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Testimony

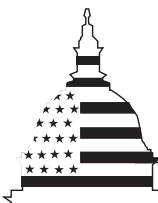
Before the Subcommittee on the District of Columbia,
Committee on Appropriations, House of
Representatives

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DISTRICT OF COLUMBIA

Observations on Management Issues

Statement of J. Christopher Mihm, Director, Strategic Issues



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Accountability * Integrity * Reliability

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss some of our current and recently completed work related to the District of Columbia. Specifically, you asked that we discuss (1) our ongoing review of the District's fiscal year 2000 performance report, (2) our report issued last month on the implementation of the District's new financial management system,¹ and (3) our report being issued today on the District's decision not to use money that Congress provided to help simplify the District's compensation systems, schedules, and work rules.²

I can summarize our findings in each of these three areas very briefly. First, our review of the District's fiscal year 2000 performance report underscores that while the report more fully met statutory requirements than the fiscal year 1999 report, performance planning, measurement, and reporting is very much a work in progress in the District. The District changed its performance goals and measures throughout fiscal year 2000, and the resulting performance report does not indicate why or when those changes were made or whether the performance data developed were valid or complete. District officials recognize the limitations with the fiscal year 2000 performance report and are committed to instilling a results-oriented approach to management, decisionmaking and accountability for the District government.

Second, we found that the District continues to face significant challenges in its efforts to put in place a financial management framework that ensures timely and reliable financial data on the cost of the District's operations. Almost 4 years after the District's acquisition of its core financial management system, that system and related elements are in various stages of implementation. The current mix of components involves duplication of effort and, in some cases, requires cumbersome manual processing. As a result, the system is unable to produce certain types of financial information on a timely and reliable basis, such as the cost of services at the program level. In responding to our report, the CFO stated that actions are already being taken on some of our recommendations, and that the remaining recommendations will be implemented.

¹*District of Columbia: Weaknesses in Financial Management System Implementation* (GAO-01-489, Apr. 30, 2001).

²*District of Columbia: Compensation Simplification Contracting Requirements* (GAO-01-690R, May 16, 2001).

Finally, District government officials initially told us that they planned to apply the \$250,000 from Congress to existing contracts that were being used in the District's effort to reform its classification and compensation systems—and therefore would not carry out the conditions that Congress had established for receipt of the funds. However, more recently, the officials said they no longer planned to use the funds because doing so would delay their reform effort, and they would formally request that Congress rescind the appropriation.

District's Performance Management Efforts Remain a Work in Progress

Congress, and this Subcommittee in particular, has demonstrated a sustained interest in working with the District government to ensure that a sound performance management system is in place. After holding hearings on the District's performance in serving its residents, Congress enacted the "Federal Payment Reauthorization Act of 1994," which required the District to implement an annual performance assessment process.³

Specifically, the law requires the District to develop and submit to Congress a performance plan for each fiscal year, including a statement of measurable, objective performance goals for all of the government's significant activities. After each fiscal year, the District is to develop and submit a performance report that includes (1) the level of performance achieved in relation to each of the goals in the performance plan, (2) the title of the management employee most directly responsible for the achievement of each goal and the title of the employee's immediate supervisor or superior, and (3) the status of any applicable court orders and the steps taken to comply with such orders.

This law's general approach of establishing performance goals and reporting on performance is similar to the requirements for executive branch federal agencies under the Government Performance and Results Act of 1993 (GPRA). Our extensive work on federal agencies' implementation of GPRA has shown that it takes time and continuous effort to transform the culture of an organization and adopt a more results-oriented and customer-focused approach to performance management.

Last year, on two occasions, we highlighted the challenges faced and progress made by the District to implement a sound performance management system. In April 2000, we reported that the District's first

³Public Law 103-373.

performance report, covering fiscal year 1999, lacked some of the required information.⁴ Specifically, the report did not contain (1) performance data for most of its goals, (2) the titles of managers and their supervisors responsible for each of the goals, and (3) information on any of the court orders applicable to the District government during fiscal year 1999. In October 2000, we testified before the Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Senate Committee on Governmental Affairs, that the District had made progress in defining clear goals and desired outcomes through its strategic planning efforts.⁵ However, we said there were still opportunities to more fully integrate various aspects of its planning process and to ensure that performance information was sufficiently credible for decision-making and accountability.

Since then, the District has taken a number of actions to implement a performance management process, and Congress has continued to provide oversight directed at strengthening the District's ability to efficiently and effectively deliver results to its taxpayers. The District's fiscal year 2000 performance report, issued on March 22 of this year, included several initiatives to address issues raised in congressional hearings on the District's management and performance.

Within the next few weeks, we will issue our detailed assessment of the fiscal year 2000 performance report. However, we are far enough along in our assessment that I can provide an overview of our key findings. Performance management remains very much a work in progress for the District, and the performance report reflects that fact. The District's goals and measures were in a state of flux during fiscal year 2000, changing as the District introduced new plans, goals, and measures into its performance management process. These changes were part of its ongoing efforts to further develop and improve the performance management process. Nevertheless, these significant and continuing revisions to the District's performance goals limit the usefulness of the performance report for oversight, transparency, accountability, and decision-making.

⁴*District of Columbia Government: Performance Report's Adherence to Statutory Requirements* (GAO/GGD-00-107, Apr. 14, 2000).

⁵*District of Columbia Government: Progress and Challenges in Performance Management* (GAO-01-96T, Oct. 3, 2000).

For example, the goals in the annual plan submitted to Congress were revised extensively to become a final set three-quarters of the way through the assessment period. About 54 percent of the goals established in the annual plan were not addressed in the final goals for the fiscal year. For example, the Department of Motor Vehicles' goal to seek out regular feedback on the level and quality of service was not used as a final fiscal year 2000 goal. Although the District developed several final goals related to improving customer service such as wait times for vehicle registration, it did not continue the goal to obtain feedback directly from its customers. No explanation was provided in the report to explain why the goal was dropped or whether it had been achieved. Many of the remaining 46 percent of the original goals were significantly revised by the time the District issued its report, making it difficult to determine the degree to which the original goal was achieved. A District official responsible for coordinating the performance report said that information about revisions to goals was only available from the District's individual agencies and was not centrally collected.

Although changing goals to reflect changing circumstances and better understandings of how to improve performance is appropriate, the District's report does not identify why specific goals were altered during the year or describe the decisionmaking and accountability implications of the change. In our reviews of federal agencies' performance management efforts under GPRA, we have noted that such information is important to Congress and other decisionmakers so that they can have confidence in the usefulness of the performance report. In the absence of such information, the extensive revisions to the goals and the fact that they were revised during the fiscal year raise concerns about the validity and completeness of the reported performance data.

In addition, the District's performance management process did not cover all significant District activities. Therefore, the performance report does not provide a comprehensive snapshot of the District government's activities. For example, the report does not cover the performance of the District's public schools, which accounts for more than 15 percent of the District's budget. More important, the schools are responsible for a core local government function—providing primary education.

On the other hand, the fiscal year 2000 performance report addressed other key legislatively mandated reporting requirements that were not met in the fiscal year 1999 report. Specifically, the District provided the titles of the officials responsible for the goals it finally used in fiscal year 2000. In another improvement over its first year's report, the District complied with

the requirement that it provide information on the status and actions taken to address court orders affecting the District of Columbia government.

District officials recognize that much work remains in its goal setting, performance measurement, and accountability efforts and, as I have noted, they have important initiatives underway. In that regard, we believe that two actions will be particularly important as the District continues to move forward. First, the District needs to accelerate efforts to settle upon a set of results-oriented goals that are more consistently reflected in its various planning, reporting, and accountability efforts. In addition and more specifically, the District can improve transparency and thereby assist Congress, District citizens, and city managers in using its performance reports by providing specific information for each goal and measure that changed including a description of how, when, and why the change occurred. Also, the District should identify the impact of the change on the performance assessment itself, including data collection and measurement for the reporting period. Overall, we have a very constructive relationship with the District on these issues and look forward to continuing to work with District officials as they seek to instill a model, results-oriented management system for the city government.

Weaknesses in Financial System Implementation

The District is now in its fourth year of implementing its new financial management system. However, as we reported recently, essential elements of the system are not operational. For example, two components of its new core general ledger System of Accounting and Reporting, or "SOAR," have not been fully implemented. Specifically, we found that the SOAR budget module was on hold and the fixed assets module was incomplete. Further, the implementation of personnel and payroll, procurement, and tax systems that feed into SOAR are incomplete and lack electronic interfaces with SOAR. Also, the personnel and payroll system, which the District estimates has cost about \$13 million so far, may be abandoned. As of April 2001, the District had no timetable or comprehensive plan for fully implementing its financial management system.

Because the financial management system is incomplete, much of the District's financial management and budget information is produced through cumbersome, manual processes and the extraordinary efforts of a few key staff. For example, the District does not have a formal budget execution process to ensure that planned spending is carried out as envisioned. Instead, it relies on an error-prone manual process to periodically compare actual spending to planned budget limits. Therefore, the District cannot reliably and regularly report on whether it has spent its

budget as intended for targeted city services, nor can it report on the cost of those services. The District is continuing to conduct business process reengineering for its budget process before making any decisions about implementing a budget system.

The District recently received its fourth consecutive unqualified or “clean” opinion on its financial statements for fiscal year 2000. However, the District’s unqualified opinions on its financial statements are primarily the result of the tremendous amount of effort expended by a few key individuals who were able to accomplish this yearly task despite the serious weaknesses of the city’s financial management system. Such a situation cannot be sustained without significant costs to the District. One of the reasons that the District finds itself in this situation is that it has not employed the necessary disciplined system development processes to develop and implement its financial management system. In addition, the District has not conducted a comprehensive assessment of its human capital needs for financial management functions. Such an assessment would help to ensure that the District’s financial professionals are equipped to meet the challenges of successfully implementing its financial management system to support the District’s mission and goals.⁶ Reflecting the current overall status of implementation, officials from the District’s five pilot agencies have indicated that the experience of their agencies with SOAR, as it is currently implemented, does not meet the expectations originally set forth for the new system, and that old deficiencies have still not been remedied.

In our earlier work, which addressed the District’s need for a new financial management system, we reported that experience studying the success and failure of hundreds of information systems has shown that hardware and software do little to improve financial management unless they are part of an overall assessment of the processes, personnel, and equipment that make up the entire system. In each of our reports leading up to the September 1997 system acquisition contract and since the acquisition, we have emphasized the need to implement a disciplined system development effort, including requirements management, project planning, project tracking and oversight, quality assurance, configuration management, and risk management.

⁶We have developed a tool that agency leaders can use in helping them make such assessments and identify opportunities to address any gaps. See *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, Sept. 2000).

In implementing SOAR, the District proceeded with an ambitious implementation schedule that abbreviated and eliminated key steps in a disciplined process. As our latest report indicates, SOAR implementation had been plagued by delays and increasing costs. Almost 6 years after we began reviewing the system and started making recommendations, the District's financial management system now serves as yet another cautionary example of the risks entities run when they choose to shortcut a structured, disciplined approach to the planning, acquisition, and management of a new financial management system. The District has completed action on very few of the recommendations we have made in reports dating back to 1995.

In our recent report, we made seven recommendations that focus on the District's need to apply a structured, disciplined approach to completing the implementation of SOAR and related financial management systems to ensure that the entire financial management system is properly, expeditiously, and fully implemented. The Chief Financial Officer (CFO) of the District, in responding to our report, agreed with our recommendations. The CFO also stated that the District is taking action on the recommendations made in our prior reports. The CFO also noted that the District had taken the initial step in conducting a human capital assessment for financial management. The District is also in the process of implementing a new, intensive training program for its users of SOAR.

The CFO also stated that the District had an updated timetable and comprehensive plan for fully implementing the SOAR system; however, at the time we finalized our report, the District was not able to provide us with a copy of the plan.

We will follow up on the status of our recommendations to the District as part of our regular, semi-annual process for updating the status of GAO recommendations.

District Will Request Rescission of Contracting Funds

The District of Columbia Appropriations Act for fiscal year 2001 provided a \$250,000 payment to the District Mayor for a contract "for the study and development of a plan to simplify the compensation systems, schedules, and work rules applicable to employees of the District government." However, the act placed several conditions on the appropriation.

First, the plan developed pursuant to the contract was required to include, at a minimum, (1) a review of the current compensation systems, schedules, and work rules applicable to DC government employees, (2) a

review of the best practices of state and local governments and other appropriate organizations regarding compensation systems, schedules, and work rules, (3) a proposal for simplifying the systems, schedules, and rules applicable to DC government employees, and (4) the development of strategies for implementing the proposal, including the identification of any statutory, contractual, or other barriers to implementing the proposal and an estimated time frame for implementing the proposal.

Second, the Appropriations Act required the contractor to submit the plan to the Mayor and to the committees on appropriations of the House of Representatives and the Senate.

Third, the act required the Mayor to develop a proposed solicitation within 90 days after enactment and submit a copy of the proposed solicitation to the Comptroller General at least 90 days before its issuance.

Fourth, the act provided that within 45 days after receipt of the proposed solicitation, the Comptroller General must review the solicitation to ensure that it adequately addresses all of the required elements and report on the results to the committees on appropriations of the House and the Senate.

The conference report for the Appropriations Act indicated that the conferees expected the District government to supplement the \$250,000 appropriated, if necessary, with local funds.⁷

Initially, officials from the District's Office of Personnel told us that the District government did not plan to develop a new solicitation. Instead, they said the District planned to use the funds to help pay the costs associated with existing contracts related to human resources reform initiatives that had been started before the Appropriations Act was passed. They said the District began to rethink its civil service classification and compensation systems in 1999, and that the language in the Appropriations Act was based on an assumption that nothing was being done to improve the condition of the District's human resource management system. They also said the \$250,000 had been deposited in a general fund account controlled by the Mayor, but that no federal money had been spent under the existing contracts.

⁷H.R. Rep. No. 106-1005, at 54-55 (2000).

More recently, however, the Director of the Office of Personnel said that the District no longer planned to use the \$250,000 because it was further ahead in the classification and compensation reform effort than the functional requirements of the act contemplated. The Director also noted that her Office could not fulfill the detailed requirements outlined in the act without delaying its reform effort. In commenting on a draft of our report, the City Administrator said that he would ask the District's Chief Financial Officer to formally request rescission of the appropriation.

Summary

In summary, Mr. Chairman, the central theme running through our work that I have discussed today is that the District has made and is making real and important progress in addressing a series of long-term and difficult management challenges, but more work remains to be done. Sustained progress is needed to address the critical financial management, human capital, and performance management challenges that the District faces. The effective implementation of the various initiatives underway in the District is vital to the success of the District's efforts to create a more focused, results-oriented approach to management and decision-making—an approach that is based on clear goals, sound performance, and cost information, and a budget process that uses this information in allocating resources. We look forward to continuing to work with Congress and Subcommittee and District officials as the District continues to strive to provide the services that District residents expect and deserve.

This concludes my prepared statement, Mr. Chairman. I would be pleased to answer any questions that you or other Members of the Subcommittee may have.

Contacts and Acknowledgments

For further information, please contact Jeanette Franzel at (202) 512-9406 for information on financial management issues covered in this statement or J. Christopher Mihm at (202) 512-6806 for information on other issues covered in this statement. Other major contributors to this testimony included Curtis Copeland, Ben Crawford, Linda Elmore, Boris Kachura, Bill Reinsberg, Norma Samuel, and Joe Santiago.