disabled children live in such circumstances. The bottom line is this, Congress and the American public demanded an appropriate education for handicapped youngsters and much success has been realized as a result of this law. I am convinced that these same results would have come to pass regardless of which cabinet agency this program was administered by. It was the law and the commitment by families and society that brought about the changes we have witnessed, not a specific cabinet agency.

Notwithstanding the expenditure of these monies, public confidence in America's education system appears to be close to an all time low. Parents and the public generally question whether the federal mandates in programs in the education area are producing the results they desire for their children. Given that the concept of an aggressive, expansive federal leadership role has been tested over the past decade, I believe it is time to give state and local administrators, and even more importantly families, the leadership opportunity.

We as taxpayers, and the Members of this Subcommittee, should ask tough questions regarding each of the federal education programs. Are students performing as well today as their parents did? Are we rewarding dependency and mediocrity? How can we reward quality and excellence? How can parents be given more control and responsibility over local education? Is the public getting its money's worth? I believe that many of the current programs fail to positively address the standards reflected in these questions.

As I suggested earlier, the Congress should consider starting over with a clean slate in determining which programs and necessary appropriations will be required to accomplish the Department's mission. Congressman Bill Goodling, Chairman of the Economic and Educational Opportunities Committee, said recently that he hopes that the "term 'reauthorization' be stricken from the dictionary . . . We shouldn't assume programs are going to continue year after year, but intensively examine them to make sure they are still needed and achieving their purpose. Similarly, I would suggest adding sunsets to some programs, laws and regulations." I wholeheartedly endorse Mr. Goodling's suggestions.

In my view, there has been next to little accountability for results to the taxpayer in return for their $350 billion investment in the Department of Education during the last 15 years. Evidence suggests that local governmental control and responsibility is undermined by federal requirements, and paperwork preoccupies state and local education authorities. A much simpler delivery system to states and local agencies could be implemented without federal dictates and with continued receipt of federal funds simply contingent on the recipient showing evidence that learning is improving.

SIZE AND SCOPE OF THE DEPARTMENT

Between 1981 and 1992, there were numerous legislative and administrative initiatives to help mold the mission of this new cabinet agency. In the early 1980's a major consolidation of 42 elementary and secondary programs took place which resulted in the creation of the Chapter 2 Block Grant. During that same time period, the student loan collection activities were privatized. Although not termed "reinventing government" the Department was downsized from 7,500 employees in 1980 to an average of about 4,500 employees during the late 80's and early 90's. At the same time, the number of programs authorized and funded by Congress grew from 132 to 240. Clearly, more was done with less.

We are now told the Department of Education is once again reinventing itself. Given the high-level of parental and general frustration with education quality, it is appropriate for this Subcommittee to provide the Department with a clear indication of the direction this reinvention should take. Congress should examine several areas of recent activities at the Department of Education and set clear priorities for the Department. The fact that the Department already has over 5,100 employees and plans to hire 600 additional employees to manage the direct student loan program is cause for concern about the Department's mission in a time of government-wide streamlining and privatization. The direction that Congress provides for the Department's programs and budget should play a key role as the Department reinvents itself. Congress should examine the following areas in setting priorities for the Department:

First, the Department has taken on a high handed regulatory effort with States, school districts, and college campuses that should be reined in. One of the best ways that Congress can curtail the Department's zeal to overregulate is by abolishing or amending burdensome programs and using its oversight authority as a means for providing a proper check and balance.

Second, the Congress, in particular the authorizing committees, should deauthorize all unfunded programs. This initiative would also assist on the deregulation front and prevent unnecessary budget battles.

Lastly, the Congress should cap or phase-out the Direct Student Loan Program. This new program runs directly counter to the principles outlined in the National Performance Review. Instead of streamlining the federal bureaucracy, direct lending would grow the Department of Education as President Clinton has exempted the Department from his Executive Order on downsizing government which has paved

the way for 600 new bureaucrats to join the federal workforce. Rather than support market driven solutions that focus on customer service, direct lending would wipe out tailored state and competing private-sector organizations that focus on serving the customer, in favor of a Washington monolith.

Of particular concern to this Subcommittee should be the fact that the 1993 Student Loan Reform Act created an unprecedented $2.5 billion administrative entitlement fund for the implementation of the direct loan program. Unlike nearly all other government administrative funds, those associated with ED's direct government loan program are not subject to annual appropriations and review. Chairman of the Economic and Educational Opportunities Committee, Bill Goodling has introduced a bill (H.R. 530) to cap the direct loan program which would also improve congressional oversight of the billions of dollars that the Department will spend to administer direct loans. This bill has received strong bipartisan support as it will also improve the integrity of the direct loan program.

MANAGEMENT IMPROVEMENT AND OPPORTUNITIES FOR COST SAVINGS

Since the establishment of the Department of Education under President Carter, Presidents of both political parties have submitted budget requests to zero-fund dozens of education programs because they have largely or completely achieved their original intended purpose, were duplicative of other programs, or could be supported by other funding sources. For example, in President Bush's final budget, he called for the elimination of 39 education programs that fell into the categories just mentioned. President Clinton, both in his budget submission last year and as part of the National Performance Review recommended that 34 programs be eliminated—almost identical to a list that President Bush developed. Last year, Congress did eliminate 12 of these programs. As a starting point for finding savings in the FY 1995 and FY 1996 budgets, Congress should first look to the remaining programs in these previously submitted recommendations and to President Clinton's latest budget proposal which calls for 15 program terminations in FY 1995 (savings $122.7 million), 21 program terminations in FY 1996 (savings $504.1 million), five program phase-outs (savings $120.9 million), and 27 program consolidations (added cost $46 million).

The current FY95 rescissions debate has provided additional ideas and recommendations for immediate cost savings. The process for FY96 cost savings will be key as the authorizing committee considers major program overhauls and block grants and as the appropriations and budget committees consider opportunities to reduce the massive budget deficit.

The Subcommittee should also give serious analysis to the Department's Salaries and Expenses Accounts. A primary question the Department should be asked to address is why are they asking for a $13 million increase in their S&E account when over 440 employees have opted for the retirement buy-out (8% of total personnel). With the resulting smaller FTE covered by the S&E account (the hundreds of new staff hired this year to manage the direct loan program are paid out of a separate direct loan S&E account) and the anticipated savings of downsizing the Department because of the President's call to terminate or consolidate 68 programs, it would be expected that the Department would be proposing a substantial reduction in their S&E account. Other areas within these accounts that should be reduced are the two dozen federal advisory panels. Similarly, on another administrative account, as I referenced earlier, Chairman Goodling's bill to cap the direct loan program at year two school participants calls for a $50 million reduction in the FY 1995 budget authority for the direct loan program administration account (a reduction from $345 to $295 million and additional reductions in future years). It should be noted that the direct loan administrative account falls under the mandatory account and the other administrative accounts fall under the discretionary account.

Former Education Secretary Lamar Alexander has written that there are five defining characteristics of a problem-laden central government agency: it's centralized, uniform, governmental, monopolistic, and no-fault. The opposite of each of these characteristics offers citizens and managers clear direction: decentralization, diversity, privatization, competition, and high morals. Attached to my statement is a one page table which lays out one example of the contradictions inherent in the Clinton Administration's zeal in pushing for a big government take over of the student loan program.

The Department of Education has received a waiver from the President's Executive Order on downsizing their personnel rolls. They have split up the high-risk student aid management responsibilities for the benefit of political appointees, not based on responsible management principles. They have created new layers of bureaucracy and new federal panels. They have crafted expansive new regulations and

added new federal mandates. This Subcommittee should exercise its proper oversight authority in reviewing such management practices at the Department of Education.

As the Subcommittee reviews areas for management efficiencies and cost savings, it is important that the current budget environment be taken into consideration. The perpetuation of the deficit and our growing national debt is anti-family, anti-child, and anti-education. Every American child in school today already owes $18,000 as his or her share of the national debt. Senator Tom Harkin said recently that, "It's time we pass on to our kids more opportunity, not more debt." I agree with that statement.

How that opportunity is afforded to children and families will be central to your deliberations about the federal role in education and the future of the Department of Education. For those activities not turned over to the states, communities, and families, they should be redesigned to ensure excellence, choice, accountability, flexibility, efficiency, and a reliance upon private market driven solutions. This Subcommittee and this Congress have a unique opportunity to improve the quality of education as it reviews the Department as a whole and every individual categorical program within the Department.

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee. I will be happy to respond to any questions you or Subcommittee Members may have.

WHICH DIRECTION FOR AMERICA'S STUDENT LOAN PROGRAMS?—Reinventing Government vs. New Federal Bureaucracy

The Clinton Administration's plan to replace the privately funded and administered student loan programs with public funding and a new federal bureaucracy contrasts sharply with its stated goal of "reinventing government."

Reinventing Government: What the Administration says*	Direct Government Lending: What the Administration does
"Streamline bureaucracy by 252,000"	Hires hundreds of new bureaucrats at the Department of Education
"Steer more, row less"	Institutes a federal takeover of the program's funding and management
"Delegate authority and responsibility"	Issue top-down mandates and rules for students and colleges
"Replace regulations with incentives"	Burdens colleges with more regulations and eliminates performance incentives
"Develop budget based outcomes"	Introduces open-ended budgets based on political objectives
"Expose federal operations to competition"	Eliminates private sector competition in the student loan industry
"Search for market, not administrative solutions"	Abolishes the role of states and the private sector in student credit programs
"Measure our success by customer satisfaction"	Replaces competing local, private customer-service organizations with one federal bureaucracy
"Simplify employer wage reporting"	Forces the Internal Revenue Service to collect student loans and impose new wage reporting burdens

* Direct quotes from the Report of the National Performance Review, "Creating a Government That Works Better and Costs Less"

Mr. HORN. We thank both of you. It has been very helpful. Let me pursue some of these areas. You mentioned Cabinet member accountability and the problems we have in getting the attention of management.

In the experience you've both had with authorizing committees in both the House and the Senate, how much interest did you find the authorizing committees expressed in the management problems of the agency? What's your institutional memory?

Mr. DEAN. From the several Departments and independent agencies in which I worked?

Mr. HORN. That's right.

Mr. DEAN. The Congress does not give sustained attention anywhere that I know of to the internal management of an agency. They may become temporarily interested because of a scandal, but—and I wonder whether the Congress really can.

Admittedly, if your committee could be strengthened and the counterpart committee in the Senate strengthened, as opposed to

the power of the authorizing committees, there might be an improved opportunity—and I'm a great rooter for the new structure that has been created here. But the Congress first, I might say, can't manage any agency. They can show an interest. And I agree very much with your point.

But the management has to come from that Cabinet Secretary. And we shouldn't forget, even when there's a split in parties, that the President is the chief executive. And he is given the Constitutional duty of taking care that the laws are faithfully executed. That's one of the reasons I put so much stress on restoring a management capability in OMB. I can tell you that you won't get it through the budget.

Mr. HORN. Mr. Hansen.

Mr. HANSEN. I would agree with that. I also served in previous positions as an acting Assistant Secretary for Congressional Affairs. Obviously, the authorizing committees are more interested in policy and whatever issue it is for whichever committee they are on a day-to-day basis.

But the one thing I did find in my previous service was that there was pretty much a disconnect. Most of the people that serve on the authorizing committees are experts, usually, in their field of work, whether it's education or transportation. That's what they become experts in. And they need to rely upon the work from the Government Operations Committee.

The concern I even have with the Government Operations Committee and the oversight functions, where many times in my previous service, the only time the Department ever got called up at hearings before any of the subcommittees was when there was a problem and when one of the chairmen possibly from an opposing party wanted to make great hay about something.

And I probably throw the word in—"constructive oversight" would probably be more appropriate, though always there are times where you've got to shine the spotlight on something that's going awry in an agency, and that's an important role for Congress.

But in terms of constructive oversight, as well, one thing that Cabinet agencies don't have is, I think, really the ability—again, with the programs varying so distinctly agency to agency—they don't see the commitment for things like the CFO Council, that there is a strong backing for that from either the appropriators or the authorizers.

And I do think that even the appropriation committee in addition to the authorizing committees is a place where—maybe it's just an education that needs to go on when they're grappling with the S&E budgets for Cabinet agencies, that they understand—or maybe there needs to be some weighing in on the part of Government and Operations Committees that when government budget requests come up to have a new computer system or new technological advances, that those are not necessarily wasted moneys and should be ratcheted down on the totem pole.

And I think in this budget environment, it's very important for those issues more than ever to be—if there are some necessary needs there, that they be weighed in by other people that the appropriators need to hear from.

Mr. HORN. Let me mention another part of your collective memory I would like to tap. One of America's distinguished public servants, in my judgment, for this last half century has been Dr. Arthur Flemming. I know, Alan, you've certainly known him. I've worked with him both in the university context and when he was chairman and I was vice chairman on the U.S. Commission on Civil Rights.

He once said to me when he was Secretary of HEW under President Eisenhower that he made a point of at least having one meeting a week with the operating heads of the agencies that reported to HEW—not the Assistant Secretaries, but the Commissioner of Social Security, the Commissioner of this and that.

In your experience, how many Cabinet Secretaries with whom you worked actually met with the operating heads that were doing the real work of the agency?

Mr. DEAN. Quite a few.

Mr. HORN. Did they? On a regular basis?

Mr. DEAN. And that's one reason why I like the Department of Transportation structure. When it first started out under Alan Boyd, two kinds of staff meetings were introduced, and each was held weekly.

One was for all the administrators, which at that time were only five in number. Now, it would be 10. And the Secretary and Deputy Secretary were there. And if one of them wasn't there, the meeting wasn't held. But they were regularly scheduled and very seldom canceled.

Then, there was a separate meeting with the Assistant Secretaries on pure Office of the Secretary cross-cutting things. And it worked very well. Cap Weinberger and Frank Carlucci, when they were in HEW and I was their management advisor, did much the same thing. But in a Department like Energy, it will never happen. Because you've got these transitory Assistant Secretaries standing between the operating entities.

Mr. HORN. Are you thinking of the Navy admiral that will hold the nuclear energy portion, or what? I'm trying to get a feel for who's transitory.

Mr. DEAN. I mean the Assistant Secretaries.

Mr. HORN. Just the Assistant Secretaries as political appointees?

Mr. DEAN. These are all PAS, average tenure, 18 months, some of them remaining vacant for 2 years. And yet the operating entities in Energy all report through these people. So they almost never get a chance to meet in any orderly way with the Secretary and Deputy Secretary.

Mr. HORN. How about you, Mr. Hansen? What's your experience?

Mr. HANSEN. It has been a mixed bag. Actually, the work at Energy, I think, is probably pretty accurate. I also think that one thing that happens at the Energy Department is, you don't just have Deputy Assistant Secretaries, but you have principal Deputy Assistant Secretaries.

And those are usually a mixed bag of career and noncareer people. And again, I think that sets into motion a disconnect. But I do think there was a lot of good work that has gone on. Bill Verify, who I worked for at the Commerce Department, had all of the five Under Secretaries together very regularly. Then, they would bring

in all the Assistant Secretaries, very close to what Mr. Dean just alluded to.

He was a former CEO of a big steel company, David Kearns, the former Deputy Secretary at Education, who I worked directly with, was a former CEO of Xerox. There were some great leaders that came in from the private sector and brought with them their management abilities.

I probably wouldn't want to name names, but there were one or two instances with previous Secretaries I did work for where I think there was a massive disconnection between their line managers who did not take their responsibilities probably as deeply as they should have. But it was not a function of how things were set up. It was more of a function of what they viewed their agenda to be when they were there as Cabinet Secretary.

Mr. HORN. Very good. I'm going to have to call a recess for about 12 to 15 minutes because I have a vote on the floor. So at 4:33, we recessed. You can all have a rest for a few minutes. Bear with us.

[Recess.]

Mr. HORN. At 4:55, the recess is over. The vote has been cast. And we can get back to business. And I apologize, but that's democracy in action.

Let me ask you, Mr. Dean. You wrote that "Since 1972, OMB's capacity to provide governmentwide management leadership on behalf of the President has been declining. This trend has been likened to the fading of Alice in Wonderland's cheshire cat who disappears slowly until only the smile remained. And the administration's latest reorganization does leave one wondering whether even now the smile is gone." What do you think about that? I gather you're not happy with it.

Mr. DEAN. The smile has virtually disappeared, except for John Koskinen's splendor. Let me give you a few examples of the problem. There are five proposals bouncing around now to create new government corporations. These fall under several different resource management offices in OMB.

There is not consistency in how those various offices are approaching. The desirability of having the corporation, its structure, its funding, its scoring, the difference between the treatment of the Patent Office, which is working on it, and the Naval Petroleum Reserve is as night and day. And I've talked to Mr. Koskinen about that very specifically. And we have tried to explore some ways of addressing it.

If he had a small staff, which he does not now have, one or two of them could try working with all five of the program offices to get some consistency. The President's interest is to have this. Same thing on field organization or departmental headquarters structures or public enterprises in general. We just aren't getting any leadership.

You don't need a large staff. When I served on the government organization branch years ago, we rarely had more than 12 to 15 people, and yet we turned out things like the NASA Act that played a major role in the FAA Act, arranged for Hawaii and Alaska to get in, et cetera. We did all kinds of things with only 12, 15 knowledgeable, permanent people.

Mr. HORN. Now, apparently, they had larger staffs in the past, though. You had 12, 15. And then did they build it up?

Mr. DEAN. Well, government organization branch was only one of several branches in the old administrative management division.

Mr. HORN. I see.

Mr. DEAN. There were others that specialized in financial management, in personnel management, and things that the Civil Service Commission couldn't handle, information systems, et cetera. You gave the correct figures at the peak.

When Dwight Ink was the head and I was the deputy head of the management side, it was a very large staff. But we did detailed work on field organization, block grant design, and so on that OMB just couldn't do now.

Mr. HORN. Well, what worries me is how we get Cabinet officers to pay attention to management. And that's why I said my bias is sort of if they know that the budget will be affected, won't that get us a greater response to make some management improvements, and won't they take you more seriously?

Now, another way to look at it is, who's presiding in those meetings? I asked the Director of OMB a few months ago in another context, "How often do you sit in on the budget review meetings?" She assured me she sat in on them when the Cabinet officers were there and even when they weren't.

The question would be, how committed is any director to seeing the management changes go through on behalf of the President—after all, the Director's the President's principal agent in this area—and setting the tone to let the Cabinet members know the President's serious about this?

When was the last OMB or BOB Director that you felt had consulted with the President and the President was serious about management improvements and tried to do something about it through the processes that go under the BOB/OMB, which would be the legislative clearance process, the budget process, and the management process, among others?

Mr. DEAN. George Shultz and his successor, Cap Weinberger.

Mr. HORN. Those were the two that you felt really cared about this issue?

Mr. DEAN. I served under both of those directors. That's why something as elaborate as Nixon's departmental reorganization program was undertaken. And, by the way, that was not done on the budget side. It couldn't have been done. We were redesigning seven departments and recreating them into four.

Mr. HORN. I must say, I was enthusiastic about that idea. The tragedy is—because George Shultz, he wanted the super Cabinet officers, if you would, to move into the White House, didn't he, and manage it from essentially the Executive Office of the President?

Mr. DEAN. No, Mr. Chairman. That was done by Nixon early in his second term.

Mr. HORN. Right.

Mr. DEAN. And that was a total failure.

Mr. HORN. So this was after the other proposal, then?

Mr. DEAN. When Nixon was reelected and Watergate began to loom, he abandoned the departmental reorganization program, thinking it would be too controversial. So he created a system of

assistants to the President and counselors. And these people had to move into the old Executive Office Building.

Cap Weinberger by now was the Secretary of HEW. He had to spend every Tuesday over in the Executive Office Building, pretending that he was the counsel for human resources, and the Secretary of Labor was supposed to report through him, which he never did.

Mr. HORN. So much for the power of the counselor. So that system blew up, you say?

Mr. DEAN. It was unworkable. It was unconstitutional, probably. And the President got so immersed in Watergate that the day Haldemann and Ehrlichman resigned, all these counselors went back to their departments and were never seen again.

Mr. HORN. Now, what about the earlier proposal you say which had seven departments?

Mr. DEAN. Well, that was a careful effort—and it's in a green book that I provided. It was carefully staffed out. First, the Ashe Council made a recommendation. Then, George Shultz and the President decided to run with it. Then, they brought me over from Assistant Secretary for administration to DOT to head the staff work because I had been working on setting up a new department.

And we spent 2 months with task forces making detailed plans for what each of these departments would do, how it would be internally organized, a cross-the-government rationale. And it's well worth reading. The President's message transmitting that material in March 1971 is still pretty valid today.

Mr. HORN. How long was the message?

Mr. DEAN. Only a few pages.

Mr. HORN. Without objection, it will be inserted at this point in the record.

[The information referred to follows:]

PRESIDENT'S MESSAGE

To the Congress of the United States:

When I suggested in my State of the Union Message that "most Americans today are simply fed up with government at all levels," there was some surprise that such a sweeping indictment of government would come from within the government itself. Yet it is precisely there, within the government itself, that frustration with government is often most deeply experienced.

A President and his associates often feel that frustration as they try to fulfill their promises to the people. Legislators feel that frustration as they work to carry out the hopes of their constituents. And dedicated civil servants feel that frustration as they strive to achieve in action the goals which have been established in law.

GOOD MEN AND BAD MECHANISMS

The problem with government is not, by and large, the people in government. It is a popular tiling, to be sure, for the public to blame elected officials and for elected officials to blame appointed officials when government fails to perform. There are times when such criticism is clearly justified. But after a quarter century of observing government from a variety of vantage points, I have concluded that the people who work in government are more often the victims than the villains when government breaks down. Their spirit has usually been willing. It is the structure that has been weak.

Good people cannot do good things with bad mechanisms. But bad mechanisms can frustrate, even the noblest aims. That is why so many public servants—of both political parties, of high rank and low, in both the legislative and executive branches are often disenchanted with government these days. That is also why so many voters feel that the results of elections make remarkably little difference in their lives.

Just as inadequate organization can frustrate good men and women, so it can dissipate good money. At the Federal level alone we have spent some $1.1 trillion on domestic programs over the last 25 years, but we have not realized a fair return on this investment. The more we spend, the more it seems we need to spend and while our tax bills are getting bigger our problems are getting worse.

No, the major cause of the ineffectiveness of government is not a matter of men or of money. It is principally a matter of machinery. It will do us little good to change personnel or to provide more resources unless we are willing to undertake a critical review of government's overall design.

Most people do not pay much attention to mechanical questions. What happens under the hood of their automobile, for example, is something they leave to the specialists at the garage. What they do care about, however, is how well the automobile performs. Similarly, most people are willing to leave the mechanical questions of government organization to those who have specialized in that subject—and to their elected leaders. But they do care very deeply about how well the government performs.

At this moment in our history, most Americans have concluded that government is not performing well. It promises much, but it does not deliver what it promises. The great danger, in my judgment, is that this momentary disillusionment with government will turn into a more profound and lasting loss of faith.

We must fight that danger. We must restore the confidence of the people in the capacities of their government. In my view, that obligation now requires us to give more profound and more critical attention to the question of government organization than any single group of American leaders has done since the Constitutional Convention adjourned in Philadelphia in September of 1787. As we strive to bring about a new American Revolution, we must recognize that central truth which those who led the original American Revolution so clearly understood: often it is how the government is put together that determines how well the government can do its job.

This is not a partisan matter, for there is no Republican way and no Democratic way to reorganize the government. This is not a matter for dogmatic dispute, for there is no single, ideal blueprint which will immediately bring good order to Federal affairs. Nor is this a matter to be dealt with once and then forgotten. For it is important that our political institutions remain constantly responsive to changing times and changing problems.

RENEWED INTEREST IN COMPREHENSIVE REFORM

The last 2 years have been a time of renewed interest in the question of how government is organized. The Congress has instituted a number of reforms in its own procedures and is considering others. Judicial reform—at all levels of government—has also become a matter of intense concern. The relationship between various levels of government has attracted increased attention—and so, of course, has the subject of executive reform.

This administration, with the counsel and the cooperation of the Congress, has taken a number of steps to reorganize the executive branch of the Federal Government. We have set up a new Domestic Council and a new Office of Management and Budget in the Executive Office of the President. We have created a new Environmental Protection Agency and a new United States Postal Service. We have worked to rationalize the internal structure of Federal departments and agencies.

All of these and other changes have been important, but none has been comprehensive. And now we face a fundamental choice. We can continue to tinker with the machinery and to make constructive changes here and there—each of them bringing some marginal improvement in the government's capacities. Or we can step back, take a careful look, and then make a concerted and sustained effort to reorganize the executive branch according to a coherent, comprehensive view of what the Federal Government of this Nation ought to look like in the last third of the twentieth century.

The impulse for comprehensive reorganization has been felt before in recent decades. In fact, the recommendations I am making today stem from a long series of studies which have been made under several administrations over many years. From the report of the President's Committee on Administrative Management (the Brownlow Committee) in 1937, down through the findings of the Commission on Organization of the Executive Branch of the Government (the Hoover Commission) in 1949, the President's Task Force on Government Organization in 1964, and my own Advisory Council on Executive Organization during the last 2 years, the principles which I am advancing today have been endorsed by a great number of distinguished students of government and management from many backgrounds and from both political parties.

I hope the Congress will now join me in concluding, with these authorities, that we should travel the course of comprehensive reform. For only if we travel that course, and travel it successfully, will we be able to answer affirmatively in our time the fundamental question posed by Alexander Hamilton as the Constitution was being debated in 1788: "whether societies of men are really capable or not of establishing good government from reflection and choice * * *."

THE FRAGMENTATION OF FEDERAL RESPONSIBILITY

As we reflect on organizational problems in the Federal Government today, one seems to stand out above all others: the fact that the capacity to do things—tile power to achieve goals and to solve problems—is exceedingly fragmented and broadly scattered throughout the Federal establishment. In addressing almost any of the great challenges of our time the Federal Government finds itself speaking through a wide variety of offices and bureaus, departments and agencies. Often these units trip over one another as they move to meet a common problem. Sometimes they step on one another's toes. Frequently, they behave like a series of fragmented fiefdoms—unable to focus Federal resources or energies in a way which produces any concentrated impact. Consider these facts:

Nine different Federal departments and 20 independent agencies are now involved in education matters. Seven departments and eight independent agencies are involved in health. In many major cities, there are at least 20 or 30 separate manpower programs, funded by a variety of Federal offices. Three departments help develop our water resources and four agencies in two departments are involved in the management of public lands. Federal recreation areas are administered by six different agencies in three departments of the government. Seven agencies provide assistance for water and sewer systems. Six departments of the government collect similar economic information often from the same source and at least seven departments are concerned with international trade. While we cannot eliminate all of this diffusion we can do a great deal to bring similar functions under common commands.

It is important that we move boldly to consolidate the major activities of the Government. The programmatic jumble has already reached the point where it is virtually impossible to obtain an accurate count of just how many Federal grant programs exist. Some estimates go as high as 1,500. Despite impressive attempts by individual legislators and by the Office of Economic Opportunity, there is still no agreement on a comprehensive list.

Again and again I hear of local officials who are unable to determine how many Federal programs serve their areas or how much Federal money is coming into their communities. One reason is that the assistance comes from such a wide variety of Federal sources.

THE CONSEQUENCES OF SCATTERED RESPONSIBILITY

What are the consequences of this scattering of Federal responsibility? There are many.

In the first place, the diffusion of responsibility makes it extremely difficult to launch a coordinated attack on complex problems. It is as if the various units of an attacking army were operating under a variety of highly independent commands. When one part of the answer to a problem lies in one department and the other parts lie in other departments, it is often impossible to bring the various parts together in a unified campaign to achieve a common goal.

Even our basic analysis of public needs often suffers from a piece meal approach. Problems are defined so that they will fit within established jurisdictions and bureaucratic conventions. And the results of government action are typically measured by the degree of activity within each program rather than by the overall impact of related activities on the outside world.

The role of a given department in the policy making process can be fundamentally compromised by the way its mission is defined. The narrower the mission, the more likely it is that the department will see itself as an advocate within the administration for a special point of view. When any department or agency begins to represent a parochial interest, then its advice and support inevitably become less useful to the man who must serve all of the people as their President.

Even when departments make a concerted effort to broaden their perspectives, they often find it impossible to develop a comprehensive strategy for meeting public needs. Not even the best planners can set intelligent spending priorities, for example, unless they have an opportunity to consider the full array of alternative expenditures. But if one part of the problem is studied in one department and another part of the problem is studied elsewhere, who decides which element is more important?

If one office considers one set of solutions and a separate agency investigates another set of solutions, who can compare the results? Too often, no official below the very highest levels of the Government has access to enough information to make such comparisons wisely. The result is that the Government often fails to make a rational distribution of its resources among a number of program alternatives.

Divided responsibility can also mean that some problems slip between the cracks and disappear from the Government's view. Everybody's business becomes nobody's business and embarrassing gaps appear which no agency attempts to fill. At other times, various Federal authorities act as rivals, competing with one another for the same piece of "turf."

Sometimes one agency will actually duplicate the work of another; for instance, the same locality may receive two or more grants for the same project. On other occasions, Federal offices will actually find themselves working at cross purposes with one another; one agency will try to preserve a swamp, for example, while another is seeking to drain it. In an effort to minimize such problems, government officials must spend enormous amounts of time and energy negotiating with one another that should be directed toward meeting people's needs. And even when they are able to work out their differences, officials often reach compromise solutions which merely represent the lowest common denominator of their original positions. Bold and original ideas are thus sacrificed in the quest for intra-governmental harmony.

Scattered responsibility also contributes to the overcentralization of public decisionmaking. Because competing offices are often in different chains of command, it is frequently impossible for them to resolve their differences except by referring them to higher authorities, a process which can mean interminable delays. In an attempt to provide a means for resolving such differences and for providing needed coordination, an entire new layer of bureaucracy has emerged at the interagency level. Last year, the Office of Management and Budget counted some 850 interagency committees. Even so, there are still many occasions when only the White House itself can resolve such interjurisdictional disputes. Too many questions thus surface at the Presidential level that should be resolved at levels of Government closer to the scene of the action.

Inefficient organization at the Federal level also undermines the effectiveness of State and local governments. Mayors and Governors waste countless hours and dollars touching base with a variety of Federal offices—each with its own separate procedures and its own separate policies. Some local officials are so perplexed by the vast array of Federal programs in a given problem area that they miss out on the very ones that would be most helpful to them. Many State and local governments find they must hire expensive specialists to guide them through the jungles of Federal bureaucracy.

If it is confusing for lower levels of government to deal with this maze of Federal offices, that challenge can be even more bewildering for individual citizens. Whether it is a doctor seeking aid for a new health center, a businessman trying to get advice about selling in foreign markets, or a welfare recipient going from one office to another in order to take full advantage of Federal services, the people whom the Government is supposed to be serving are often forced to weave their way through a perplexing obstacle course as a condition of receiving help.

THE HOBBLING OF ELECTED LEADERSHIP

Perhaps the most significant consequence of scattered responsibility in the executive branch is the hobbling effect it has on elected leadership—and, therefore, on the basic principles of democratic government. In our political system, when the people identify a problem they elect to public office men and women who promise to solve that problem. If these leaders succeed, they can be reelected; if they fail, they can be replaced. Elections are the people's tool for keeping government responsive to their needs.

This entire system rests on the assumption, however, that elected leaders can make the government respond to the people's mandate. Too often, this assumption is wrong. When lines of responsibility are as tangled and as ambiguous as they are in many policy areas, it is extremely difficult for either the Congress or the President to see that their intentions are carried out.

If the President or the Congress want to launch a program or change a program or even find out how a program is working, it often becomes necessary to consult with a half dozen or more authorities, each of whom can blame the others when something goes wrong. It is often impossible to delegate to any one official the full responsibility for carrying out a specific mandate, since the machinery for doing that job is divided among various agencies. As a result, there is frequently no single offi-

cial—even at the Cabinet level—whom the President or the Congress can hold accountable for Government's success or failure in meeting a given need.

No wonder bureaucracy has sometimes been described as "the rule of no one." No wonder the public complains about programs which simply seem to drift. When elected officials cannot hold appointees accountable for the performance of government, then the voters influence on government's behavior is also weakened.

HOW DID THINGS GET THIS WAY?

The American people clearly pay a very high price for the incapacities of governmental structures—one that is measured in disappointment, frustration and wasted tax dollars. But how did things get this way?

What happened, essentially, was that the organization of Government—like the grant-in-aid programs which I have discussed in my special messages to the Congress concerning revenue sharing—grew up in a haphazard, piecemeal fashion over the years. Whenever Government took on an important new assignment or identified an important new constituency, the chances were pretty good that a new organizational entity would be established to deal with it. Unfortunately, as each new office was set up, little or no attention was given to the question of how it would fit in with the old ones. Thus office was piled upon office in response to developing needs; when new needs arose and still newer units were created, the older structures simply remained in place.

Of the 12 executive departments now in existence, only five can trace their origins to the beginning of our country. The Departments of State and Treasury were set up in 1789; so was the War Department—the predecessor of the Department of Defense. The positions of Attorney General and Postmaster General were also established in 1789, though it was not until later that the departments they head were set up in their present form. One of these five units, the Post Office Department, will soon become an independent corporation. But, under my proposals, the other four "original" departments would remain intact. It is the seven newer departments of the Government which would be affected by the changes I recommend.

These seven departments were set up to meet the changing needs of a growing nation, needs which have continued to change over the years. The Department of the Interior, for example, was established in 1849 to deal with newly opened western lands and especially with the Indians who inhabited them. The Department of Agriculture was also added in the 19th century, at a time when the overwhelming majority of our people were directly affected by the tremendous expansion of agricultural enterprise. In the early years of the 20th century, in a time of rapid and unsettling industrial growth, the Department of Commerce and Labor was set up. The Labor Department was split off from it in 1913, in response to feelings that labor was suffering from an imbalance of power and needed additional influence. The three newest departments of the Government—Health, Education, and Welfare, Housing and Urban Development, and Transportation—were all created after World War II. Each represents a first step toward bringing together some of the new Federal offices and agencies which had proliferated so rapidly in recent decades.

ORGANIZING AROUND GOALS

As we look at the present organization of the Federal Government, we find that many of the existing units deal with methods and subjects rather than with purposes and goals. If we have a question about labor we go to the Labor Department and if we have a business problem we go to the Commerce Department. If we are interested in highways we go to another.

The problem is that as our society has become more complex, we often find ourselves using a variety of means to achieve a single set of goals. We are interested, for example, in economic development—which requires new markets, more productive workers and better transportation systems. But which department do we go to for that? And what if we want to build a new city, with sufficient public facilities, adequate housing, and decent recreation areas—which department do we petition then?

We sometimes seem to have forgotten that government is not in business to deal with subjects on a chart but to achieve real objectives for real human beings. These objectives will never be full achieved unless we change our old ways of thinking. It is not enough merely to build the executive branch according to a new understanding of how government can best be organized to perform effectively.

The key to that new understanding is the concept that the executive branch of the government should be organized around basic goals. Instead of grouping activities by narrow subjects or by limited constituencies, we should organize them around the great purposes of government in modern society. For only when a de-

partment is set up to achieve a given set of purposes, can we effectively hold that department accountable for achieving them. Only when the responsibility for realizing basic objectives is clearly focused in a specific governmental unit, can we reasonably hope that those objectives will be realized.

When government is organized by goals, then we can fairly expect that it will pay more attention to results and less attention to procedures. Then the success of government will at least be clearly linked to the things that happen in society rather than the things that happen in government.

Under the proposals which I am submitting, those in the Federal Government who deal with common or closely related problems would work together in the same organizational framework. Each department would be given a mission broad enough so that it could set comprehensive policy directions and resolve internally the policy conflicts which are most likely to arise. The responsibilities of each department would be defined in a way that minimizes parochialism and enables the President and the Congress to hold specific officials responsible for the achievement of specific goals.

These same organizational principles would also be applied to the internal organization of each department. Similar functions would be grouped together within each new entity, making it still easier to delegate authority to lower levels and further enhancing the accountability of subordinate officials. In addition, the proposals I submit today include a number of improvements in the management of Federal programs, so that we can take full advantage of the opportunities afforded us by organizational restructuring.

The administration is today transmitting to the Congress four bills which, if enacted, would replace seven of the present executive departments and several other agencies with four new departments: the Department of Natural Resources, the Department of Community Development, the Department of Human Resources and the Department of Economic Affairs. A special report and summary—which explain my recommendations in greater detail—have also been prepared for each of the proposed new departments.

THE DEPARTMENT OF NATURAL RESOURCES

One of the most notable developments in public consciousness in recent years has been a growing concern for protecting the environment and a growing awareness of its highly interdependent nature. The science of ecology—the study of the interrelationships between living organisms and their environments—has experienced a sudden rise in popularity. All of us have become far more sensitive to the way in which each element of our natural habitat affects all other elements.

Unfortunately, this understanding is not yet reflected in the way our Government is organized. Various parts of the interdependent environment are still under the purview of highly independent Federal offices. As a result, Federal land policies, water programs, mineral policies, forestry practices, recreation activities and energy programs cannot be easily coordinated, even though the manner in which each is carried out has a great influence on all the others.

Again and again we encounter intragovernmental conflicts in the environmental area. One department's watershed project, for instance, threatens to slow the flow of water to another department's reclamation project downstream. One agency wants to develop an electric power project on a certain river while other agencies are working to keep the same area wild. Different departments follow different policies for timber production and conservation, for grazing, for fire prevention and for recreational activities on the Federal lands they control, though the lands are often contiguous.

We cannot afford to continue in this manner. The challenges in the natural resource field have become too pressing. Some forecasts say that we will double our usage of energy in the next 10 years, of water in the next 18 years, and of metals in the next 22 years. In fact, it is predicted that the United States will use more energy and more critical resources in the remaining years of this century than in all of our history up until now. Government must perform at its very best if it is to help the Nation meet these challenges.

I propose that a new Department of Natural Resources he created that would bring together the many natural resource responsibilities now scattered throughout the Federal Government. This Department would work to conserve, manage and utilize our resources in a way that would protect the quality of the environment and achieve a true harmony between man and nature. The major activities of the new Department would be organized under its five subdivisions: Land and Recreation Resources, Water Resources, Energy and Minerals Resources, Oceanic, Atmospheric and Earth Sciences, and Indian and Territorial Affairs.

The new Department of Natural Resources would absorb the present Department of the Interior. Other major programs which would be joined to it would include: The Forest Service and the soil and water conservation programs from the Department of Agriculture, planning and funding for the civil functions of the Army Corps of Engineers and for the civilian power functions of the Atomic Energy Commission, the interagency Water Resources Council, the oil and gas pipeline safety functions of the Department of Transportation, and the National Oceanic and Atmospheric Administration from the Department of Commerce. Because of their historical association with the Department of the Interior, the programs of the Bureau of Indian Affairs would be administered by the new Department until such time as an acceptable alternative arrangement could be worked out with Indian leaders and other concerned parties.

THE DEPARTMENT OF COMMUNITY DEVELOPMENT

A restless and highly mobile people, Americans are constantly creating new communities and renewing old ones throughout our land. In an era of rapid change, this process—which once took generations—can now be repeated in just a few years.

At the same time, the process of community development is becoming even more complex, particularly as the problems of urban and rural communities begin to merge. The elements of community life are many and the mark of a cohesive community is the harmonious way in which they interrelate. That is why we hear so much these days about the importance of community planning. And that is why it is essential that Federal aid for community development be. designed to meet a wide range of related needs in a highly coordinated manner .

Often this does not happen under the present system. The reason is that the basic community development programs of the federal Government are presently divided among at least eight separate authorities—including four executive departments and four independent agencies.

A community that seeks development assistance thus finds that it has to search out aid from a variety of Federal agencies. Each agency has its own forms and regulations and timetables—and its own brand of red tape. Each has its own field organizations, often with independent and overlapping boundaries for regions and districts. Sometimes a local community must consult with Federal offices in three or four different States.

The result is that local leaders often find it virtually impossible to relate Federal assistance programs to their own local development strategies. The mayor of one small town has observed that by the time he finishes dealing with eight Federal planning agencies, he has little time to do anything else.

Occasionally, it must be admitted, a community can reap unexpected benefits from this diffusion of Federal responsibility. The story is told of one small city that applied to six different agencies for help in building a sewage treatment plant and received affirmative responses from all six. If all the grants had been completed, the community would have cleared a handsome profit—but at the Federal taxpayer's expense.

To help correct such problems I propose that the mayor community development functions of the Federal Government be pulled together into a new Department of Community Development. It would be the overriding purpose of this Department to help build a wholesome and safe community environment for every American. This process would require a comprehensive series of programs which are equal to the demands of growing population and which provide for balanced growth in urban and rural areas. The new Department would operate through three major administrations: A Housing Administration, a Community Transportation Administration and a Urban and Rural Development Administration.

A fourth unit, the Federal Insurance Administration, would be set up administratively by the Secretary.

The new Department of Community Development would absorb the present Department of Housing and Urban Development. Other components would include certain elements of the Economic Development Administration and the Regional Commission programs from the Department of Commerce, the independent Appalachian Regional Commission, various Department of Agriculture programs including water and waste disposal grants and loans, the Rural Electrification Administration, and rural housing programs. The Community Action and Special Impact Programs of the Office of Economic Opportunity would be included, as would the Public Library construction grant program from the Department of Health, Education and Welfare and certain disaster assistance functions now handled by the Office of Emergency Preparedness and the Small Business Administration. Most Federal highway programs

and the Urban Mass Transportation Administration would be transferred from the present Department of Transportation.

I would note that while the Department of Transportation is a relatively new entity, it, too, is now organized around methods and not around purposes. A large pelt of the Department of Transportation would be moved into the new Department of Economic Affairs—but those functions which particularly support community development would be placed in the Department which is designed to meet that goal.

THE DEPARTMENT OF HUMAN RESOURCES

The price of obsolete organization is evidenced with special force in those Government programs which are directly designed to serve individuals and families. In part this is because there has been so much new legislation in the human resource field in recent decades; the old machinery is simply overtrained by its new challenges. But whatever the reasons, human resource programs comprise one area in which the Government is singularly ill-equipped to deliver adequate results.

I have already commented on the broad dispersion of Federal health and education activities. Similar examples abound. Income support programs, including those which administer food stamps, welfare payments, retirement benefits and other forms of assistance, are scattered among three departments and number of other agencies. The Department of Agriculture, the Department of Health, Education, and Welfare, and the Office of Economic Opportunity all handle food and nutrition matters. Child care programs, migrant programs, manpower programs, and consumer programs often suffer from similarly divided attention.

In one city, two vocational training centers were built three blocks apart at about the same time and for the same purpose, with money from two different Federal agencies. And for every case of over attention, there are many more of neglect. Consider the plight of a poor person who must go to one office for welfare assistance, to another for food stamps, to another for financial counseling, to still another for legal aid, to a fifth office for employment assistance, to a sixth place for job training, and to a number of additional offices for various kinds of medical help. The social worker who might guide him through this maze often works in still another location.

Such situations are clearly intolerable, yet the Federal Government—which ought to be working to reform these confused systems—actually is responsible for much of the confusion in the first place.

I believe that we can take a major step toward remedying such problems by establishing, a new Department of Human Resources which would unify major Federal efforts to assist the development of individual potential and family well-being. This Department would be subdivided, in turn, into three major administrations: Health, Human Development, and Income Security.

This new Department would incorporate most of the present Department of Health, Education, and Welfare with the following significant additions: a number of food protection, food distribution an nutrition programs from the Department of Agriculture, the College Housing program from the Department of Housing and Urban Development, the independent Railroad Retirement Board, various programs from the Office of Economic Opportunity (including nutrition, health, family planning, alcoholism, and drug rehabilitation efforts), and the Manpower Administration, the Women's Bureau, the Unemployment Insurance Program and a number of other employment service and training activities from the Department of Labor.

THE DEPARTMENT OF ECONOMIC AFFAIRS

One of the first things most students learn about economies is that the material progress of our civilization has resulted in large measure from a growing division of labor. While a single family or a single community once provided most of its own goods and services, it now specializes in providing only a few, depending increasingly on a far-flung, intricate network of other people and other organizations for its full economic well-being.

The only way the Federal Government can deal effectively with such a highly interdependent economy is by treating a wide range of economic considerations in a comprehensive and coordinated manner. And—as our Gross National Product moves beyond the trillion dollar level and as our productive system, which now accounts for approximately 40 percent of the world's wealth, encounters new challenges from other nations—it is becoming even more important that Federal economic policies be carried out as effectively as possible.

But again, the organization of the Government works against the systematic consideration of economic complexities. The step by step evolution of our Federal machinery has created a series of separate entities—each handling a separate part of

the economic puzzle. Some of these entities are relatively autonomous units within department. Others are independent agencies. But perhaps the most dramatic evidence of our fragmented approach to the economy is the existence of four major executive departments which handle highly interdependent economic matters: Commerce, Labor, Agriculture, and Transportation.

This situation can seriously impair governmental efforts to respond effectively to economic challenges. One department, for example, may be concerned with the raw materials a given industry receives from the farms, while a second department is concerned with getting these materials to the factory and getting the product to its market. Mean-while, a third department is concerned with the workers who harvest the crops, run the transportation systems and manufacture the product, while a fourth department is concerned with the businessmen who own the plant where the product is made and the stores where it is merchandised.

Such a division of responsibility can also create a great deal of overlap. The Agriculture Department, for instance, finds that its interest in agricultural labor is shared by the Labor Department, its regard for agricultural enterprise is shared by the Small Business Administration, and its concern for providing sufficient transportation for farm products is shared by the Department of Transportation. The Commerce, Labor, and Agriculture Departments duplicate one another in collecting economic statistics, yet they use computers and statistical techniques which are often incompatible.

It has sometimes been argued that certain interest groups need a department to act as their special representative within the Government. In my view, such an arrangement serves the best interests of neither the special group nor the general public. Little is gained and much can be lost, for example, by treating our farmers or our workers or other groups as if they are independent participants in our economic life. Their problems cannot be adequately treated in isolation; their well-being is intimately related to the way our entire economy functions.

I would not suggest these reforms if I thought they would in any way result in the neglect of farmers, workers, minorities or any other significant groups within our country. To the contrary, I propose these reforms because I am convinced they will enable us to serve these groups much better. Under my proposals, the new Department of Economic Affairs would be in a much stronger position really to do something about the wide-ranging factors which influence farm income than is the present Department of Agriculture, for example. It could do more to meet the complex needs of working men and women than can the present Department of Labor. It would be able to pull together a wider range of resources to help minority businessmen than can the present Department of Commerce.

Federal organization in the economic area has been the target of frequent criticism over the years. During the previous administration alone, two special studies of executive organization recommended that it be substantially altered. I have received a similar recommendation from my Advisory Council on Executive Organization.

I am therefore recommending to the Congress that a new Department of Economic Affairs be established to promote economic growth, to foster economic justice, and to encourage more efficient and more productive relationships among the various elements of our economy and between the United States economy and those of other nations. As this single new Department joined the Treasury Department, the Council of Economic Advisers and the Federal Reserve Board in shaping economic policy, it would speak with a stronger voice and would offer a more effective, more highly integrated viewpoint than four different departments can possibly do at present. The activities of the new Department would be grouped under the following six administrations: Business Development, Farms and Agriculture, Labor Relations and Standards, National Transportation, Social, Economic, and Technical Information and International Economics.

The new Department of Economic Affairs would include many of the offices that are now within the Department of Commerce, Labor, and Agriculture. A large part of the Department of Transportation would also be relocated here, including the United States Coast Guard, the Federal Railroad Administration, the St. Lawrence Seaway Development Corporation, the National Transportation Safety Board, the Transportation Systems Center, the Federal Aviation Administration, the Motor Carrier Safety Bureau and most of the National Highway Traffic Safety Administration. The Small Business Administration, the Science Information Exchange program from the Smithsonian Institution, the National Institute for Occupational Health and Safety from the Department of Health, Education, and Welfare and the Office of Technology Utilization from the National Aeronautics and Space Administration would also be included in the new Department.

OTHER ORGANIZATIONAL REFORMS

Regrouping functions among departments can do a great deal to enhance the effectiveness of government. It should be emphasized, however, that regrouping functions within departments is also a critical part of my program for executive reform. Just as like tasks are grouped together within a given department, so similar operations should be rationally assembled within subordinate units. Such a realignment of functions, in and of itself, would make it much easier for appointed officials to manage their agencies and for both the President and the Congress to see that their intentions are carried out.

Toward this same end, I am recommending to the Congress a number of additional steps for bringing greater managerial discipline into Government. In the first place, I am proposing that the Department Secretary and his office be considerably strengthened so that the man whom the President appoints to run department has both the authority and the tools to run it effectively. The Secretary would be given important managerial discretion that he does not always enjoy today, including the ability to appoint many key department officials, to delegate authority to them and to withdraw or change such delegation of authority, and to marshal and deploy the resources at his command so that he can readily focus the talent available to him at the point of greatest need.

Each of the new Secretaries would be provided with a Deputy Secretary and two Under Secretaries to help him meet his responsibilities. In addition, each major program area within a department would be headed by a high-level administrator who would be responsible for effectively managing a particular group of related activities. These officials would be appointed by the President and their appointments would be subject to Senate confirmation.

It is my philosophy that we should give clear assignments to able leaders—and then be sure that they are equipped to carry them out. As a part of this same effort, we should do all we can to give the best new management tools to those who run the new departments. There is no better time to introduce needed procedural changes within departments than a time of structural change among department. We can reap great benefits if we take advantage of this opportunity by implementing the most advanced techniques and equipment for such tasks as planning and evaluation, data collection, systematic budgeting, and personnel administration.

Finally, I would again stress in this message—as I have in my discussion of revenue sharing—the importance of decentralizing government activities as much as possible. As I have already observed, the consolidation of domestic departments would produce fewer interagency disputes that require resolution at higher levels. It is also true, as many management experts have pointed out, that as the reliability and scope of information expand at higher levels of government, officials can delegate authority to lower levels with greater confidence that it will be used well.

In addition to the consolidation of functions, I am also proposing a reform of the field structures of the Federal Government that would also promote decentralization. Each Department, for example, would appoint a series of Regional Directors who would represent the Secretary with respect to all Department activities in the field. Planning, coordination and the resolution of conflicts could thus be more readily achieved without Washington's involvement, since there would be a "Secretarial presence" at the regional level. Further coordination at lower levels of government would be provided by strengthening the 10 Regional Councils which include as members the Regional Directors of various departments in a given area of the country.

In the first months of my administration I moved to establish common regional boundaries and regional headquarters for certain domestic departments. I observed at that time that the Federal Government has never given adequate attention to the way in which its departments are organized to carry out their missions in the field. It is now time that we remedied this pattern of neglect. Even the best organized and best managed departments in Washington cannot serve tile people adequately if they have to work through inadequate field structures.

Industry and government both have found that even the largest organizations can be run effectively when they are organized according to rational principles and managed according to sound techniques. There is nothing mystical about, these principles or these techniques; they can be used to make the Federal Government far more effective in a great many areas.

As we consolidate and rationalize Federal functions, as we streamline and modernize our institutional architecture, as we introduce new managerial techniques and decentralize Government activities, we will give Government the capacity to operate far more efficiently than is does today. It will be able to do more work with fewer mechanisms and fewer dollars. It will be able to use its work force more pro-

ductively. This could mean significant savings for our taxpayers. I would emphasize, however, that any reductions in the Federal work force attributable to this proposal would come by normal turnover; no civil servant should lose his job as a result of this plan.

It is important that these reforms be seen by our civil servants not as a threat to their security but as an opportunity for greater achievement. We have worked hard to bring able people into Government employment. Executive reorganization can help the Nation make even better use of their talent and their dedication and it can also make it easier for us to attract more men and women of great vision and competence into public service at the Federal level.

FOCUSING POWER WHERE IT CAN BE USED BEST

These proposals for reorganizing the Federal Government are a natural complement to my proposal for revenue sharing; there is a sense in which these two initiatives represent two sides of the same coin. Both programs can help us decentralize government, so that more decisions can be made at levels closer to the people. More than that, both programs are concerned with restoring the general capacity of government to meet its responsibilities.

On the one hand, through revenue sharing, we would give back to the States and localities those functions which belong at the State and local level. To help them perform those functions more effectively, we would give them more money to spend and more freedom in spending it. At the same time, however, we must also do all we can to help the Federal Government handle as effectively as possible those functions which belong at the Federal level. Executive reorganization can help us achieve this end by bringing together related activities which are now fragmented and scattered.

A healthy Federal system is one in which we neither disperse power for the sake of dispersing it nor concentrate power for the sake of concentrating it. Instead, a sound Federal system requires us to focus power at that place where it can be used to the greatest public advantage. This means that each level of government must be assigned those tasks which it can do best and must be given the means for carrying out those assignments.

THE CENTRAL QUESTION

Ever since the first settlers stepped upon our shores more than three centuries ago, a central question of the American experience has been: How do we best organize our government to meet the needs of the people? That was the central question as the colonists set up new governments in a new world. It was the central question when they broke from their mother country and made a new nation. It was the central question as they wrote a new Constitution in 1787 and, at each critical turning point since that time, it has remained a dominant issue in our national experience.

In the last 40 years, as the Federal Government has grown in scope and complexity, the question of how it should be organized has been asked with even greater intensity and relevance. During this time, we have moved to formulate responsive answers to this question in an increasingly systematic manner. Searching studies of Government management and organization have been made under virtually every national administration since the 1930's and many needed reforms have resulted.

What is now required, however, is a truly comprehensive restructuring of executive organization, one that is commensurate with the growth of the Nation and the expansion of the government. In the last 20 years also our population has increased by one-third and the Federal budget has quintupled. In the last two decades, the number of Federal civilian employees has risen by almost 30 percent and the domestic programs they administer have multiplied tenfold. Three executive departments and 14 independent agencies have been tacked on to the Federal organization chart during that brief span.

Yet it still is the same basic organization chart that has set the framework of governmental action for decades. While there have been piecemeal changes, there has been no fundamental overhaul. Any business that grew and changed so much and yet was so patient with old organizational forms would soon go bankrupt. The same truth holds in the public realm. Public officials cannot be patient with outmoded forms when the people have grown so impatient with government.

Thomas Jefferson once put it this way: "I am certainly not an advocate for frequent and untried changes in laws and constitutions," he wrote, "but * * * laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new

truths disclosed, and manners and opinions change with the change of circumstances, institutions must advance also, and keep pace with the times."

"Institutions must advance." Jefferson and his associates saw that point clearly in the late 18th century, and the fruit of their vision was a new nation. It is now for us—if our vision matches theirs—to renew the Government they created and thus give new life to our common dreams.

RICHARD NIXON.

THE WHITE HOUSE,
March 25, 1971.

Mr. HORN. Somehow, that particular endeavor escaped me. But it sounds interesting. Because there's no question there needs to be a sharper and better span of control in terms of some of these activities.

Mr. DEAN. In fact, Mr. Chairman, if I could add a word, I didn't cover in my statement the fact in detail that we have gone from 4 to 14 departments. And we only had about 11 when we were doing the Nixon work. I'm not very enthusiastic about just picking out a department, saying, "We're going to abolish it."

But I'm very enthusiastic about having this committee or some mechanism take a look across at least the whole civil side of the government and see if we can achieve a logical grouping of functions by department.

For example, Energy—I don't want to pick on it, but I think its four announced missions all can fit in other locations, even if the missions are fully continued, better than in the present Department of Energy. But that has to be carefully looked at.

Mr. HORN. Are you thinking of Department of the Interior?

Mr. DEAN. Well, I'm thinking about the Interior Department being a Department of Natural Resources and the power agencies, fossil fuel functions and similar things being put in Natural Resources. The environmental stuff goes to EPA.

The competitiveness mission that Hazel O'Leary keeps mentioning has four or five other contenders, including the Commerce Department. And the National Defense mission, now that we're not making a lot of atomic weapons, it's a real question of whether or not a department should exist for that purpose.

Mr. HORN. And you certainly could see, I take it, a merger of departments such as Education and Labor into a human resource department?

Mr. DEAN. Bill Hansen may be very offended by this, but when Weinberger and Carlucci were in HEW, we designed an updated plan for Department of Human Resources, of which Education would have been a continuing part. And I was very strongly opposed at the time when President Carter split off that little part of HEW and deprived the President of a real Secretary for Human Resources.

Mr. HORN. Very interesting. I was supportive of that separate Department of Education, but I also like the idea of getting a lifelong continuum K–12, community colleges, postsecondary education, and worker retraining, adult education, simply to have somebody at the President's Cabinet that can get his ear on what is one of the main weaknesses, at least precollege, in terms of America's competitiveness compared to some of our allies.

They do a better job at the precollege level. They don't at the college and graduate school in particular level. But we have all gone through these evolutions. At least I'm willing to look at it.

Mr. Hansen, your testimony focused on the administration of the Student Loan Program, in part, and your former agency's largest program, certainly dollar amount, as I remember. And I've long believed the Federal Government's efforts at debt collection have been, frankly, very inefficient, as you might have heard me say to a previous panel.

And I understand we're owed $50 billion of delinquent debt. We need to improve the management of this debt. And what's your reading as to how aggressive the Department of Education has been in referring delinquent loans to private debt collectors and finding some way to collect this debt?

Mr. HANSEN. I do think there are a number of important tools that have been put into place over the last couple of years. Back in 1989, we started using the IRS offset for students that were in default that owed money to the Federal Government that we would be able to tape dump to the IRS all of those people, so that when their tax returns came in, if they were due a return, it would be withheld and added toward offsetting their debt.

That program now has brought billions of dollars back into it. It's becoming pretty mature at this point and I think has been a helpful tool. I also think through some of the private loan collection efforts, things are improving. The default problem really, I think, rested more upon the expansive—I don't want to say "liberalization," but there are 8,000 institutions that now participate in the Student Loan Program, colleges, 2-year schools, and trade schools. Back in the early 1970's, there were 2,000.

And you've had a major expansion in the proprietary sector. And that is where the biggest part of the default problem lies. So I think that in terms of gatekeeping, that is probably the biggest problem we have right now. And it's also, one area where the Department has frankly, gotten a little weak-kneed.

There's a law on the books that says if any school has a default rate over 25 percent for 3 years in a row, they're supposed to be no longer eligible for the Student Aid Programs. There are literally hundreds of schools that fit into that category, and they all have appeals ongoing. And the Department has settled maybe three of those appeals over the last 2 years.

Mr. HORN. And as long as the appeal's going, they can continue to issue loans?

Mr. HANSEN. Exactly. So I think that is one area that needs to be strengthened. I also think this whole notion of direct lending, where the government is taking over the program from the private sector, is one that should cause much concern. The Department is trying to define away what a default is through the Direct Lending Program, basically saying, "We're not going to have defaults anymore."

This income contingent repayment idea, it's a good idea. Bill Bennett liked it when he was Secretary. We got a pilot program going on it. But it's a good idea for maybe the 5 or 6 percent of the people that really need it, the people that go into humanitarian

type programs after they're done with college, maybe have a high debt and they're going to have a low income for a while.

It's not a panacea for everybody's problems. It's more important for people to, No. 1, borrow as less they can, prepare for college and save money, but if they do need to borrow, borrow as little as they can, and when they do borrow it, get it paid back as quickly as they can, or you're going to be creating a new cycle of dependency upon the government for this program.

The one thing the President has positioned is, you should be able to borrow as much as you want and take as long as you want to pay it back, and then he'll forgive it after 25 years if you haven't paid it back. That is a mistake that should be turned around. Right now, because the way the Department is portraying the income contingent repayment, there will be no defaults.

And so there's no default trigger in the direct lending program. So there's no way to kick those shoddy schools out of the program. And that is going to bring, I think, continued exposure to the Department and to the taxpayer for more billions of dollars of defaults every year.

Mr. HORN. As you know, it's standard practice in the private sector to send notices demanding payment for delinquent debt fairly soon after the debt becomes due or overdue. And I note that GSA has a contract with a private debt collection firm to provide demand letters requesting payment.

This service apparently is not used by most Federal agencies, even though it would be available to them, since the increased collections, I guess, cannot be used to offset the cost of this contract. What's your own experience with the issuance of demand notices? Did you ever think about having the Department use this GSA private debt collection system?

Mr. HANSEN. I think that the program in place, the Guaranteed Student Loan Program, does use a very sophisticated system. And I think that their debt collection numbers have actually improved substantially. And I know that the notices that are sent out by most of the servicers and the collectors have those types of notices in it.

I would need to see exactly what GSA's doing to compare it on what I'm aware of in the current student loan community. But I think that those types of activities, of notices are going on in the student loan community at this time.

Mr. HORN. Let me ask the staff at this point in the record how many agencies are utilizing the GSA contract that exists and what are the alternatives they're pursuing in terms of debt collection. Have they made their own contracts with private debt collectors, or have they decentralized it as perhaps Education has done with universities and others turning that debt over? But let's just get a clarifying exhibit here.

Let me move to another area that both of you can respond to. Based on your experience, how long did it take for one of your managers or supervisors to fire an employee for cause, and did this change over the years you served in the Federal service? You go back earlier, Alan.

Mr. DEAN. Well, I don't belong to the group of people who talk about how hard it is to fire an employee. Good, skilled managers

can under the Federal system in most cases get a person off the roles in 30 days. At least that was my experience in FAA and DOT. When I was vice president of a government corporation, the U.S. Railway Association, I could do it a lot more quickly, I'll admit.

Very seldom did I lose an appeal, which could be made to the Civil Service Commission, because in our system, every employee was given proper warning, a record was made of that. An opportunity to improve was provided, unless the case was egregious. If the improvement did not take place, the action was taken. And when an appeal was made, we had the documentation, and we were almost always successful.

Mr. HORN. If you added up the total number that occurred under such circumstances, are we talking about a dozen people, 100 people over a career, what?

Mr. DEAN. Well, in one case in FAA where we were investigating travel irregularities and we found 500 violations, I think we removed about 25 supervisory people who had connived with it, and not a single appeal was taken or a single one overturned.

Mr. HORN. And you removed them from the Federal service?

Mr. DEAN. We gave them letters of charges, gave them time to comply, and then completed the action. But behind it was a confession signed by the employee of travel fraud. That's what you've got to do. What used to happen to me is, a supervisor would come to me as an Assistant Secretary or associate administrator and say, "I want you to fire this guy." And I would find they had given him a merit increase 2 months before.

Mr. HORN. We have all found that in the file, and then they want to fire him. I've had many cases like that.

Mr. DEAN. I would say, "Who are you kidding? If that guy was so good or person was so good 2 months ago, what has happened now?"

Mr. HORN. Well, what you're pointing out is, one of our problems is the supervisors and managers aren't really acting like supervisors and managers.

Mr. DEAN. Whether it's giving performance ratings or telling employees orally and in writing where they're falling short, that's the thing most managers hate to do. And they avoid it like the plague. And they would love to pass it on to the personnel office if they could.

Mr. HORN. Right. Has that been your experience, Mr. Hansen?

Mr. HANSEN. Pretty similar. I think that there will be a distinction between personnel that have committed a serious act and those that are either in the wrong position or incompetent, aren't showing up for work or other types of issues.

I do know that the collective bargaining agreement of the Department of Education is very cumbersome, in some respects, in terms of having to document employees. You need to go through a different tiered process, in terms of putting them on notice, issuing a letter of reprimand, suspending them and going through all of these different steps before you can take a concrete action against that employee.

So the time period does tend to drag out and drag on. I would concur that the performance evaluation system is probably one of the biggest problems.

I know that even in the SES pool, there has been a lowering of the bar of the standard of what is "outstanding," "superior," or "fully satisfactory" and "unsatisfactory" to where you get probably on average 80 percent of people in the "outstanding" sphere, 15 percent in the "superior" sphere, and 5 percent in the "fully successful" and maybe one person in the "minimally successful" sphere.

And that is across government. And actually, I think that's the problem with political appointees, as well. If most of those people are the career senior officials that are evaluating the SES, if they're not changing the standard or the benchmark of what is—or having some type of bell curve or other type of approach to evaluating these people, it in turn makes it difficult for them to evaluate their managers.

It just has a trickle-down effect, to where their secondary managers are going to have a hard time rating their employees. And I think across government, those inflated ratings are probably very much the norm.

Mr. HORN. What was your last year with Education?

Mr. HANSEN. I left on January 20 at noon in 1993.

Mr. HORN. 1993. How many employees had they fired in Education that preceding year?

Mr. HANSEN. I don't have the number off the top of my head. In terms of fired, I would think it would be a handful. I would have to——

Mr. HORN. Why don't we get it in the record at this point, without objection?

[The information referred to follows:]

In 1992, there were 14 cases in which removals were proposed. Three of these were performance related cases, that is, the employee was "terminated because of incompetence." Two employees were in a probationary status and ended up resigning in lieu of being removed.

There were, however, 12 other removal actions for misconduct vs. performance. These 12 cases resulted in either removal, resignation (with or without settlements) and one reinstatement. Two of the 12 cases involved probationary employees.

Total numbers:

Removals: 7
Settlements: 4 (employees resigned with agreements)
Resignations: 2
Reinstatement: 1

These figures do not take into consideration other disciplinary actions, such as suspensions, etc.

Source: Congressional Research Service

Mr. HORN. What was the type of agency dispute resolution process they had in Education when you had some of these fracases between supervisors and employees? Was there a process to get at that?

Mr. HANSEN. There was. And I think that the Labor Relations Office did a very good job in trying to handle the delicate balance between labor and management's interest in representing both. And I think that obviously, the collective bargaining agreement and the process does need to be there to protect employee rights.

But I do think that the system is antiquated, and it is outdated in terms of being able to allow managers to be able to take swift action where swift action needs to take place. There are these one-size-fits-all barriers in place to really go after employees for lack

of production. And again, the performance evaluation process is just not the effective tool it should be.

Mr. HORN. Alan, your career in the Federal Government precedes the recognition of employee unions, I believe.

Mr. DEAN. It overlaps it.

Mr. HORN. Overlaps. But you've been able to see it before and after.

Mr. DEAN. Right.

Mr. HORN. Have you seen any change?

Mr. DEAN. Oh, yes.

Mr. HORN. And if so, what are the changes, good and bad?

Mr. DEAN. Well, the legislation that now exists, and adding to that President Clinton's partnership policies, gives what I would call the well-organized departments from a labor/management standpoint—the unions do have a greater opportunity to enter into agreements on conditions of employment—they're not allowed in pay matters—than was the case in my time.

And yet when I was in FAA, we had the powerful PATCO union, which twice in its history has struck against the government of the United States with disastrous consequences to PATCO. So we did have powerful unions back when I was an Assistant Secretary or an associate administrator.

Mr. HORN. Do you have any advice as to what, if anything, the executive branch and the chief executive ought to be doing in terms of renegotiating some of these contracts? Have they gone too far, not far enough, what?

Mr. DEAN. I think the Federal employees have to have the right to organize like any other American employee. They're prohibited from striking, and there are certain things like statutory salary rates and so on, that they cannot and should not be allowed to negotiate.

But beyond that, I think if they select a bargaining unit by a democratic and supervised means, the management of the agency should deal with them in a fair and open way.

Mr. HORN. Does the Secretary get involved in actually approving that contract, or is it strictly the Assistant Secretary that does it?

Mr. DEAN. I can't answer for all departments now. In DOT, it would go to the Deputy Secretary, in all probability, with the staff work done in my office.

Mr. HORN. How about Education?

Mr. HANSEN. I know from Education and even Commerce and Energy, as well, that there was very little Secretarial involvement ever in labor-relations type issues. Some Deputy Secretaries were involved. It was mostly all handled at the Assistant Secretary level.

Mr. HORN. I guess I worry sometimes that the Secretary is not involved, because it's so easy—and I've seen it in private industry—where management, labor just settled. And then, of course, in the case of private industry, the costs were passed on to the consumer.

And the result is, I fear, in the Federal establishment that unless you have the Secretary involved or somebody with a long-term vision, political sensitivity, you're leaving a series of traps in work rules for your successor. And I just wonder to what degree do those

questions really escalate up the hierarchy to have a real look at it, or is it just, "Let's settle and get on with the business"?

Mr. HANSEN. I think the latter.

Mr. HORN. Yes. That's my fear.

Mr. DEAN. You might note, Mr. Chairman, that here's where culture of agency enters in. The Labor Department, being a Labor Department, tends to be much more willing to write into its agreements leverage for the unions that we would never have in Federal Highway Administration because of a different culture and different approach.

Mr. HORN. No, you're absolutely right on the impact of institutional culture, which we really haven't discussed. We mentioned a number of times and witnesses did the shrinking tenure of the political appointees. Does that mean that their average of, let's say, 18 months on their job really limits their effectiveness, or does it matter? Do people just work around them anyhow?

Mr. HANSEN. I think that figure is probably a little bit skewed. I know from my resume of 12 years in Federal service between 1981 and 1993 that I had 12 different positions. So the average tenure in each of my positions was probably a year, but I probably brought with each of those positions similar background and expertise that was probably helpful.

I do think there is a problem, and I do think that in especially issues—and I'll just pull the student aid issue out—you do have a Deputy Assistant Secretary that's political and an Assistant Secretary that's political. And I think the average tenure going back over the last 15 years on both of those, Republican and Democrat, has probably been less than 2 years. And they have overlapped one another.

And you have $150 billion financial program in government, and you don't get the continuity. I think that that Deputy Assistant Secretary position is probably one that should be a career position to ensure that continuity. David Kearns, again, the former Xerox CEO, when he was Deputy Secretary, that was one recommendation that was in the pipeline before the election happened in 1992 that we were going to try to institute.

I do know at Energy and at Commerce, the Deputy Assistant Secretary for trade with Japan is a career position. Likewise with Mexico. You need the continuity in those types of positions. Likewise at Energy, most of the important nuclear and other Deputy Assistant Secretaries are career employees and I think are done so for right reasons.

And I think that that probably needs to be looked at a little more carefully across government. I don't think a one-size-fits-all rule is appropriate, because you do have the jobs with the Commerce Department on international trade that probably should be political, because they need new vision of whichever person is in the White House and how they want to expand trade as an example.

But I do think it needs to be looked at, because I do think that disconnection or lack of tenure is very detrimental in some areas. I'm not as concerned in intergovernmental affairs or congressional affairs or budget offices, but in program management, it's much more important.

Mr. HORN. Last question. There's a lot more we could ask, but I want to get to Dr. Sperry. The last question really is on the SES and flexibility.

This has come up several times, especially on giving them other opportunities in other agencies to take an experience they have gained in one agency and apply it to the problems of another agency. What needs to be done, if anything, that could improve the SES situation in terms of flexibility?

Mr. HANSEN. I think that there needs to be an easier exit, No. 1, for SES employees. There are times where it's even to the employees' best interests to be able to step out of an SES position and back into a GS– or GM–15 type position.

Also, the ability for managers to be able to go into different positions is very important. I know at the Department of Education, I would make a back of the envelope prediction that probably more than half of the SES people have been in their positions for their whole tenure of being an SES status or for at least 10 years.

And I think that if there is some type of opportunity for these people—I don't know if it needs to be done legislatively, but if it could be done through administrative means—to allow opportunities for them, that should be done. And again, it might be through an oversight type approach, maybe not a mandated approach. But I think that's very critical.

And just in terms of the training opportunities, as well—I'm not sure if the outside government IPA experiences are quite as well founded. I think that there are some areas people can go and glean some good experience for a year. But I think that probably having them transition within government is probably a higher priority in my mind than would be going outside of government.

I think there needs to be some training outside of government and some shared experiences, but I'm not sure if having thousands of SES people go out for years is going to help, quite frankly. I think the SES career people I've worked with are probably collectively the best group of managers I've ever worked with. And there are going to be some aberrations and some outliers among them. But the work that they do is just outstanding.

I worked in three different Presidential transitions, and we could have never handled that work without those top people.

But I also think that there are some times when people frankly maybe get stale, or the agency would be better off—sometimes when you get some high risk areas over here and it's hard to recruit people from the outside and you've got maybe the answer just next door if you're able to challenge that person and have them go take that opportunity on.

Mr. HORN. What kind of upgrading and seminars, this kind of thing, are held for SES people? Is there any overall program that brings them together, shares experiences, so we get away from sort of the parochialism of working their whole career practically in a particular agency?

Mr. HANSEN. There are some things going on governmentwide and also even within the SES association and some other activities. But I do think one thing that would help are maybe some of the short-term training type programs, the JFK School at Harvard or

those types of opportunities that I think would be very pleasing to a lot of these folks.

But it's hard. Some of these programs cost a lot of money. They're done in the private sector and, I think, should have those opportunities in the government, as well.

Mr. DEAN. But we do have, Mr. Chairman, the Federal Executive Institute, which exists to give rather protracted exposure to SES people.

Mr. HORN. Right.

Mr. DEAN. What I worry about is in the current environment whether or not the OPM-led training and development activities are not in some danger.

It would seem to me that the thing that is really needed is for the Director of the Office of Personnel Management to take hold on this whole question of the development of SES people, advance in every possible way appropriate mobility—I put the word "appropriate" there—and be kind of the guide for what would be the American administrative class or an equivalent of the British system. I don't think that kind of sustained leadership is being provided right now.

Mr. HORN. And you really see it as an OPM responsibility?

Mr. DEAN. Yes. I don't see, Mr. Chairman, where else it could be done. The Director of OPM is the highest-ranking person concerned with internal personnel matters. This is a crucial role. They can have an inter-agency council back them up, which I would strongly encourage. But there has to be a leadership point, and I don't see who else could do it other than the Director.

Mr. HORN. Any other thoughts on what we might do to create more lateral transfers, upward mobility in another agency, in terms of flexibility?

Mr. DEAN. We're going to be most successful in management type activities that are found repetitively in various agencies. We're not going to be very successful with people who are moving up in program fields. Even if they have management talents, they're going to be very reluctant to depart from that path of advancement.

And if the career service went higher, this mobility would be facilitated. The people with cross-cutting management interests, the people that used to be Assistant Secretaries for administration or their Deputies, budget directors, personnel directors, management analysts, program evaluators—there are a lot of important professions that lead into the SES system and which should be led by SES people.

These people can be moved if there is constant attention by the OPM Director and constant encouragement of the Cabinet officers to draw upon the resources of other agencies.

Mr. HORN. Very good. Anything either one of you would like to say in conclusion that perhaps we haven't covered and you think you want it on the record?

Mr. DEAN. Well, let me say one thing more, Mr. Chairman. I referred earlier to the lack of OMB leadership in the government corporation area. And, as I recall, you've had a deep interest in FAA and aviation. Here is an example of a reform that would make sense; that is, creation of an aviation authority remaining in DOT with the flexibility of a corporation.

What does not make sense is to repeal the Federal Aviation Act of 1959 and restore a split between the traffic control and the regulatory functions, which were so disastrous prior to 1959 that they were one of the main reasons for the Federal Aviation Act.

They now propose an 11-member board of directors to administer a separate corporation that has some kind of vague relationship to regulatory authority of a residual FAA still in DOT? Mr. Chairman, that's a path to disaster in aviation, and yet there are ways of working this out if we could get a fresh look at it. My last comment.

Mr. HORN. That's interesting. You're saying the regulatory function is very important in order to get the safety attention, I take it, of the airlines. Is that what you see being the disconnect here?

Mr. DEAN. What I'm saying is that safety and regulation in the current FAA is one seamless web. And you can't split it. You can't suddenly say, "Traffic control can be run separately from the rest of the FAA," because there's no place where there's a logical split.

Years ago before 1959, CAB had the safety regulation function. CAA and Commerce Department had the traffic control function. Every time there was a crash, nobody was held accountable. The CAA said, "It's these silly regulations of the CAB," the CAB said, "The incompetent CAA can't carry out our regulations."

After 6 years of study, President Eisenhower recommended and the Congress unanimously passed the Federal Aviation Act to bring all this together under a single accountable administrator, no board of directors.

Mr. HORN. Have you testified on this issue?

Mr. DEAN. I have before the Aviation Subcommittee on exactly this vein.

Mr. HORN. When was that?

Mr. DEAN. About 3 weeks ago.

Mr. HORN. I hadn't heard about that. So I assume they're considering this, are they? I'm not on it anymore.

Mr. DEAN. As far as I can understand, Mr. Chairman, it's deader than a doornail. No Republican or Democratic member of that subcommittee spoke out in favor of the current plan, and all surviving administrators of the FAA testified or allowed themselves to be quoted as against it.

Mr. HORN. That's impressive testimony. Well, we thank you both for coming. We appreciate it deeply. You both have made a fine contribution to this hearing record. If you have any other thoughts, feel free to write us, and we'll put it in the record, as long as it's open. So thank you very much.

Mr. DEAN. Thank you, Mr. Chairman.

Mr. HANSEN. Thank you.

Mr. HORN. And, Dr. Sperry, if you will come forward, we'll start with panel four. Dr. Sperry is director of management studies at the National Academy of Public Administration.

[Witness sworn.]

Mr. HORN. Witness affirms. Proceed.

Mr. SPERRY. Mr. Chairman, the hour is late, and you've sat through a long bit of testimony, so I'm really at your disposal in terms of whether I give you a 1-minute summary of the testimony that has been given to you or 5 minutes or whatever you like.

Mr. HORN. Well, let's try five.

Mr. SPERRY. I will say up front that I've been in Washington for 32 years now in various capacities, most of them in the legislative branch. And I don't think that I've experienced over the last 2 weeks anyone willing to sit and listen for as long and as in-depth as you have.

I think there was another southern Californian Congressman who was of the other party named Chet Holifield, who I remember back in the late 1960's and early 1970's. And he became kind of an institution on these issues in Congress. And I think after this very ambitious schedule that you've set out that you at least qualify in terms of knowledge to be the Chet Hollifield replacement, sir.

Mr. HORN. If I could be half the chairman that Chet Holifield was, that would be an accomplishment.

Mr. SPERRY. Yes, sir. He was quite a man.

STATEMENT OF ROGER SPERRY, DIRECTOR OF MANAGEMENT STUDIES, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. SPERRY. My goal here today is really to try to bring to bear in a general way the work that the National Academy of Public Administration has done in recent years. Alan Dean has talked about much of that in his statement.

I want to refer back initially to Scott Foster's testimony last week. He talked about the idea of rethinking the fundamental governments. And one of those key concepts was the idea of performance capacities and the ability of Federal organizations to carry out their missions effectively and efficiently. Federal departments are challenged as never before to perform effectively.

We are in the midst of a kind of a triple whammy: an information revolution, a political upheaval, and continuing shrinkage of resources available for assigned missions. So this is a time unlike any we have ever had before.

Performance capacity depends in large part on the capacity of governmental institutions. And I refer in my statement to a major study that we did that Alan Dean also referred to in his testimony on renewing HUD.

And we provide as an appendix to my statement a kind of a framework for what we call "institutional capacity," that is, the totality of major elements or attributes, the capacities, the skills, the resources that one would expect to find in an effectively functioning Cabinet department or major independent agency of government.

And these elements include mission and vision, leadership and policy formulation and implementation, workforce, and management systems. And we can get into that, if you like, but we just offer it as a kind of a framework for you to think about in dealing particularly with this issue of strengthening departmental management.

My statement goes on to talk about five areas, most of which you've already heard about this afternoon. First, the idea of strengthening Federal leadership. Of course, this is an area of dramatic change in government.

Of course, you've already referred to the fact that it has taken a good deal of time to fill key positions in this administration and, for that matter, in the past two administrations in particular. And

the agencies and Congress should give high priority to improving current systems for filling key executive and managerial positions.

I would like to really focus on this word "leadership" and have you think about that in this sense. We need strong leadership whatever its source, whether it comes from politically appointed executives or the SES. And it's really a combination of the two and maybe other sources, as well.

So I don't think you can look at each in isolation, that you have to look at both together and are we getting the right mix and the right kind of talent from both sources. And if the number of political appointees is important to the President, then let's figure out other ways in which accountability can be obtained than by sheer numbers.

Automating, integrating, and streamlining government, obviously, we put a lot of emphasis on this. And in every way possible, this is the way in which I think we're going to have more efficient, effective government ultimately with less resources.

Focusing on performance, the idea, again, you've heard from others. The academy has issued a report recently called "Toward Useful Performance Measurement," in which we tried to look at the pilot tests under the Government Performance and Results Act.

And that panel concluded that Congress can help strengthen departmental management in really four ways: specifying clearer goals for Federal programs; insisting that Federal departments provide good performance data to support their funding requests; three, providing the resources needed to measure and report on performance; and four, supporting stronger linkages among budgeting, strategic planning, and performance measurement.

The next area is streamlining Federal field structures. As you may know, the President's Management Council has done a report on Federal field structures. I don't know that that is totally public yet. And you have hearings later on your agenda dealing with the field structure.

We, too, are drawn to the idea possibly of looking comprehensively at the field. And I mention in my statement the idea about the Base Realignment and Closing Commission as one possible way to go.

And then, finally, an area near and dear to my heart in particular is the role of Congress in strengthening departmental management. We issued the report a couple of years ago that you're familiar with, "Beyond Distrust," and have done a number of other studies in recent years that have touched on the congressional role.

As programs are eliminated or cut back, Congress should simplify existing laws, provide more flexibility, and exercise oversight focused on performance. I think throughout some of the statements that you've heard, this idea of flexibility is key.

We probably have too many laws and too specific provisions in many cases, and it originates here on Capitol Hill. And this is really where, I think, some of the changes need to take place if we're going to have the kind of improved management and strong Federal departments. So there is much that Congress can do to strengthen Federal management across the board in individual departments and agencies.

The agenda is long, and sustained effort will be required. And we think this subcommittee is positioned to play a leading role. And we're going to help in every way we can as an institution available to your subcommittee to try to make that happen.

[The prepared statement of Mr. Sperry follows:]

PREPARED STATEMENT OF ROGER SPERRY, DIRECTOR OF MANAGEMENT STUDIES, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. Chairman and Members of the Subcommittee:

I am Roger L. Sperry, director of management studies for the National Academy of Public Administration (NAPA). We appreciate the invitation to discuss the strengthening of departmental management. My statement today will summarize recent Academy reports and other work relevant to this important topic. Alan Dean, in his statement today, also refers to other Academy work on departmental management.

Academy president Scott Fosler, in his testimony of May 2 before this subcommittee, provided a framework for "rethinking the fundamentals of government." One of the key concepts discussed was "performance capacities," that is, the ability of federal organizations to carry out their missions effectively and efficiently. Federal departments and agencies are challenged as never before to perform effectively. We are in the midst of an information revolution, a political upheaval, and continuing shrinkage of the resources available for assigned missions. It is therefore appropriate now to ask some basic questions:

- Are missions and goals clearly defined, derived from public law, placed in the context of long-term strategic thinking, and refined according to such considerations as customer service?
- Are the intended results and measures specified by which performance will be assessed?
- Are capable people being recruited and developed with the appropriate leadership, managerial, technical, and operational skills?
- Have agencies developed effective and integrated management systems, including budgeting, financial management, information management and technology, human resources management, procurement, program management, and auditing?
- Do managers have the resources, latitude, and incentives to manage?
- Are people being held accountable for results; and rewarded according to their performance with compensation, recognition, promotions, redeployment, demotions and terminations, as appropriate?

Performance depends in large part on the capacity of governmental institutions. The Academy's July 1994 panel report, Renewing HUD: A Long-Term Agenda for Improving Performance, defined "institutional capacity" as the totality of major elements or attributes—capabilities, skills and resources—that one would expect to find in an efficiently functioning cabinet department or major independent agency of the federal government. These elements include: mission and vision, leadership, policy formulation and implementation, workforce, and management systems.

Attached to my statement is a list of these elements and their attributes. We offer them as a possible guide to subcommittee members in considering legislation affecting departmental management. I want to discuss a few key issues affecting institutional capacity.

STRENGTHENING FEDERAL LEADERSHIP

It is axiomatic that strong leadership is essential for effective government management, especially in a time of dramatic change. The Academy has examined leadership issues almost continuously since its founding in 1967. In a 1985 report, Leadership in Jeopardy, we expressed strong concerns about the capacity of our inner-and-outer system of government, as it was then functioning, to provide effective overall leadership. In 1989, the National Commission on the Public Service (Volcker Commission), many of whose members were Academy Fellows, called on the President and Congress to "provide the essential environment for effective leadership and public support by, among other things, (1) clearing away obstacles to the ability of the President to attract talented appointees from all parts of society, (2) making more room at senior levels for career executives, and (3) encouraging a stronger partnership between presidential appointees and career executives."

In Beyond Distrust, a major report on congressional-executive relations published by the Academy in 1992, our panel recommended that the President and Congress further strengthen executive branch leadership to improve broad policy and program

planning, with appropriate emphasis on developing and maintaining effective working relationships with their counterparts in the legislative branch. The ten case studies performed for this project suggested that "leadership was sometimes lacking to develop and implement the policies that would have responded effectively to the problems of concern to Congress. "Examples included the nuclear weapons clean-up case where years of inattention at the Department of Energy to environmental, safety and health requirements created enormous problems that will cost hundreds of billions of dollars to correct. In the Goldwater-Nichols case, Congress pushed for a Department of Defense reorganization, widely believed to be long overdue, despite the department's adamant resistance.

Agency heads and Congress should give high priority to improving current systems for filling key executive and managerial positions. Since the above reports were published, we have experienced once again long delays in filling key executive positions, and serious questions remain unanswered about the viability and functioning of the Senior Executive Service. This subcommittee, as part of its responsibility for government management, could provide a vehicle for addressing some of these long-standing leadership issues.

AUTOMATING, INTEGRATING AND STREAMLINING GOVERNMENT

The federal government should make better use of information technology developments through routine multi-year funding and other flexible budgeting and procurement techniques. The Brooks Act and the Paperwork Reduction Act are two federal laws providing a framework for federal information technology acquisition and use. In today's era of downsizing and privatization, these and similar pieces of legislation need to be overhauled to enable better and prompter government information technology innovations.

About two years ago, the Academy established a Center for Information Management to focus our efforts to improve governmental effectiveness through better use of information technology. Areas of potential interest to the subcommittee identified by the Center are reengineering programs and processes, and infrastructure operations. In August 1994, the Academy published Reengineering for Results: Keys to Success From Government Experience, which describes critical success factors for reengineering efforts and presents numerous case studies from federal, state, and local governments. If done successfully, reengineering efforts can result in significant budget savings by streamlining and downsizing or eliminating government functions. Infrastructure operations include facilities such as computer and telecommunications centers, software design and maintenance centers, and technical integration organizations. Budget savings can result from the consolidation and/or privatizing of these facilities provided that the costs (investment and operations and maintenance) are realistically assessed.

Another Center publication, Information Government (1993), noted that the focus on information technology must move from continual review of decisions and lengthy procurement processes to a system with incentives to innovate. "Many innovative people in the federal government want this to occur," the report said. Federal budget and management systems should be adapted to:

- Permit use of cost savings for pilot innovations;
- Reward innovators;
- Promote responsible risk taking; and
- Provide flexible procurement vehicles.

Hearings and legislation are overdue on how to better use information technology across government with particular emphasis on the roles of central management agencies.

FOCUSING ON PERFORMANCE

Achieving economies in operations and weeding out activities that can be better performed outside the federal government require timely and objective information on federal program performance. In 1993, Congress passed the Government Performance and Results Act (GPRA) to strengthen strategic planning and performance measurement across government.

Most federal departments and agencies are now engaged in pilot activities to test the use of performance measures.

In a recent assessment of lessons learned from the initial pilot performance plans, an Academy advisory panel, in Toward Useful Performance Measurement, said:

> More intense effort will be required to achieve effective implementation of GPRA across the federal government—both for pilot programs and the many other programs that need to be included.

Development of an effective performance management system requires systematic work in a number of essential areas: defining agency vision and strategic mission; establishing program missions and objectives; establishing long-term and annual program performance targets/goals; developing performance indicators and collecting performance data; using performance indicators in improving program performance; and communicating results so that they can be used by policy makers, managers, and the public. As this is done, more lessons will be learned and shared by increasingly sophisticated users of performance measurement.

The panel concluded that Congress can help strengthen departmental management by:

(1) specifying clearer goals for federal programs;

(2) insisting that federal agencies provide good performance data to support their funding requests;

(3) providing the resources needed to measure and report on performance; and

(4) supporting stronger linkages among budgeting, strategic planning and performance measurement.

Congress will need to monitor the Act's implementation to determine whether additional legislation is needed to meet the Act's goals for creating a performance-based government.

STREAMLINING FEDERAL FIELD STRUCTURES

Academy reports also have recommended reducing or consolidating the number of field offices in federal agencies. For example, in Renewing HUD, the panel noted that the 1993 HUD reorganization did not reduce the number of field offices, and that: "Changes in workload and advances in communication technology mean that the HUD of the future will not need 81 offices scattered throughout the country. With processing centers handling location- neutral activities, HUD can function with a smaller number of full-service offices that have outreach programs joining in partnerships with communities. "In Coping with Catastrophe, a 1993 report on the nation's capability to respond to natural disasters, the Academy panel recommended reducing the number of FEMA regional offices from ten to six, but no action was taken.

The administration, through the President's Management Council (PMC), recently completed an examination of the federal field structure. Multiple, dispersed federal offices, customer service, and the use of technology were examined. Now the administration needs to focus on the coordination of angements among agencies and programs, and promote efficient and effective service delivery through delegation of authority while maintaining accountability to responsible officials.

Consolidating or closing field offices piecemeal may be difficult politically, even in a time when the nation's leaders seem united on reducing the size of government. Recent experiences with the defense base realignment and closing (BRAC) commissions may provide helpful precedents. The subcommittee may want to assess whether legislation is needed to implement the results of the PMC review and determine whether a more comprehensive examination by the BRAC-type entity is warranted.

THE ROLE OF CONGRESS

To achieve the goals of a leaner, less costly federal government, Congress must be a cooperating partner with the executive branch. In Beyond Distrust, our panel concluded that: "The outright confrontation and increasingly competitive relationship between the legislative and executive] branches has a high cost: a political system more and more unresponsive to national problems and unaccountable to the American people for addressing those problems."

Even though the panel noted that difficult situations were often improved as a result of congressional intervention, both Congress and the executive branch too often "disregarded their responsibilities for broad policy making and effective management of federal programs. "The panel urged that the two branches separately identify overriding, long-term national problems and improve their capacity for comprehensive, consultative policy development.

As programs are eliminated or cut back, Congress should simplify existing laws, provide more flexibility, and exercise oversight focused on performance. Obvious steps include eliminating numerous reporting requirements, moving to achieve the benefits of a two-year budget process, and creating joint working groups with the executive branch to help streamline government operations. It is also important to assure that the various government-wide laws dealing with procurement, personnel, auditing and financial management provide needed flexibility and minimize conflicting requirements. The Academy stands ready to provide its expertise as well as the

"neutral ground" of Academy facilities for constructive problem-solving and streamlining initiatives involving both branches.

Congress has an enormous effect on departmental performance. For example, in the case of HUD, Congress over the years enacted more than 200 programs to meet housing and community development needs—far more than HUD had the capacity to administer. Our panel concluded:

> The administration, HUD, and Congress must proceed expeditiously with a comprehensive consolidation and reauthorization of all HUD's programs. Until HUD can get its programmatic house in order, no amount of tinkering with management will cure what ails this organization. There must be a rationalization of HUD programs. Instead of having between 150 and 200 separate programs that HUD cannot manage effectively within its available resources, HUD's program structure should be reorganized to have not more than 10 major programs. Under this small number of statutory programs, HUD should have the flexibility to undertake many activities without the need for new congressional enactments and their cascading results of ever more regulations and handbooks.

Regarding emergency management, our panel found that:

> Emergency management and FEMA are overseen by too many congressional committees, none of which has either the interest or a comprehensive overview of the topic to assure that coherent federal policy is developed and implemented. A preoccupation with constituent interests, while laudable in times of great need following disasters, makes it very difficult to achieve a balance between cost and service.

The panel recommended that FEMA be given a more coherent legislative charter, greater funding flexibility, and sustained support for building an effective agency and a national emergency management system.

At the Environmental Protection Agency, another Academy panel found that:

> The fragmented nature of federal environmental statutes and the detailed requirements in these statutes for procedures, deadlines, and substance make it difficult for Congress or EPA to establish a clear direction for the agency or to address cross-cutting issues. The large number of congressional committees with narrow perspectives on EPA activities, and the extraordinarily close ties between key committee staff and EPA program staff in recent years have fragmented agency activities even more.

There is much that Congress can do to strengthen federal management across the board and in individual departments and agencies. The agenda is long and sustained effort will be required. This subcommittee is well-positioned to play a leading role.

Mr. Chairman, I would be pleased to answer any questions you or other members of the subcommittee may have.

ELEMENTS OF INSTITUTIONAL CAPACITY

This concept of institutional capacity outlines the entire system of a well-functioning organization. It represents a NAPA panel's vision toward which it believes the Department of Housing and Urban Development (HUD) should be striving through development and implementation of a long-term management agenda. The concept could be applied to other departments as well.

Element	Attribute
MISSION AND VISION	A clearly understood and compelling agenda; Strong legislative charter; Constituent support and taxpayer acceptance
LEADERSHIP	Capable political executives; Strong senior executive service corps; Good working relationships among all executives
POLICY FORMULATION	Appropriate stature vis-a-vis the White House and OMB, Congress, other cabinet departments, interest groups, and the general public; Capacity to foresee emerging issues and respond in a political context while also meeting the needs of its statutorily designated clients and customers; Capacity to formulate a doable and politically supportable agenda acceptable both internally and externally

Element	Attribute
ORGANIZATION	Appropriate size and location in government, given the mission and statutory charter; Headquarters units (bureaus, administrations, etc.) with clear lines of accountability and authority and constructive, effective relationships among the units; A field structure appropriately connected to the headquarters units, other federal field staffs, state and local governments, etc., and capable of providing efficient and effective service delivery
WORKFORCE	Sized consistent with the mission and agenda; Built around equal opportunity principles; Motivated by a sense of mission and accomplishment; Trained to handle the tasks assigned effectively; Developed to provide a range and breadth of experiences, particularly for those advancing to supervisory, management, and executive positions; Deployed where the work needs to be done and given both the authority and resources to accomplish the mission
POLICY IMPLEMENTATION	The needed resources marshaled and applied; Efficient and effective delivery systems developed and maintained; Appropriate relationships with suppliers, customers, contractors, other federal agencies, state and local governments, etc., created and maintained; Unanticipated events responded to promptly and effectively as they arise; Instances of waste, fraud, and mismanagement kept at acceptably low levels; Appropriate feedback mechanisms in place to know results being achieved and course corrections needed
MANAGEMENT SYSTEMS	Planning, budgeting, and evaluation functions in place to support missions and programs; Human resources management - recruiting, training, assignment, employee evaluation, and the like - given high priority and adequate funding; Financial management system that supplies accurate and timely data to support program management and provides auditable financial statements for the department; Information resources management and systems integration efforts that take full advantage of modern technology and provide data useful at all levels of the organization; Procurement and grants/contracts management practices that respond to program needs, keep costs low, and maintain organizational integrity

It is important to note that few federal organizations have all of these elements. To an extent, these elements describe the "ideal" organization. The list provides points of reference to departmental executives for assessing their own management improvement initiatives and policy directions. It also identifies the totality of elements that the top management team needs to consider if their goal is to make HUD an effective, respected institution of government.

Mr. HORN. I thank you for that offer of help. We have appreciated what the academy experts have already contributed to our agenda and a lot of the ideas. One of the things that intrigued me was your comments on the field office.

I know with Members of Congress now, generally, half our staffs are in the field in the district office handling cases which used to be handled out of Washington as people had problems with various aspects of the Federal bureaucracy, generally, the "ombudsman role," as the Swedish government calls it.

But if many of the field office employees do not expect or want to move from their hometown—and I think that's a problem in many cases—and if promotional opportunities are largely within their own field offices—and that might well be limited—and if the pay levels are based primarily on seniority, how do Federal managers then recognize field employees when they do an exceptional job or respond when their performance does not measure up? What are your feelings on that?

Mr. SPERRY. Well, I don't think the ways in which they're recognized, either rewarded or punished, if you will, are any different in the field than they are at headquarters. And I think this goes

back to the basic structure of the civil service system and does it provide sufficient capability to do that.

Let me mention one other study that we have just finished. And it's actually not public yet, but I think I can mention this part about it. It has to do with a small program the Justice Department called the U.S. Trustee Program. And one of the things we found about that—by the way, the Trustee Program oversees the bankruptcy system in the United States. It's a relatively young program. It only has about 1,000 employees.

But one of the things that we found in looking at their structure, which has some 21 U.S. Trustee positions appointed by the Attorney General—that is 21 regional offices and 93 field offices—is that they don't have the flexibility to move people from place to place as different parts of the country experience different waves of economic prosperity and decline and, therefore, changes in bankruptcy.

And one of the things that we have suggested is at least some more functions be contracted out or possibly go to a government corporation for the whole program to give flexibility to be able to either move people or bring them on or take them off the roles, given the changes in the economic climate in the different regions of the country, as well as simply to consolidate the number of field offices.

It's really a question of whether you need one of these U.S. Trustee Offices in every judicial district. There is a lot that can be done in terms of streamlining and in terms of more effective use of the private sector, as well as going to more flexible structures of government to be able to have the flexibility needed at the field level.

Mr. HORN. How much has the academy done in studying regional and field office operations? Has the academy ever been involved in any of those as part of their studies?

Mr. SPERRY. We did, particularly at the Federal Emergency Management Agency a few years ago and more recently at the Department of Housing and Urban Development. We also have just issued a report on the Environmental Protection Agency where we have looked at their regional structures.

And in the case of HUD, the decision was made to abolish the regional offices and to go with the 81 field offices and to have Secretary representatives out in the field. The difficulty with that is that you don't have the coordination across programs at the local level with the programs reporting directly to headquarters instead of to some regional level.

So there still is some work to do in HUD in working out the relationship among programs at the field office level. Notwithstanding a kind of a downsizing at HUD, there is no move yet to reduce the number of either regions or field offices, notwithstanding abolishing the regional offices.

Now, the Secretary has said, "Well, we are going to come down now that they have been tasked with reducing a number of employees even further." In the Federal Emergency Management Agency, they operate with 10 geographic regions left over from the Nixon days when every domestic department and agency was supposed to have 10 regions.

And we said, "Do you really need 10 regional offices for an emergency management operation where most of your emergencies are along the coast? And so do you need one in the middle of the country?" And so we suggested reducing that to six. Well, there are still 10 there.

So there's a lot of resistance, I think, to approaching either the number or the layering in the field. So, yes, that has been our experience in the studies we have done.

Mr. HORN. Talking about the regions, obviously, one theory was that you had a regional counsel, and the heads of various Federal agencies would occasionally get together on a monthly basis.

There would be an agenda. They would try to look for what areas sort of overlap and what areas are of common interest, whether it be relations with the Governor in a State or the mayor of the city or whatever.

Has the academy had an opportunity to look at that type of loose structure, if you will? Because my impression was the intelligence gathered really went nowhere. It might have helped the participants in the room, but I was not so sure from a few of my own experiences with them that they were the early warning system to the executive branch of what might be happening in a region. What's your reading on it?

Mr. SPERRY. I don't think that that basic idea worked as was intended. I have to go back to the HUD experience, because that's the one that we were most recently involved with and I was personally involved with.

I remember meeting with Art Agnos, who was the regional director in San Francisco for HUD. And we were talking about this idea of coordination across agencies. Because in housing and community development, HUD is only one of several Federal departments that deals with helping the poor and other disadvantaged in terms of housing and other community facilities.

And he said, "There really isn't any way that we can get together except as we voluntarily choose to do." Essentially what they decided to do, was to have the regional directors of five agencies, Labor, HHS, HUD, and two others, get together monthly and just exchange ideas.

You know that there are Federal executive boards in some regional cities. And their success or failure has really been dependent on the leadership of the people at the local level as much as it has been on any directive in Washington.

So I don't think it has really worked out in that way as originally intended. Let me say something on the positive side, though.

Mr. HORN. Let me follow up on that. There is no situation where we have had either a member of the OMB management staff or the White House say, "Look, we have got critical problems in this area, how we rebuild the city, how we get economic development, put all these pieces together, and we're designating one of these regional directors as the lead officer?"

And they know they have got an agenda right up to the Director of OMB and/or the President. Has that ever been thought about?

Mr. SPERRY. I think it has been thought about. And I can't say comprehensively across government that there aren't people that have been so designated right now. There was an effort in the

White House and this administration to try to develop a kind of a community council around the idea of these empowerment zones and to build from Washington but with regional counterparts as an effort to coordinate across agencies to have a more comprehensive approach to delivering social services and so forth.

But little of that has been institutionalized, and not much of it has really survived across administrations. So each new administration, they kind of come in and start afresh.

Mr. HORN. As you remember, in the Second World War, there were three regional offices of the then Bureau of the Budget. They were closed down, with Congress leading the charge, after the Second World War, because Members of Congress didn't want to have the eyes and ears of the President in their backyard. If there was anybody that was going to represent the constituents to the executive branch, they wanted to have Members of Congress do that.

Mr. SPERRY. That's right.

Mr. HORN. So while the experiment lasted during the war, it wasn't thought much of after the war. Should we have such a system?

Mr. SPERRY. Sir, I'm afraid the political dynamics probably haven't changed too much in that I don't know if we established one, frankly, how long something like that would survive. We have kind of gotten away in a lot of areas from the 10 standard Federal regions. And I think there may be some loss in doing that.

And so you're going to have to go city to city and see just—there are going to be different combinations in different cities now. And it's almost like what Alan Dean was talking about in terms of the different character of departments.

You almost have different character now in different regions of the country. So there may not be any way of getting standardization of this as much as was possible before.

Mr. HORN. I think we have our last vote coming up. Go ahead. You were going to finish a point. We have got 5 minutes before I have to leave to get over there.

Mr. SPERRY. No, I think I had pretty well gotten to the end of that one.

Mr. HORN. Well, I thank you very much for coming and sharing your ideas with us. We appreciate it. As I've said to the other witnesses, if you get a good thought going home bumper to bumper in the traffic some night, why, feel free to write us. We'll put it in the record at this point.

Mr. SPERRY. I think the academy certainly has other items in mind on your agenda. And we hope and expect to be back in future hearings and look forward to continuing to work with you and your staff on this very important endeavor, sir.

Mr. HORN. Well, we appreciate what you've done, and we look forward to that relationship continuing.

Let me thank the individuals on the staff that put this hearing together, Mark Brasher, the professional staff member; Andrew Richardson, subcommittee clerk; Russell George the subcommittee staff director; Anna Young, the other professional staff member; and David McMillen for the minority.

And who else have we got over here for the minority? Mark Stephenson. We thank our reporter, Beth Shields. With that, we adjourn this meeting.

[Whereupon, at 5:50 p.m., the committee meeting was adjourned, subject to the call of the Chair.]

[Additional information submitted for the hearing record follows:]

PREPARED STATEMENT OF GERALD R. RISO

DEPARTMENTAL MANAGEMENT IS DIFFICULT AND DIFFERENT FROM CONVENTIONAL MANAGEMENT EXPERIENCE.

By any conventional standard, management of departments and agencies is difficult even under ideal circumstances.

(1) operations are large when measured in terms of their staffing or expenditures.

(2) many of these operations are geographically dispersed—frequently in a hundred or more different locations.

(3) many departments, e.g. HUD, Agriculture, Interior, Treasury among others are organized into stand alone bureaus. These bureaus are internally organized and staffed to operate independently, have their own legislative base, maintain separate cultures, values and loyalties and serve distinctive constituencies irrespective of who is the Secretary or which administration is in power.

OTHER CIRCUMSTANCES COMPOUND THE DIFFICULTY

The management challenges presented by these circumstances are further compounded by other conditions.

(1) the excessive numbers of special assistants, executive assistants, counsellors, etc., confuse and blur supervision and direction from top management. (More on this later.)

(2) confusion between the roles and responsibilities of national office staff and those of regional staff. At best these arrangements create confusion. At worst they breed rivalry and conflict over priorities, instructions and accountability.

(3) the continued fragmentation of departmental management responsibility. Fragmentation occurs in several separate but related ways including the following:

- The Deputy Secretary is not part of the Secretary's team.
- Financial functions, including the budget, are the responsibility of a separate chief financial officer in some departments.
- The desire to provide increased status and visibility (and pay) to important functions such as procurement and information technology has prompted the creation of separate high level offices with special reporting responsibilities for these functions.
- As this fragmentation has taken place, the role of the Assistant Secretary for Administration/Management has been gradually reduced to housekeeping activities.

In effect, in some departments there is no focal point for departmental management or several ineffective ones.

THE POSITION OF ASSISTANT SECRETARY FOR ADMINISTRATION IS BEING ERODED

This problem has been further compounded by the temptation of some administrations to use the position of Assistant Secretary for Administration as a reward for a deserving campaign worker or to provide balance to the top management team.

In these circumstances, the bureaucracy, particularly within the bureaus, is likely to pull back within itself and concentrate upon bureau priorities, needs and interest. The Office of the Secretary impact upon the bureaus becomes a nuisance or an irrelevancy unless the Secretary personally is involved.

A GOVERNMENT-WIDE AGENDA HELPS TO REASSERT THE MANAGEMENT IMPROVEMENT ROLE OF ASSISTANT SECRETARIES

An administration that is committed to a government-wide management improvement agenda and uses the Assistant Secretaries for Administration as the chief implementors and leaders of the program within their departments can offset some of the adverse affects of the fragmentation that has been occurring. For example, during the Reagan administration, implementation of Reform 88 was directed through the President's Council on Management Improvement (PCMI). The Assist-

ant Secretaries for Administration were members of the Council, met at least monthly and received periodic progress reports on how well their departments were performing. However, in subsequent administrations the governmental management improvement effort has been less well defined and/or directed from outside of the conventional departmental structure. In these instances, the PCMI has become less active and the Assistant Secretaries for Administration have become even less influential.

THE REORGANIZATION OF OMB HAS NOT HELPED

The recent re-organization of OMB has inadvertently contributed to the problem. For some years, the capability of the M part of OMB has been permitted to deteriorate. Deterioration has been accelerated when an administration has not had a government-wide management improvement effort or implemented its program independently of OMB. In those instances, the traditional imbalance between the B and M parts of OMB has become aggravated.

In recent years, the need to reduce governmental expenditures has resulted in an understandable pre-occupation of OMB with the arithmetical constraints of each annual budget. This pre-occupation has led to an overwhelming dominance of budget issues over management issues within OMB.

The recent reorganization of OMB with the absorption of major parts of the M side within specific parts of the B side has helped to bring attention to important agency management issues during the budget review process. That reorganization has integrated agency M issues into budget deliberations more successfully than any other previous efforts.

OMB's success at this integration has been achieved at considerable cost. Today, OMB is neither organized nor staffed to provide leadership to government-wide management improvement efforts. Moreover, OMB lacks the professional staff depth to address long term strategic management issues that should be the concern of the federal government e.g. the quality and size of the work force, the use of technology in operations, the organization of the executive branch including which departments should be established/eliminated, the role of quasi-government corporations, the location of the federal work force. (In 1986, one-third of all civilian employees worked in Washington D.C. and the 10 regional headquarters. Eight of these cities were among the 10 highest cost of living cities in the country. That put the federal government at an extreme disadvantage in recruiting employees or encouraging current employees to take career advancement opportunities by moving into regional management or national office responsibilities.) These topics need to be addressed long before they become crises.

The OMB budget staff is an extraordinarily gifted, competent and committed group of public servants. However, they now have neither the time nor the professional interests or capabilities to address these questions beyond the narrow limits of the annual budget calendar and the arithmetic of the budget. There is no management focus in the government today. The National Performance Review is not institutionalized, depends excessively upon detailees from other departments, should stop relying upon appropriations of other departments to support operations, and should change its primary focus from down-sizing and re-inventing government to improving government performance, not only for the "customer", but on behalf of the taxpayer.

Your invitation also invited comments on several specific questions. My comments on these are as follows:

Barriers to Effective Management - As others over the years have noted, procurement and personnel regulations need to be reviewed periodically to make sure that they reflect the realities of modern conditions. I agree that these are the two major areas of continuous concern.

Management Controls - Management controls do not impede effective management - they are integral to effective management particularly in a public setting to prevent violations of the law, safeguard against fraud, waste and abuse and assure that funds are expended in a manner that is consistent with appropriations. Effective managers need to assess the risks of undesired outcomes in their operations, decide the kinds of controls that are needed, consider the cost of the controls against their benefits, and then make informed judgements on when enough control is enough. Thus, I do not see that efficiency and management control are necessarily incompatible. Recent GAO reports adequately have identified the ineffectiveness and costs associated with inadequate controls.

Controls imposed externally upon managers do occasionally impede the manager and introduce inefficiency into situations where efficiency is desired. I see two areas of concern. Timid managers overcontrol because they are afraid to make decisions.

That is a problem. More serious however, is that external groups second guess the manager well after the fact. The embarrassment that is caused the manager by being second guessed and publicly criticized persuades him or her to invest in controls beyond the point where they are needed.

However, even then the value and benefit of preventing misbehavior or preventing abuses may far outweigh the cost and trouble caused by a less than perfect control. An acute awareness of the cost and disruption caused by inappropriate controls is needed, not the elimination of controls. The literature today improperly equates controls in the public sector with controls in the private sector which incur costs, delays, and damage the bottom line. That literature oversimplifies the question of appropriate control in the public sector by ignoring that public officials take an oath to uphold the law, are responsible for the manner in which public funds are expended, and their unfettered discretion is limited by the requirements of due process and the right of individuals. Controls are required to provide these safeguards.

Number of managers - There is clearly an excess of managers and supervisory layers in many agencies. These circumstances tend to be the result of the desire to support higher grade structure rather than any management philosophy that decrees the need for supervisory layering. I agree that increased layering creates barriers to leadership and direction, compounds communications problems and places the supervisor at too great a distance from where and how work is performed or service is delivered. Changing excessive reliance upon supervisory responsibilities when establishing grade structure would help eliminate the excessive management layers that we are all concerned about.

Political appointees - I am concerned about the number of political appointees but I do not unquestionably agree with others who are concerned about the growth in the number of political appointees in recent years. I think the number, within practical limits, is much less important than the professional capabilities of these appointees and the duties to which they are assigned. After all, several thousand political appointees among several million federal employees should not be overwhelming.

However, I see two problems with political appointees.

* First, the confirmation process with all of its scrutiny, still occasionally permits less qualified persons to assume major responsibilities in many departments. Less loyalty to the "party" and more loyalty to the institution and the taxpayer would be refreshing.

* Secondly, too many appointees are assigned to special assistant, executive assistant, etc., positions that are clustered about top managers. These positions blur lines of responsibility and accountability within a department. They should not exist irrespective of whether political appointees or career staff are used to fill them.

The limited ability of an appointee to make a positive impact upon departmental management is a more complex question for several reasons:

Much has been written about the discouraging effects of disclosure statements, conflict of interest requirements and post-employment restrictions upon persons who might accept a political appointment. Suffice it to say that these restrictions serve to dramatically reduce the pool of available appointees. As the pool is reduced, the process focuses increasingly upon the marginal candidate, the person with less experience, fewer qualifications, and a mindset of what he/she will get from the position rather than what he/she will bring to the position. Such appointees tend to be given assignments where their limited management and operational experience is less likely to be a problem. Their energy, zeal, and commitment is valued more than their ability to contribute to better management.

The tenure of appointees has been declining in recent years. I do not why and do not know how tenure can be lengthened. Several circumstances come to mind.

(1) Some well qualified and conscientious persons come to Washington because they see an opportunity to repay their country for the opportunities and advantages this country has made available to them. They willingly accept the restrictions and disclosure procedures that are integral to the appointment process because they want to serve. Although they may be identified with a political party, they are not driven solely by partisan considerations. They genuinely want to contribute. In recent years, the uncompromising and hostile environment in Washington that has come to characterize debate on important issues has become increasingly unacceptable to such persons. When gaining partisan advantage becomes more important than addressing serious national problems, such persons do not wish to participate in this kind of behavior and leave.

(2) For other appointees, the public stature and visibility they expected never really materializes.

(3) Others find they are not included in high level decision making, are not consulted by top management, and do not get to attend the special social events that they read about in the papers.

(4) For still others, an extended absence from their professional fields is simply unacceptable. This is particularly true when the positions they occupy are only tangentially related to their professional fields.

(5) And then for still others, changes in top management of their agency or department brings about wholesale changes as the new team brings in its supporters. The appointee may be pushed aside irrespective of whether he/she is satisfied in his/her position.

All of these factors contribute substantially to the rapid turnover among political appointees.

These considerations may lead one to conclude that these positions should be filled with career staff. However, replacing these appointees with careerists simply presents other problems. When new management comes into a department or an administration changes, career staff who are considered to have been too close and too helpful to a particular management or an administration soon find themselves banished. Consequently careerists shy away from these kinds of appointments.

That concludes my prepared comments. I would be pleased to address your questions.