



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-259901

February 17, 1995

The Honorable Ronald H. Brown
The Secretary of Commerce

Dear Mr. Secretary:

As you have testified,¹ the administration is planning to expand the role of the Economic Development Administration (EDA)--the Department of Commerce agency responsible for generating jobs in economically distressed areas--in the nation's economic development efforts. Our work with EDA was part of our broader review of management issues at the Department, which we initiated with your agreement. Our objectives were to (1) examine EDA's major management systems and processes to identify areas of concern to EDA officials and stakeholders and (2) explore with EDA officials the changes, if any, that could be implemented to improve these systems and processes. We did not review whether the administration's plan for expanding EDA's role is appropriate. Instead, we focused on identifying ways EDA could strengthen its agencywide management so that EDA could be effective regardless of changes in its responsibilities. We did not do a detailed review of EDA's systems and processes because EDA agreed with our initial assessment and the Assistant Secretary for Economic Development intends to address the issues discussed in this letter.

Economic Development Administration Reauthorization: Hearings on H.R. 2442 Before the Committee on Public Works and Transportation, 103rd Congress, 2nd Sess. (1994) (statement of Ronald H. Brown, Secretary, U.S. Department of Commerce) and Economic Development Administration Reauthorization: Hearings on S. 2257 Before the Committee on Environment and Public Works, 103rd Congress, 2nd Sess. 1994 (statement of Ronald H. Brown, Secretary, U.S. Department of Commerce).

GAO/GGD-95-62R EDA's Management Challenges

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BACKGROUND

EDA was established by order of the Department of Commerce pursuant to the authority vested in the Secretary of Commerce by the Public Works and Economic Development Act of 1965 to generate new jobs and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA provides

- grants to public and private nonprofit organizations;
- technical assistance and grants to communities and firms with problems that are stifling economic growth;
- planning grants to states, cities, districts, and Indian reservations; and
- special economic adjustment assistance to state and local governments with recent, severe problems, such as defense conversion, or long-term economic deterioration.

Since the early 1990s, EDA's responsibilities have grown. For example, beginning in fiscal year 1991, EDA assumed a leadership role for helping communities respond to economic losses resulting from reductions in the defense budget. More recently, the administration announced plans to build on EDA's experiences with defense-affected communities through what is called the "competitive communities" initiative.²

Although EDA's funding has increased from fiscal year 1992, its staffing level has remained relatively constant. In fiscal year 1994, its available funding was \$768 million--of which about \$322 million was the initial appropriation. While the 1995 appropriated funding is about \$409 million, this does not include additional funding (such as disaster assistance) that may be provided during fiscal year 1995.

²Economic Development Administration: Hearings on Competitive Communities Initiative Before the Committee on Public Works and Transportation, 103rd Congress, 2nd Sess. (1994) (statement of William W. Ginsberg, Assistant Secretary for Economic Development). According to the Assistant Secretary for Economic Development, the basics of this initiative include "public and private input into local [economic development] strategies, business projects as important elements of a community's economic development activities and intermediaries [such as private, not-for-profit, or quasi-public organizations] to implement the transactions to carry out the strategies."

RESULTS

EDA is facing three fundamental management challenges in its efforts to meet its mission and take on additional responsibilities. The first two challenges concern the central elements of a strategic management process. The first is for EDA to articulate a clear results-focused direction for the agency by securing internal and external stakeholders' (for example, staff and interest groups) agreement on EDA's mission, goals, and objectives. The second is for EDA to gather and use more complete performance information to better manage its programs. The third management challenge is for EDA to ensure that its organizational structure and management systems--such as grants processing, information technology, and human resources--also support mission-related goals and objectives. We discuss these three management challenges in detail in enclosure I.

Other federal and state agencies (for example the Department of Veterans Affairs and the Oklahoma Department of Commerce) have faced similar challenges. To address such challenges, these federal and state agencies have implemented strategic management processes that include strategic planning and outcome-oriented performance measurement.³ In addition, they have realigned management systems to better support their missions and goals.⁴ As you know, the Government Performance and Results Act of 1993 (GPRA) requires that federal agencies implement the core elements of a strategic management process, developing no later than the end of fiscal year 1997, strategic plans to cover at least 5 years. These plans are to include the agency's mission statement, identify the agency's goals, and describe how the agency intends to achieve those goals. Under GPRA, agency strategic plans are the starting point for agencies to set goals for their programs and measure the performance of such programs in achieving those goals. We also recently reported to the Director of the Census Bureau on how a strategic management process could improve the effectiveness of the Census Bureau,

³Strategic planning is the process organizations use to assess their current situation and future path, develop missions and goals, and devise strategies to achieve the mission and goals. Performance measurement involves the development of measurable indicators that can be systematically tracked to assess progress made in achieving predetermined goals. Together, these activities comprise key elements of a strategic management process.

⁴Aligned management systems are those that are structured to support the achievement of an organization's stated mission and goals.

which may prove useful to EDA as it strives to meet its responsibilities under GPRA.⁵ According to senior EDA officials, EDA is developing a strategic management process. Commerce and EDA officials also said that they had begun to realign their management systems to better support EDA's mission and goals.

SCOPE AND METHODOLOGY

To meet our objectives, we interviewed officials at EDA headquarters and in its six regional offices (Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle) to discuss management concerns and programmatic issues. We also interviewed EDA stakeholders, including officials from Commerce, the Department of Defense's Office of Economic Adjustment,⁶ and the Office of Management and Budget, to identify EDA's strengths and opportunities for improvement. We also examined EDA's legislative history and hearing records and met with congressional staff. In addition, we interviewed selected EDA customers, such as local planning officials and recipients of EDA grants, to identify issues related to customer satisfaction with EDA. We reviewed Commerce and EDA guidance, assessments, and publications, as well as independent studies and reports related to economic development and management reform. We reviewed EDA's management processes and systems but did not assess the appropriateness of expanding EDA's role.

We discussed both the management challenges and possible changes with EDA officials throughout our review. We briefed the Assistant Secretary for Economic Development and other senior EDA officials on our preliminary observations on August 30, 1994. EDA and GAO officials jointly briefed the Department of Commerce's Chief Financial Officer on these observations and EDA's plans for addressing the challenges on September 28, 1994. We have agreed with the Assistant Secretary for Economic Development's request to be available to provide assistance as his management team continues to address the management challenges discussed in enclosure I. For example, as he requested, we will provide information on economic development performance indicators and related processes at the federal and state level that could assist EDA officials as they develop EDA's specific indicators.

⁵See Management of Census Activities (GAO/GGD-95-53R, Dec. 28, 1994).

⁶The office charged with the responsibility of coordinating all federal efforts assisting communities facing defense-related economic distress.

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We did our work from March to November 1994 in accordance with generally accepted government auditing standards.

We are sending copies of this correspondence to the Assistant Secretary for Economic Development; the Director, Office of Management and Budget; interested congressional committees; and other interested parties. Copies will be made available to the public upon request. Major contributors to this correspondence are listed in enclosure II. Please contact me or Charles I. Patton, Jr., Associate Director, on (202) 512-8676 if you have any questions.

Sincerely yours,

for Charles I. Patton, Jr.
William M. Hunt
Director,
Federal Management Issues

EDA'S MANAGEMENT CHALLENGES AND
OPTIONS TO ADDRESS THESE CHALLENGES

Our review identified three fundamental management challenges facing EDA that affect its ability to meet its mission and assume additional responsibilities. EDA's first challenge is to develop internal and external stakeholders' agreement on its mission. The second is to gather more complete performance data and use this information to ensure that EDA's management of its programs supports mission-related goals and objectives. The last management challenge facing EDA is to better ensure that its organizational structure and management systems--such as grants processing, information technology, and human resources--also support mission-related goals and objectives. EDA officials agree that the agency is facing these challenges and plans to take or, in some cases, is taking action to address these challenges.

As we have previously reported, federal and state agencies have implemented GPRA-related management changes, which include strategic planning, outcome-oriented performance measures, and realignment of management systems to better support their organizations' missions, goals, and objectives.⁷ EDA officials told us they are considering using these management changes as they address these challenges and, together with the Department of Commerce, fulfill the requirements of GPRA.

EDA FACES CHALLENGE IN TRYING TO REACH
AGREEMENT ON MISSION, GOALS, AND OBJECTIVES

Obtaining a reasonable degree of consensus on mission, goals, and objectives may be the greatest single challenge to an agency's ability to manage for results. Frequently, the agency's many program customers and other stakeholders do not understand or agree on the program's mission and aims, and the stakeholders often change. EDA faces a similar problem concerning consensus. In a 1994 annual National Association of Development Organizations (NADO) survey of state and local economic development organizations' views on a wide range of federal,

⁷See Managing for Results: State Experiences Provide Insights for Federal Management Reforms (GAO/GGD-95-22, Dec. 21, 1994); AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992); and Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/HRD-90-109, Aug. 31, 1990).

state, and local economic development programs, EDA programs were ranked consistently as the most important (9.90 out of 10) to their local economic development efforts. However, a NADO official said that while state and local economic development organizations were generally pleased with EDA and its programs, there was confusion among some EDA stakeholders regarding its mission, goals, and objectives. In addition, EDA officials said that while the agency's current mission can be found in the Public Works and Economic Development Act of 1965,⁸ key stakeholders--including EDA personnel and EDA grant recipients--view EDA's mission as uncertain and question whether it is changing. For example, according to one grant recipient, EDA is focused on providing economic adjustment assistance--such as defense conversion and disaster assistance--rather than economic development assistance.

Some EDA officials we interviewed said that they lacked a clear understanding of EDA's direction. Other EDA officials also expressed concerns over the increases in defense conversion and disaster assistance projects at the expense of traditional public works projects. In addition, they said they were concerned about the potential effects the proposed "competitive communities" would have on the agency's mission, goals, and objectives.

EDA grant recipients also expressed concerns about the agency's mission. An EDA grant recipient said that EDA's "competitive communities" initiative might ignore EDA's delivery infrastructure--the Economic Development Districts⁹--and establish a new delivery system. This recipient was also concerned that this new line of effort might shift EDA toward a more urban focus.

STRATEGIC PLANNING COULD HELP BUILD
CONSENSUS AND PROVIDE A COMMON FOCUS

Developing a common agencywide focus through strategic planning forms the starting point of a strategic management process. GPRA specifically directs each federal agency to consult with Congress and solicit and consider the views of other parties potentially affected by or interested in an agency's plan. Collaboration among the full range of potential customers, key program managers

⁸P.L. 89-136 (1965).

⁹Economic Development Districts (EDD) are substate regional economic planning districts established through EDA planning grants. Currently, there are about 300 EDDs, which have evolved into multipurpose, grant-getting agencies focused on promoting economic development.

and staff, and other stakeholders in the planning process should create broad ownership of the plan. Our work with other federal agencies and states has indicated that a strategic management process provides organizations with a framework for (1) forging agreement among various viewpoints, (2) obtaining an internal commitment to shared goals and objectives, and (3) persuading staff to think across organizational boundaries to achieve common outcomes. In addition, our work has indicated that a strategic management process helps focus the attention of an agency's leadership on identifying and resolving key problems. Through the use of a strategic management process an agency's leadership can set a clear agencywide direction, and the agency can move toward achieving its goals.

In reviews of other federal agencies--such as the Department of Veterans Affairs (VA) and the Agency for International Development (AID)--facing similar difficulties in forging agreement on missions, goals, and objectives, we recommended to the agencies that they use a strategic management process to reach agreement on the various stakeholder opinions and thereby improve agency effectiveness. For example, in a report on VA management, we said that strategic management would enable VA to manage change and avoid crisis management, resulting in better service to its customers.¹⁰ In a report on AID management, we said that identifying the key issues to be resolved and articulating a clear direction shared by key stakeholders would, among other things, ensure that AID's management systems are integrated and include accountability and monitoring components.¹¹

While strategic planning does not guarantee agencies success in reaching agreement, VA and AID reported that they have begun the strategic planning process and invited stakeholders to provide input into the process. In a subsequent report, we said that VA officials were using strategic planning and it had led to the development of an agency vision and was being used to define human and other resource requirements. In follow-up discussions on our previous report, AID agency officials said that they were still gathering input from stakeholders.

¹⁰GAO/HRD-90-109, Aug. 31, 1990.

¹¹GAO/NSIAD-92-100, Mar. 6, 1992

EDA FACES CHALLENGES IN DEVELOPING
PERFORMANCE MEASURES

Performance measurement, a key element of the strategic management process, helps to provide a direct link between strategic goals and objectives and day-to-day operations. To evaluate the effectiveness of its projects and to ensure that funding is distributed to those distressed areas where it is most needed or to projects that are most effective to the community, EDA, as its officials acknowledged, needs to gather and use more complete performance information about its projects that more fully address EDA's goals and objectives.

Currently, EDA's primary performance indicator is the number of jobs created/retained as a result of an EDA project. EDA officials said that it is not a sufficient measure of performance because it can be difficult to determine a direct correlation between the number of jobs created and an EDA project. In addition, an EDA official told us that it is difficult for EDA staff to report on the number of jobs created as a result of EDA projects because EDA staff may only be able to collect information during field visits to project locations. Such visits are not scheduled often enough for EDA to determine the correlation between a project and jobs created.

PERFORMANCE MEASURES HELP TO GAUGE PROGRESS
TOWARD ACHIEVING MISSION-RELATED GOALS

Our work with management changes at state agencies suggests that to obtain a more complete picture of the degree to which state programs are fostering economic development, EDA could employ a mix of performance measures. For example, Oklahoma's Department of Commerce has developed measures that include performance information beyond the number of jobs created. The experiences of agencies in Oklahoma and other states with using additional performance measures may provide a basis for EDA to revise its own measures to more fully gauge progress toward mission-related goals.

In 1987, the Oklahoma state legislature passed an act designed to promote Oklahoma's economic development through the formulation of a long-term strategic plan. As part of its statewide strategic plan, Oklahoma's Department of Commerce implemented a "comprehensive performance review system for its state economic development agency."¹² Under this review system, economic development programs are to be closely monitored by each of the

¹²Oklahoma Department of Commerce, Program Performance Review: Year to Date Report, Fiscal Year 1994 (April 1994).

agency's divisions, and performance results are to be released quarterly so that the agency's clients can track a program's performance. While Oklahoma's measures include jobs created, they also include

- new investments,
- new business locations,
- companies new to exporting,
- companies exporting to new markets,
- customer satisfaction, and
- dollars expended for community investments.

According to the Oklahoma Department of Commerce report: "This performance review system represents an important step in accurately monitoring the success of the Department's economic development efforts. It is an ongoing, flexible auditing tool that the Department of Commerce has fully integrated into its programs."

EDA HAS MADE SOME PROGRESS IN REALIGNING
MANAGEMENT SYSTEMS, BUT CHALLENGES REMAIN

In our report on the experiences selected state governments had in implementing management reforms, we found that those states were beginning to implement a strategic management process that includes strategic planning and performance measurement. The states generally determined that they also needed to realign their process and information, human resource, budgeting, and financial systems to support these new management reforms. Such realignment is necessary for an agency to become results-oriented. EDA management has begun to address the issue of realignment in two critical areas: grants processing and information technology.

During fiscal year 1994, EDA participated in a Commerce-wide task force formed to review all applications and grant processing within Commerce. As a result, EDA created a new, streamlined version of its public works grants application. In addition to participating in this task force, EDA was the subject of a pilot project aimed at processing grant applications more quickly. Commerce's Office of Administration evaluated the pilot project and made several recommendations to EDA management for reducing the time it takes to process a grant application. Among these recommendations were the following:

- explore self-certification to the extent possible,
- delegate grant approval authority to regional management,
- conduct a comprehensive review of regulations, and
- study other agencies' grants-processing systems.

EDA officials said that they have begun to implement the recommendations outlined in the pilot program evaluation and that they hope to reduce the processing time for most EDA grant applications from 6 months to between 2 and 3 months.

EDA has also started to realign its information management system by adopting many of the approaches outlined in our May 1994 report, which identified 11 information management practices that improved mission performance in leading public and private organizations.¹³ In that report, we discussed the organizations' practices according to the following three key functions critical to building a modern information management infrastructure: (1) deciding to work differently; (2) directing resources toward high-value uses; and (3) supporting improvement with the right skills, roles, and responsibilities. EDA officials also said that EDA is revising its current project database and eliminating unused data fields.

CHALLENGES TO THE REALIGNMENT OF THE HUMAN RESOURCE SYSTEM

EDA officials said that they still have concerns about their human resource system and are planning ways to better realign it with the agency's mission, goals, and objectives. EDA's major human resource challenges can be summarized as follows:

Increases in funding and program growth have resulted in an increased workload. Between fiscal year 1993 and fiscal year 1994, funding levels at EDA grew significantly. In addition to these funding increases, EDA's workload has been affected by the increase in grant applications due to numerous natural disasters and defense conversion projects.

New economic development initiatives, such as competitive communities and a related guaranteed loan program, will require a new mix of skills within EDA's staff, according to EDA officials. For example, these new initiatives will require EDA to develop or acquire additional expertise in areas such as financial analysis.

New ways of doing business have led EDA officials to recognize the need to refocus EDA's training program. For example, EDA is developing training to encompass the needs arising from strategic planning and restructuring of the management systems.

See Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115, May 1994).

Finally, staff turnover could rise. Although EDA's current staff turnover rate is almost negligible, data from the Department of Commerce's personnel database suggest turnover could increase significantly. These data show that 21 percent of EDA's staff currently is eligible for retirement and an additional 21 percent could leave if EDA were to offer early retirement, for a total of 42 percent. This percentage is far above the average for all federal civil service, which according to the Office of Personnel Management is about 6 percent.

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