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OMB MANAGEMENT LEADERSHIP

Statement of
Charles A. Bowsher
Comptroller General of the United States

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BUILDING AN INSTITUTIONAL MANAGEMENT CAPACITY WITHIN OMB

We concluded that several operational and organizational adjustments could help OMB achieve a stable management framework. These changes involved (1) focusing its limited resources on agency programs and activities most in need of attention; (2) having the budget divisions oversee management improvement efforts; (3) having the management staff work with the budget examiners to help review problem areas and analyze agency action plans; and (4) establishing a systematic process built into the budget review cycle for evaluating key agency-specific and cross-cutting management issues that affect program effectiveness. From a resource standpoint, we felt OMB needed to increase its staff and designate a second Deputy Director to focus on long-term management issues.

Leadership of OMB's management efforts is now vested in an Executive Associate Director. As the third ranking official in OMB, he is invited to attend all budget review sessions and is in a position to interact with the program divisions and influence OMB direction to the agencies. OMB requested additional funding to bolster its management oversight capabilities, and obtained congressional funding to increase its management staff from 47 to 82 positions. As of September, 66 staff were on board in the management divisions. Also, it has recently sought funding for the development and audit of agency financial statements to help assess agency financial systems.

From an operational standpoint, OMB established two management oversight processes during the summer of 1989: the list of high risk internal control weaknesses; and the Management by Objectives (MBO) system to track agency progress in addressing major program policy, and management issues. Both processes require agencies to provide plans for achieving objectives and regular progress reports. OMB budget divisions have been instructed to work with the management divisions to oversee agency management improvement efforts, and are to assess agency progress. OMB proposed increases in agency fiscal year 1991 budgets to address selected internal control problems and MBOs, and agencies were directed to incorporate their resource requirements to address internal control issues and MBOs in their fiscal year 1992 requests.

In October 1989, OMB established the Management Integrity Branch to oversee agency actions to fix internal control weaknesses associated with the high risk areas. However, it took until May 1990 for OMB to establish a comparable unit--the Evaluation, Planning and MBO Branch to oversee the operation of the MBO process and promote long-range planning and program evaluations in the agencies.

Also, OMB has continued to give attention to improving the operation of agency financial systems and credit management practices. It is pursuing a five point financial management improvement program which includes reviewing agency financial management practices and providing for audited agency financial statements. In June 1990, OMB told Congress that agencies were making unsatisfactory progress in implementing its nine point credit program, and presented a plan for giving renewed priority to improving agency practices.

BUILDING EFFECTIVE RELATIONSHIPS WITH THE AGENCIES, PRESIDENT, AND THE CONGRESS

Our review of OMB's past management reform efforts led us to conclude in our report that OMB, with its limited staff, cannot simply impose change on the agencies. Agencies must see reform initiatives as important if they are to have a reasonable chance of succeeding. Thus, OMB must seek the commitment of agency leaders to address difficult management problems.

OMB has made progress in securing support for its management efforts. For example, it has gained Presidential support for its high risk and MBO efforts. In April 1990, the President met with the Deputy Secretaries and charged them with making progress in addressing management problems within their agencies. As a follow-on, the OMB Deputy and Executive Associate Directors have met with individual Deputy Secretaries to discuss progress in addressing the high risk areas, MBOs, and other management issues.

Also, OMB has continued to work through the President's Council on Management Improvement, the President's Council on Integrity and Efficiency, and with the Chief Financial Officer (CFO) Council. These efforts serve to foster communication across the executive branch, build commitment to reform efforts, and tap agency talent to address common management problems.

ACTIONS ENCOURAGING, BUT
SUSTAINED ATTENTION NEEDED

The actions I have just discussed are encouraging. But, it is far too soon to conclude that OMB is firmly on course to reaching its management leadership potential. The limited results from past OMB management efforts--which were characterized by a lack of sustained direction, poor implementation strategies, and limited integration with the budget process--make us skeptical about the long-term success of any OMB management initiative.

Despite 20 months of effort, OMB seems to face some of the problems that have plagued past efforts. There has been changing leadership below the Executive Associate Director level and slow development of approaches for implementing a management agenda. For example, the former Assistant Director for Management left in May 1990 without getting action on an organizational proposal for the management divisions. An organizational structure was adopted in May 1990 with the selection of an Assistant Director for General Management. He only recently put in place his management team, and is still defining an agenda for his staff, including how it will work with the program divisions and how it will achieve the Director's stated objectives of focusing more attention on long-range planning and program evaluation.

OMB's financial management activities also have not had permanent leadership. The Assistant Director for Financial Management position is currently being filled on an acting basis by the person brought in to head the management integrity effort. The position of Chief of the Management Integrity Branch is also filled on an acting basis. Further, as of September 21, there were 12 vacancies in the 39 positions in the Financial Management Division. OMB does have personnel actions in process to fill most vacancies among professional staff.

Another problem is that there seems to be little delegation of authority. The top officials at OMB have been involved in extensive and difficult budget negotiations with little time left over to build OMB's institutional capacity to work effectively on management issues. So long as this condition continues, effective delegation to well-chosen subordinates is the only way progress can be made.

In addition, our observations at two agencies raise concerns about whether the MBO program is achieving its potential to improve agency operations. Our findings at the Immigration and Naturalization Service (INS) raise questions regarding the seriousness of the process. An INS official told us that INS submitted goals from its fiscal year 1988 budget when directed by the Department of Justice to develop and submit objectives within 12 hours. Consequently, INS established a goal of apprehending 650,000 deportable aliens in fiscal year 1990 as fulfillment of their objective of maintaining an effective border interdiction program. This represented a decrease of 241,000 apprehensions from fiscal year 1989 performance.

The Department of Agriculture (USDA)--which has lacked a cohesive, departmentwide management strategy--was not fully using the opportunity offered by the MBO program to better address issues which cross-cut the Department's components. In monitoring progress toward one of its major agricultural goals--encouraging environmentally sound agricultural policies--we found that USDA does not comprehensively track all related activities. For example, in monitoring the water quality part of this environmental goal, the Department's MBO system was primarily tracking the Secretary's new water quality initiative instead of tracking all other water quality activities within the Department's components.

Situations such as these indicate that at least some agencies do not take the MBOs seriously. This must be corrected if OMB managerial oversight is to be truly effective. Ultimately the test OMB leadership will face is whether, in the presence of budget pressures, it will be able to devote the needed attention to management issues to firmly establish an institutional process capable of probing the effectiveness of agency management plans and actions. We will continue to monitor OMB's efforts.

Correcting government's management deficiencies will require major changes in how the President, OMB, the agencies, and Congress make decisions. We must expect greater managerial accountability than we have seen in the past from the political executives who head the departments and major program agencies. Prime responsibility for management improvement rests with the agencies. Agency leadership must devote more attention to developing viable plans for meeting long-term mission needs, and then ensuring that continuing attention is given to their implementation. Congressional oversight, such as the series of hearings this Committee has held concerning OMB, is an important part of establishing accountability with agency leadership for addressing the problems which compromise service delivery and safeguarding public assets.

I believe that one of the cornerstones to establishing greater accountability for performance across government rests with broad financial management reform. We currently rely on out of date financial management systems which do not provide relevant, timely, and comprehensive information for managers. For years, I have advocated strong centralized leadership to direct the government's financial management activities. To this end, I support enactment of S. 2840, currently pending before this Committee, because I believe it addresses the essential elements required for a successful financial management reform program. These include the annual preparation and audit of agency financial statements for all executive departments and major agencies. I believe this is essential to ensuring that the financial systems are working, the government's assets are safeguarded, and reliable information is being provided to program managers.

In addition, S.2840 requires each agency head to forward an annual report to the President and the Congress. I envision that the report would include the agency's financial statements and the auditor's opinion, as well as a discussion and analysis of the agency's financial position and operations. This report would form one of the bases for OMB management reviews as part of the annual budget process; help define the agenda for annual congressional hearings; and strengthen disclosure to the public.

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In summary, addressing our government's severe management problems will require changed behavior on the part of OMB, the agencies, and Congress. In one area after another, we find that our government's ability to provide effective services to the public and maintain proper accountability over public resources is deteriorating. For example

-- We expect government to be accountable to the taxpayer, yet we allow federal agencies to operate without the basic internal controls and accounting systems necessary to run their programs and safeguard their assets. The scandal at the Department of Housing and Urban Development is a clear example of the dangers inherent when financial management is allowed to deteriorate.

-- We spend billions designing and installing computer systems to help agencies meet their mission objectives. Yet we invariably find that these systems do not work as planned, have cost overruns in the millions or even hundreds of millions of dollars, and are not developed on time.

-- We face the need to invest billions of dollars in our decaying transportation infrastructure after years of neglect. The Secretary of Transportation deserves credit for recently producing a National Transportation Policy that provides a comprehensive overview of major issues. However, many groups strongly criticized the policy statement because it either stopped short or backed away from defining any specific federal role in many crucial areas, particularly regarding funding the huge infrastructure needs.

These problems arise because government decisionmaking continues to be focused too intensely on seeking short-term solutions rather than on planning how to provide effective services to meet long-term needs. In other words, we have invested neither in the programs to meet urgent needs nor in the basic management systems needed to ensure proper accountability for program performance.

OMB has an important leadership role to play and has started some worthwhile initiatives. But if past is prologue, implementation will suffer unless there is strong, consistent leadership and direction.

This concludes my prepared statement. I will pleased to answer any questions that you or other members of the Committee may have.