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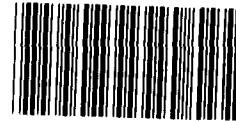
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IMPROVING GOVERNMENT

Measuring Performance and Acting on Proposals for Change

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



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IMPROVING GOVERNMENT:
MEASURING PERFORMANCE AND ACTING ON PROPOSALS FOR CHANGE

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

Public officials must be able to better assure citizens that their tax dollars are being spent to produce useful results. In far too many instances, federal managers focus primarily on ensuring that processes are carried out rather than on ensuring favorable results. Shifting this focus will be difficult and will require a long-term commitment from those involved.

The federal government needs to be made more comprehensible to the average citizen. To do this first requires that agencies themselves have a clear sense of their own purposes. The Government Performance and Results Act of 1993, H.R. 826, would be an important step forward in addressing this problem, and we recommend its enactment.

H.R. 826 would require a group of pilot agencies to develop strategic plans, set agreed-upon goals, and measure their progress toward those goals. It also would provide greater managerial flexibility to some of these agencies through waivers of certain administrative rules. Eventually, the bill calls for pilot tests to assess the feasibility of performance budgeting. While we support the goal of more directly linking performance to budget levels, our work suggests that a great deal more needs to be done before performance measures can serve as a credible basis for resource decisions.

Prompt action on H.R. 826, the Chief Financial Officers (CFO) Act of 1990, and hundreds of open audit recommendations could constitute an important and immediate downpayment to the American taxpayers, demonstrating that Congress and the administration are serious about improving government management.

Beyond these near-term efforts, Congress and the administration will need to work together on more contentious issues to ensure that managers have the tools they need to achieve the results we all want. Areas in need of a longer term management focus include procurement, recruitment, budgeting, information resources management, personnel, and agency organization and functions.

Congress may wish to consider a variety of legislative mechanisms, such as "fast track" approval, presidential reorganization authority, or a broadbased, bipartisan commission to implement reforms. These mechanisms could be used both where the need for change is apparent and where prompt action should be taken, as well as in those areas in which additional work is needed to better identify problems and build consensus to solve them.

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today. You asked that we provide our position on the Government Performance and Results Act of 1993, H.R. 826, and also our views on legislative options for implementing recommendations from the President's National Performance Review.

We support H.R. 826 and recommend that it be enacted. We also believe that Congress might wish to consider establishing legislative implementation mechanisms, such as granting the President reorganization authority, to handle the management reform recommendations that may flow from the National Performance Review or other initiatives. Early consensus on implementation mechanisms may increase the likelihood of success for the potentially broad range of recommended changes that may face Congress and the President. Although there appears to be significant agreement on the need to change how government is managed, consensus often breaks down as attention is turned to the specifics of what changes should be implemented.

Many policymakers and federal managers have been working hard for a long time to improve the basic systems necessary to overcome the management problems facing federal agencies. However, like you, we have concluded that management in the federal government is not in good shape. Your December 1992 report, Managing the Federal Government: A Decade of Decline, describes many of the problems. Our recent Transition Reports and High-Risk Status Reports reinforce these findings. In addition, hundreds of open audit recommendations from our reports and those of the inspectors general have documented where the government has been ineffective in achieving needed improvements. H.R. 826 would be a very positive step forward in beginning to address these problems. It would require agencies to clearly define their missions, develop operational plans on how they will achieve their missions--with specific measures of results, and eventually link resources to performance.

H.R. 826 builds on the Chief Financial Officers (CFO) Act of 1990. Together, the two acts provide the basis for clarifying accountability for results. However, these measures alone, while desirable and important, constitute only part of the broader reforms needed. These would include creating a longer term management focus on procurement, recruitment, budgeting, and personnel, reforming agency organizational structures and functions, and establishing a framework for managing change that focuses more on the strategic uses of technology for achieving agency missions.

As I testified before the Senate Governmental Affairs Committee earlier this month, prompt action on performance measurement legislation, continued implementation of the CFO Act, and action on open audit recommendations could constitute an important and immediate downpayment to the American taxpayers, demonstrating

that Congress and the administration are serious about improving government management.

FEDERAL ENVIRONMENT AND MANAGEMENT CONCEPTS HAVE CHANGED

Any management reform agenda should be based on a careful review of agency missions and roles and an understanding of the management concepts and systems that agencies are attempting to use to achieve their objectives. In addition, such an agenda should build on the existing progress made by agencies.

Federal Roles Have Changed

Over the past 40 years, the role of the federal government has changed dramatically. This change has required greater reliance on the use of third parties to deliver program services. One result of using third parties is that while federal spending has increased by more than 250 percent in constant dollars over the 40-year period, federal civilian employment has remained roughly constant.

Traditional management reform has focused on ways to improve the management processes and organizational structures of federal agencies. Although this agenda is still relevant and pressing, the results of most federal programs increasingly are becoming a function of the quality of performance by nonfederal entities--state and local governments, private contractors, and nonprofit organizations--that do not necessarily share federal program objectives. Reliance on nonfederal entities to implement federal programs has grown far more rapidly than the knowledge about how to design and manage these kinds of programs. Measuring the performance of these programs--as embodied in H.R. 826--will prove to be one of the more difficult but vitally important challenges in defining agency and program missions and developing concrete measures of success.

Management Concepts Have Changed

The hierarchical, centralized bureaucracies designed in the 1930s and 1940s simply do not function as well in the rapidly changing, knowledge-intensive society and economy of the 1990s. The kind of government that developed during that period, with its reliance on rules, regulations, hierarchical chains of command, and direct provision of services, worked well in a stable environment. It accomplished great things in its time. But today it is a dinosaur. For example, the Department of Agriculture has an extensive and costly field structure of 11,000 field offices, many of which date from the 1930s--before modern transportation systems, computers, and universal telephone coverage facilitated communication. The time has come to change

the processes, mechanisms, and ways we seek to accomplish government missions.

However, while some of these traditional management principles remain important, they need to be reassessed in the context of newer concepts guiding private sector corporations, state governments, and governments in other countries. The new concepts emphasize flattening hierarchies, decentralizing authority, creating a customer focus, encouraging competition, and achieving results. We must move boldly toward developing innovative operating plans based on clear definitions of agencies' missions and objectives. The operative concepts should be simplifying and streamlining business practices using modern reengineering techniques and seeking more ways to use emerging information management techniques and technologies that potentially could have enormous payoffs.

In all cases, it seems we may need to revise the systems we currently use to achieve desired results. Restructuring along these lines requires a focus on understanding the incentives that drive elected officials, public managers, and employees. For example, most programs are budgeted according to their historical funding levels rather than according to their desired results. This type of budgeting concentrates attention on inputs rather than desired outcomes. To change behavior within the federal government, we must change the basic incentives that shape that behavior and provide line managers with the tools and the authority to act.

Status of the Federal Government in Implementing New Concepts

During the past year, we have looked broadly at where the federal government is in relation to some of these new management concepts. Most notably, we have focused on agencies' capabilities to articulate their missions, measure results, and focus on their customers. Some agencies have made progress, but most still have a long way to go.

Performance Measurement

In May 1992, we reported on the status of performance measurement in the largest federal agencies and found few shaped their operations around their missions or focused on desired results. We surveyed 103 of the largest federal organizations to determine the extent to which they had created strategic goals and established at least some measures of progress toward meeting those goals. Agencies reported the following:

- About two-thirds said they had a single long-term strategic plan, and three-quarters said they collected a wide variety of data to assess program performance. However, when we visited

a sample of these agencies, we found that most used the information at the program level. While this information was useful at that level, it was fundamentally different from the information needed to manage or make strategic policy decisions for the agency as a whole. For example, one agency had developed extensive information on distributing grant awards but could not link this to the overall goals articulated by the department.

- Only 9 of the 103 organizations reported having an administrative infrastructure in place for developing and reporting results. By this we mean that there were few offices that routinely collected performance data and prepared regular reports on the progress made toward goals set in strategic plans.

In follow-up visits to over a dozen agencies, we found that the agencies used their performance measurement systems for a variety of functions. Some were using them to ensure organizational accountability and efficiency. Others were using them to make budget decisions and determine individual employee rewards. Relatively few of these agencies had well-developed results-oriented performance measures although, in recent months, there has been increased activity toward developing such measures.

For example, the Department of Defense (DOD) created the Defense Business Operations Fund to increase the cost visibility of its \$81 billion industrial and commercial-type activities. In the long run, DOD intends to use the unit costing approach to allocate resources based on what it actually costs to do the job. Also, because the Fund focuses on output, employees would have to know what they produce and establish effective customer-supplier relationships. According to DOD, this focus will require a change in the organizational culture and roles of managers. We think that the Fund's concepts and principles are sound. However, DOD has had trouble implementing the Fund's objectives and we are concerned that DOD may not be successful.

Total Quality Management

In September 1992, we reported on the use of Total Quality Management (TQM) by federal agencies. TQM is a management approach that strives to achieve continuous improvement of quality through organizationwide efforts based on facts and data. It emphasizes many of the new concepts, such as focusing on the customer, decentralizing authority, planning strategically, and measuring quality results.

TQM is being implemented by a significant number of federal organizations, including GAO. About 68 percent of the 2,800 military and civilian installations we surveyed reported they were working on various phases of TQM, with the greatest activity

concentrated in the early phases. The remaining federal installations surveyed said they were are not currently implementing TQM, although half said they plan to do so in the future. Although TQM is being initiated on a fairly wide scale, the depth of employee involvement is still shallow; about 13 percent were reported as being involved at the time of our survey.

The responses also showed that as agencies progressed in implementing TQM, so did their efforts in strategic planning, measurement and analysis, customer focus, and quality assurance. And as agencies increased their degree of development and maturity in their TQM efforts, they reported fewer barriers and more employee involvement. More important, the level of reported benefits achieved from TQM efforts--improved customer service, timeliness, and reduction in costs--increased substantially for federal installations as they progressed further in TQM implementation.

H.R. 826 WOULD CREATE A FOCUS ON EFFECTIVENESS

While progress is being made in some federal agencies, the pace and scope of management improvement efforts need to be accelerated and expanded if there is to be any real improvement in the delivery of services to the public. While making improvements will not be easy or quick, H.R. 826 provides an important tool for changing behavior in the government.

This legislation would require all agencies to develop strategic plans, set agreed-upon goals and objectives, and measure their progress toward those goals. The bill seeks to create an environment that would provide managers with the incentives and tools they need to focus on desired results. The bill starts with a series of at least 10 pilot agencies in fiscal year 1994 and will encourage waivers from administrative rules in several of these agencies in the subsequent fiscal year. While we endorse this bill, it will not produce by itself the degree of change necessary. Encouraging waivers of administrative rules falls far short of giving Federal managers the tools they need to achieve the results we all want. Accountability is important, but it is meaningless without authority.

The bill also provides for five or more pilots on performance budgeting beginning in fiscal year 1998. While establishing more direct links between budget levels and performance is a worthy goal, our recent work in this area in several states regarded as leaders in this field suggests that the goal remains elusive. Performance measures have not yet attained sufficient credibility in these states to influence the budget decisionmaking process.

To date, performance budgeting has not evolved naturally from improvements in performance measurement, in part, because of difficulties in achieving consensus on meaningful measures and the absence of underlying supporting mechanisms, such as cost accounting systems. The building block approach envisioned in H.R. 826, in which performance measures are developed and tested before being applied to the budget process, may increase chances for success.

CREATING A BROADER FRAMEWORK FOR ADDRESSING MANAGEMENT PROBLEMS

Changing the federal government's focus from ensuring that funds are spent properly to managing dollars to produce agreed-upon results will be difficult and will require a long-term commitment from those involved. The U.S. government is not alone in attempting to address major management problems. Countries such as Australia, Britain, Canada, New Zealand, and Sweden began to fundamentally rethink how their public sectors operated in the mid-1980s by attempting to create more results-oriented environments.

Furthermore, some state governments--such as those in Florida, Minnesota, Oregon, and Texas--have recently begun to do the same. Many of these governments have already created performance measurement systems. However, their systems were only one element of a broader set of reforms needed to focus their agencies on achieving results. While all of these governments may not have experienced success in their attempts to make sweeping changes, clearly they all can offer valuable concepts and lessons learned to the federal government.

In general, these governments attempted to change the incentives for individual managers and organizational cultures across the entire public service. Their common emphasis was to focus more on achieving results. This was done by introducing quasimarket mechanisms and incentives similar to those in the private sector--such as competition, individual accountability for performance, and a focus on customers.

But we in the federal government need to do more to change our culture and incentives to create a more results-oriented environment. Long-term progress can be made by aggressive action in three broad areas:

- clarifying accountability for program results,
- emphasizing a long-term focus, and
- realigning the machinery of government.

Clarifying Accountability for Program Results

In far too many instances, program managers focus primarily on process rather than on results. The CFO Act is part of the foundation for creating accountability for results. This landmark law represents the most far-reaching financial legislation in 40 years and provides an excellent blueprint for financial reform. H.R. 826 builds on this foundation by tying program results and resources to agency missions.

One tool used to gain the commitment for implementing these types of concepts in other countries--such as Australia, New Zealand, and the United Kingdom--has been to grant managers greater discretion in the use of resources in exchange for greater accountability for results. These flexibilities have included (1) reforming their civil service systems, (2) recasting their budget execution systems, (3) devolving centralized authority, and (4) allowing a choice between government and nongovernment service providers.

Emphasizing a Long-Term Focus

A misplaced focus on short-term issues is a major deterrent to good management. Several factors create a federal environment that encourages short-term action in the face of long-term management problems. These factors are most visible in the political appointment process, the annual budget process, and underinvestment in the public service. The ultimate success of H.R. 826 will depend on making progress on these and other issues central to developing leadership continuity and a commitment to action.

The British, for example, have developed performance standards on a program-by-program basis. Based on these standards, the secretary of a department develops annual performance agreements for their agencies. In addition, these standards are part of the individual multi-year performance agreements for the chief executive officers in charge of these agencies.

Realigning the Machinery of Government to Support Results-Oriented Action

All too often, the existing machinery of government stifles results-oriented agency action. The traditional posture of central management agencies has been to control and regulate line agency actions and resource usage, encouraging Congress to take the same overly detailed approach. Individual agencies frequently have unclear missions and ineffective organization structures.

In the last decade, the federal government's central management agencies--the Office of Management and Budget (OMB), the Office of Personnel Management, and the General Services Administration--have begun to shift from being control-oriented to delegating the authority to act in certain areas. Credit for this shift is partly attributable to OMB's support for TQM and the creation of the position of deputy director for management. OMB's management staff has increased its emphasis on assisting, rather than instructing, agencies in resolving their management problems. However, the central management agencies still need to identify and promote agreement on ways to encourage and accelerate their efforts to devolve authority to the agencies.

Because H.R. 826 requires agencies to define their missions and goals and report on results, it will help agencies realign their efforts to serve the public. In many cases, the federal government has become too complicated for the average citizen to understand. The government should be made comprehensible and "citizen friendly." To do this first requires that agencies themselves have a clear sense of their own purposes.

MECHANISMS MAY BE NEEDED TO ACT ON MANAGEMENT REFORM INITIATIVES

A range of management improvement efforts are underway or under active consideration. In some cases, consensus on the need for change appears to exist and prompt action should be taken. In other areas, additional work is needed to better identify problems and build consensus around the solutions. However, in all cases, appropriate and complementary mechanisms need to be established to act on the reform initiatives so that the momentum for change can be maintained.

The President's National Performance Review, with its 6-month duration, is important because it reflects a clear signal for action. In all likelihood, some of the Review's recommendations will lend themselves to immediate corrective action by the executive branch. Other issues may require more time than the National Performance Review has available and some may require legislative approval. In a report we prepared on Government-wide management initiatives during the 1970's, we concluded that broad management initiatives were more likely to endure when Congress authorized them in statute.

Congress and the administration will need to work closely together to ensure that the findings and recommendations of the National Performance Review are considered and acted upon. Where consensus exists, Congress may want to consider providing some type of "fast track" legislation as a mechanism for quickly acting on the recommendations of the National Performance Review.

Congress may also want to consider providing the President with new reorganization authority. The Reorganization Act Amendment of 1984, which has lapsed, provided for expedited review of presidential reorganization plans. Congress had a limited period of time to consider the president's plan and pass a joint resolution to approve it, or else the plan died.

Under that law, the president could move agencies and/or functions within the existing framework of executive departments. For example, the President could propose consolidating an agency or function under the Department of Agriculture with a similar agency or function under the Department of Commerce.

However, the president's reorganization authority was limited. The president could not abolish enforcement functions or statutory programs, assign new functions to an agency unless the function was already authorized by law, or abolish independent regulatory agencies. In addition, each reorganization plan also could only deal with one "logically consistent" subject. Given these limitations, the Congress may wish to deliberate on broadening or otherwise amending the scope of this law.

In those areas, such as fundamental reforms to the federal personnel system and streamlining the budget process, where consensus does not exist on which direction to take, some other mechanism, such as a broadbased bipartisan commission--which is being considered by the Senate--may be helpful in building agreement on the changes that need to be made and developing implementation strategies. The commission bills pending before the Senate provide for the same types of expedited enactment procedures as those contained in the Reorganization Act Amendment of 1984.

CONCLUSION

In summary, Mr. Chairman, we believe the Government Performance and Results Act of 1993 could serve as the foundation for a broad range of efforts to improve federal management. Most federal managers want to be efficient and effective. When they run inefficient or ineffective operations, it is usually because something requires them to do so, because there are strong incentives to do so, or because they do not know how to fix them.

The National Performance Review, reorganization authority, and a commission could be complementary tools for action. The National Performance Review and reorganization authority could give the President the ability to gain quick action on administrative streamlining recommendations. In addition, a broadbased bipartisan commission could be used to address a longer term agenda of legislative issues that may require additional study and consensus building.

This completes my prepared statement. My colleagues and I would be pleased to respond to questions.

RELATED GAO PRODUCTS

Improving Government: Need to Reexamine Organization and Performance (GAO/T-GGD-93-9, Mar. 11, 1993).

Defense Business Fund (GAO/AFMD-93-52R, Mar. 1, 1993).

Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD-93-41, Feb. 17, 1993).

Government Management Issues (GAO/OCG-93-3TR, Dec. 1992).

Financial Management Issues (GAO/OCG-93-4TR, Dec. 1992).

Quality Management: Survey of Federal Organizations (GAO/GGD-93-9BR, Oct. 1, 1992).

Performance Measurement: An Important Tool in Managing for Results (GAO/t-GGD-92-35, May 5, 1992).

Program Performance Measures: Federal Agency Collection and Use of Performance Data (GAO/GGD-92-65, May 4, 1992).

Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

Service to the Public: How Effective and Responsive is the Government? (GAO/T-HRD-91-26, May 8, 1991).

Management Practices: U.S. Companies Improve Performance Through Quality Efforts (GAO/NSIAD-91-190, May 2, 1991).

Financial Reporting: Framework for Analyzing Federal Agency Financial Statements (GAO/AFMD-91-19, Mar. 1991).

Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35, Feb. 1985).

Selected Government-Wide Management Improvement Efforts--1970 to 1980 (GAO/GGD-83-69, Aug. 1983).

Evaluating a Performance Measurement System: A Guide for the Congress and Federal Agencies (FGMSD-80-57, May 12, 1980).

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