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Leadership Systems

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CREATING QUALITY LEADERSHIP AND MANAGEMENT

National Performance Review

**Accompanying Report Number xx
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IMPLEMENTATION CATEGORIES

Each recommendation will be followed by a code that indicates the necessary avenue for effective implementation. Appendix A organizes all recommendations according to these codes.

- (1) Agency heads can do themselves
- (2) President, Executive Office of the President, or Office of Management and Budget can do
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SUMMARY

Leadership and management are both critical functions within any organization. Leadership is responsible for developing vision, values, and policy agendas, prioritizing among competing demands, and strategic planning. Management is responsible for aligning all the management systems (e.g., personnel, budgeting, procurement) to support the vision, agenda, and plans and for insuring these systems are continuously improved to give better value to the customers. While leadership and management are functions that exist at all levels of an organization, it is top leadership and management that hold the keys to change.

GAO concluded in December 1992, that "the state of management in the federal government is not good."¹ The House Committee on Government Operations found in its 1992 report, *Managing the Federal Government: A Decade of Decline*,² that the cause is "first and foremost... the lack of leadership."

Because of the vacuum in top leadership, the Executive and Legislative Branches have attempted to resolve problems of mismanagement and lack of leadership by extending and tightening oversight, regulation, compliance, clearance, and review mechanisms of Executive Branch agencies and managers. Staff units have inherited major responsibilities for managing the government.

An improved approach to executive branch governance would be for senior leaders to be highly involved in certain leadership and management processes. There are three components to this approach. First, the President, working with the Cabinet as a team, would create a sense of purpose, mission and the other leadership outcomes mentioned above. One of the values would be the importance of continuous improvement in management and in resulting outcomes for the taxpayer. Second, to demonstrate and institutionalize this value, the President would have each agency head designate a Chief Operating Officer (COO). This assignment would be a line management responsibility and be given to someone already in the agency, most often the Deputy Secretary. Third, the President would create a council of the COOs (President's Management Council) of the major agencies, reporting directly to him and chaired by the Vice President. This council would work on aligning management systems to support the President and Cabinet's agenda

and to develop a management approach dedicated to ever-improving efficiency, effectiveness, and outcomes.

One term for this approach is "Managing for Results." It is founded on both strategic management concepts, such as those in the Government Performance and Results Act of 1993, and quality concepts, such as those embodied in the Presidential Award for Quality and the Malcolm Baldrige National Quality Award. There is already a great deal of momentum built in the government toward quality management, and much progress can be made by capitalizing on existing progress and providing top level leadership for it. One important set of activities is training. All employees in the executive branch should have basic training in this approach, starting with the President and Cabinet. The training should be cascaded through the agencies.

Institutional support will be needed for the above mentioned approaches to be successful. Some dedicated support in the EOP should be assigned as well as much more responsibility should be given to the Federal Quality Institute. Also, support must be obtained and networks created among centers of expertise in the individual agencies. The executive branch is well endowed with requisite expertise, but must learn how to tap into it and mobilize it to work on government-wide issues.

It is difficult to improve leadership and management without leaders and managers. In the senior-most ranks of government, absence of leaders is a problem due to political turnover. The trends in this regard have gotten progressively worse. Moreover, political appointments do not always match job requirements, and there is usually a premium placed on policy background, with less overall emphasis on managerial qualifications. Senior career executives could fill some of the need for continuity of management. However, due to distrust of civil servants by political appointees and no formal institutional talent pool, they are not used as fully as they could be. In the future, the political appointment process would be streamlined to reduce appointment cycle time, qualifications list for senior positions would be available, accountability would be strengthened by use of performance agreements, and adequate training would be provided, especially in these contemporary

approaches to leadership and management.

Our Constitution establishes three branches of government: judicial, executive and legislative. The latter two have certain roles and responsibilities individually and toward each other. Congress enacts laws, authorizes and appropriates funds, and provides oversight of program accomplishment and compliance to laws. The executive branch executes programs and also provides internal oversight. Some believe that over the years Congress has become overly involved in functions of the Executive Branch. Examples cited cover too much detailed program direction and too much program oversight. In addition, some believe this activity is warranted because the executive branch appears unable to guarantee sound internal management. Regardless of the veracity of these perceptions, the overall government and country would benefit from a more collaborative relationship between the two branches. This relationship can be achieved without compromising the fundamental need for a separation of powers. The President can initiate a dialogue between the two branches by several mechanisms, such as a conference which brings the leadership of both branches together to work on this issue and on long-range planning for our country's future. Citizens would benefit from a government in which the leadership spends at least as much time collaborating as they do airing differences of opinions.

Endnotes

1. General Accounting Office, *Government Management Issues* (GAO/OGC-93-3TR), Transition Series, Washington, D.C., December 1992, p. 4.
2. U.S. Congress, House Committee On Government Operations, *Managing the Federal Government: A Decade of Decline*, Majority Staff Report, Washington, D.C., December 1992, p. 1.

**RLM.1 PROVIDE IMPROVED LEADERSHIP AND MANAGEMENT OF THE
EXECUTIVE BRANCH****Background**

Leadership and management are both critical functions within any organization. Leadership is responsible for developing vision, values and policy agendas, prioritizing among competing demands, and strategic planning. Management is responsible for aligning all the management systems (e.g., personnel, budgeting, procurement) to support the vision, agenda and plans, and for ensuring these systems are continually improved to give better value to taxpayers. While leadership and management are functions that exist at all levels of an organization, it is top level leadership and management that holds the keys to change.

For more than a decade, congressional reports and studies have documented an Executive Branch that lacks effective leadership and is poorly managed.¹

In recent years, the Executive and Legislative Branches attempted to correct problems of lack of leadership and mismanagement by extending and tightening oversight, regulation, compliance, clearance, and review mechanisms of Executive Branch agencies and managers. Statutory and executive authorities for Office of Management and Budget (OMB) activities included 95 statutes, 58 executive orders, 5 regulations, and 51 circulars in 1986.² OMB is responsible for administering more than 50 compliance, clearance, and review processes.³ These processes provide staff-directed management through rules and regulations.

These mechanisms are tools and levers for control, for slowing and stopping programs and organizations, for paralysis. They are not mechanisms of action, accomplishment, or empowerment. The use of staff-driven rules has wrapped managers in layers of control, oversight, and red tape; made difficult the task of clearly defining responsibility and accountability; and shifted the focus of management to compliance with rules--and away from management that addresses results and customers. This approach has

not worked. The problems with mismanagement persist.

Incoming presidents and senior political appointees are advised to resist the temptation of attempting to manage the Executive Branch and instead to focus on accomplishing a few significant political decisions that define a presidency.⁴ One point of view is, "As chief political officer, the President's principal task is to lead the federal government, not to manage it."⁵ This advice is intended to establish focus and energy around a few political and policy concerns.

The President, department secretaries, and agency heads are responsible for providing executive and political (policy) leadership. The President and Cabinet Secretaries are in a pivotal position for providing overall leadership for effective management of the Executive Branch and for initiating cultural change that will be required for "Managing for Results."⁶ There is a dilemma about thinking of political and management concerns of a presidency as "either/or" rather than "both/and" decisions. The desired focus on a core of policies to define a presidency can be subverted and consumed by political crises that grow out of the lack of effective leadership for management of the Executive Branch.

Elliot Richardson notes that

The really hard problems of government start with choosing goals, setting priorities, making choices, and formulating plans for fulfilling those chosen objectives....Whether or not an administration succeeds or fails depends on how clearly, forcefully, and persuasively it defines its goals and creates the understanding of the necessity for sacrificing desirable ends that do not have sufficient priority to claim a share of the available resources.⁷

This leadership function for the Executive Branch can only be provided by the President and Cabinet Secretaries, who are in line leadership positions. It is a role that cannot be filled by staffs.

OMB does have oversight and other staff responsibilities in the management area

and does have a Deputy Director for Management. However, OMB is a staff organization concerned primarily with budget matters and the short term. It cannot fill the void in leadership for management of the Executive Branch with the use of an array of control processes. Another group, the President's Council on Management Improvement (PCMI) is charged with making recommendations for improving the management of the federal government, yet its members are assistant secretaries and other agency executives responsible for staffs in the area of administrative management.⁸ The responsibility for management of the Executive Branch should be shifted from staff organizations and input controls to line organizations, line managers, and accountability for results.

Organizational mechanisms for assigning accountability and authority for operational management of the overall Executive Branch are not clearly established. Organizational leadership is needed in the Executive Branch.

Need for Change

The House Committee on Government Operations found in its 1992 report that the cause of management problems in the Executive Branch is "first and foremost...the lack of leadership."⁹ Increasing the capability of the Executive Branch to manage its organizations and programs will require:

- sharpening and clarifying responsibilities (accountability) for leadership in management of the Executive Branch by the Cabinet and other top line executives,
- building capacity and support for effective leadership,
- shifting from an emphasis on controls on the use of inputs by managers and employees to accountability for results, and
- improving cooperation between the Executive and Legislative Branches.

While the roles of the President and Cabinet in giving overall leadership for management of the Executive Branch must be clarified, they cannot resolve the vacuum in

leadership and management alone. Introducing "Managing for Results" in the Executive Branch will require that organizational mechanisms are in place for managing and providing staff support for its implementation. Organizational mechanisms are suggested below for that purpose.

Other governments intent on changing their course to "Managing for Results" have followed similar paths. When necessary institutional mechanisms do not exist, they have to be created.

Australia created its Management Advisory Board (MAB) in 1984 as a high-level steering committee to oversee the implementation of Australia's Financial Management Improvement Program (FMIP).¹⁰ The MAB in turn initiated the Management Improvement Advisory Committee (MIAC) "to advise...[it] on major management issues and to monitor the implementation of FMIP."¹¹

The Oregon Legislature created the Oregon Progress Board (OPB) to translate the strategies in Oregon's strategic plan for prosperity, *Oregon Shines*, into measureable goals. OPB prepared *Oregon Benchmarks* with the assistance of citizen panels. These benchmarks are being integrated as goals for planning, budgeting, and compensation systems by state agencies and performance measures consistent with the benchmarks are being developed.¹²

The following recommendations propose establishing specific accountability for management of the Executive Branch and individual agencies, and provide mechanisms for coordination and alignment within the Executive Branch. The recommendations represent a strengthening of top line leadership in the Executive Branch. They are beginning steps. To be successful, they will require the cooperation of both the Executive and Legislative Branches.

Recommendations

1. **Provide government-wide leadership, direction, and commitment for effective management of the Executive Branch via "Managing for Results" and for**

implementation of the recommendations of the National Performance Review.

(2)

The President should issue an Executive Order in September 1993 expressing the Administration's commitment to "Managing for Results" and providing government-wide leadership and direction for implementation of the recommendations of the National Performance Review (NPR).

The Executive Order would

- (1) express the Administration's vision for 21st century government based in the principles underlying "Managing for Results,"¹³ the recommendations of the National Performance Review (NPR), and the principles of strategic and quality management described by the criteria for the "President's Award for Quality."¹⁴
- (2) state the leadership role of the Cabinet for management of the Executive Branch,
- (3) direct agency heads to designate a chief operating officer,
- (4) create the President's Management Council,
- (5) direct agencies to begin working immediately to ensure full implementation of NPR's recommendations by fiscal year 1998.

The Executive Order would supersede Executive Order 12637, "Productivity Improvement Program in the Federal Government."¹⁵ The President should rescind Executive Order 12637. The purpose of the Productivity Improvement Program (PIP) was "to improve the quality, timeliness, and efficiency of services provided by the Federal Government." The program experienced fundamental conceptual and implementation problems. OMB considers PIP "inoperative."¹⁶

2. **Clarify the responsibilities of the Cabinet for giving strategic leadership for effective management of the Executive Branch and implementation of**

"Managing for Results" and the recommendations of the National Performance Review. (2)

The President and Cabinet would give strategic leadership for effective management of the Executive Branch, the introduction of "Managing for Results," and the implementation of the NPR recommendations. They are responsible for (1) developing a unifying purpose or mission for the Executive Branch as a whole; (2) setting policy and associated program agenda, including making the hard choices among many competing priorities and claims from different constituents and stakeholders; (3) developing and communicating values; and (4) creating a vision of what the government should become in the future that is shared throughout the Executive Branch. The Cabinet would meet regularly with a formal agenda to address these responsibilities.

The purpose, priorities, and goals established by the President and Cabinet provide a strategic framework for the operation of the proposed President's Management Council that is described below. The President and Cabinet would address strategic issues concerning management of the Executive Branch and the implementation of NPR's recommendations. (For example, the "rightsizing" strategy.) The Council would identify and resolve cross-agency management problems, provide effective management through implementation of the NPR recommendations, and encourage the cultural change needed to introduce "Managing for Results" throughout the Executive Branch.

Major changes in large systems like the Executive Branch rarely happen without leadership, direction and commitment from the top leaders. Reinforcement is needed on an ongoing basis.

3. Designate chief operating officers in each department and agency.(2)

The President should direct department and agency heads to designate chief operating officers (COO) for their organizations, giving consideration to career senior

executives to provide for institutional continuity and knowledge. The chief operating officer would be second-in-command to the agency head or chief executive officer (CEO) and would report directly to the agency CEO. It would be a line management responsibility assigned to an existing position. In most cases, the deputy secretary or deputy agency head would be designated to have the responsibility.¹⁷ Generally, the responsibility would not be assigned to someone in a staff role, such as the chief-of-staff or assistant secretary for administrative management.

The COO would be responsible for

- (1) overall organizational leadership, alignment, and effective performance of the varied operations of the organization and
- (2) assisting the CEO in strategic planning, directing, coordinating, measuring performance results, controlling and giving executive leadership to the implementation of all the policies, programs and activities of the organization.

There are other approaches for establishing a COO.

- *An executive team as COO.* The COO responsibility can be assigned to an executive team reporting to the CEO. "An executive team is 'a group of people who collectively take on the role of providing strategic, operational, and institutional leadership for the organization.'"¹⁸ Members of the executive team are responsible for management of their own units and for the organization as a whole. In this case the Deputy secretary or agency head could serve as chairperson for the executive team.
- *Two executives can share the COO role.* A military officer and civilian executive effectively carried out the COO responsibility (though without the title) in the Naval Material Command because of the civilian and military composition of the workforce.¹⁹ A shared COO responsibility between a political appointee and a career executive might help mitigate concerns in some agencies that career executives should not have political appointees

report to them.

- *The agency head as CEO and COO.* In small agencies, the COO responsibility might be assumed by the agency CEO.

The COO assignment is an explicit assignment of line authority and accountability for operating management of agencies in the Executive Branch.

4. Establish a President's Management Council. (2)

The mission of the President's Management Council would be to provide for increasingly effective management of the overall Executive Branch and to implement the "Managing for Results" approach and other recommendations of the National Performance Review. The Council would operate within the strategic framework of the vision, goals, and priorities established by the President and Cabinet to set policy and influence and support change in the Executive Branch.²⁰ The President should appoint the Vice-President as chairperson of the Council.

The proposed Council would be a cross-functional executive team (as described above) with COO responsibility for management of the Executive Branch.²¹ Members of the Council are deputy secretaries and deputy agency heads with COO responsibilities who would be responsible for management of their own organizations and for advising the President on the management of the Executive Branch as a whole. The Council would be accountable to and report directly to the President.

The work of the Council would be conducted through committees, working groups, commissions, and forums of the Council. The Council would establish its decision and work agenda. That agenda would consist of activities and decisions that address overall Executive Branch and cross-agency processes and issues within the strategic framework established by the President and Cabinet.

- (1) Develop and implement improvements in management systems and areas, e.g. management controls, ethics.

- (2) Manage implementation of specific recommendations of the National Performance Review involving cross-agency and overall Executive Branch processes, such as management controls, personnel systems, financial management, and budgeting.
- (3) Identify and resolve specific cross-agency management problems involving areas identified by the House Committee on Government Operations, the Volcker Commission and others such as, loan and debt collection programs, hazardous waste dumps, government procurement, food safety and other areas for cross-agency cooperation and management.²²
- (4) Facilitate and manage implementation of the new management culture "Managing for Results" in agencies throughout the Executive Branch.
- (5) Provide mechanisms for cross-agency sharing and support of "best management practices."
- (6) Administer a government-wide innovation fund, called the "President's Reinvestment Fund for Innovation and Reinvention," to support quality and productivity improvement projects and other reinvention and reengineering efforts in the Executive Branch.²³
- (7) Administer a single "President's Award for Quality Management" that combines four existing quality and productivity awards.²⁴
- (8) Convene an annual forum of spokespersons for a more effective Executive Branch following the model of the Philadelphia Reinventing Government Summit. Participants would include representatives of the Executive and Legislative Branches, labor unions, educational institutions, professional societies, industry, and state and local government. The forum would be facilitated and provide an annual report to the President and Congress. It would be based in the experiences of the participants, assess where things are today, and recommend changes and new directions.²⁵

The Council would have no more than 18 members.²⁶

- (1) The Vice-President,
- (2) The designated chief operating officers from the following agencies:
 - (a) Department of State,
 - (b) Department of the Treasury,
 - (c) Department of Defense,
 - (d) Department of Justice,
 - (e) Department of the Interior,
 - (f) Department of Agriculture,
 - (g) Department of Commerce,
 - (h) Department of Labor,
 - (i) Department of Health and Human Services,
 - (j) Department of Housing and Urban Development,
 - (k) Department of Transportation,
 - (l) Department of Energy,
 - (m) Department of Education,
 - (n) Department of Veterans Affairs,
- (3) Top officials from the central management agencies (CMA):
 - (a) The Director of the Office of Personnel Management,
 - (b) The Administrator of the General Services Administration,
 - (c) The Director of the Office of Management and Budget

Staff support for the Council's work would be provided by a 3-6 person team in the Executive Office of the President (EOP) designated by the President and composed of current EOP members.²⁷ The Director of the Federal Quality Institute (FQI) would participate as a member of the EOP-based Council support team to provide a direct link between the Council and FQI's role in supporting implementation of NPR's recommendations.

The functions of the support team would include (1) providing staff support and policy advice to the President, Vice-President, Cabinet, and President's Management

Council, (2) fostering support for effective management of the Executive Branch through the implementation of NPR recommendations, and (3) identifying and resolving cross-agency management problems. The support team would serve as the focal point for capacity building, communications and network-building relating to implementing the reinvention effort, and the spreading of "Managing for Results" throughout the Executive Branch.

An executive committee would be appointed to assist the Chairperson between meetings of the Council. It would include the Chair, Vice-chair, two COOs, and one member from a CMA. The vice-chairperson of the Council would be appointed by the chairperson from the Council's membership to assist the chairperson in conducting the affairs of the Council.

The Council cannot be successful without the commitment and support of the President, Vice-President, and Cabinet. Council members must feel the work is important and that their participation is recognized, appreciated, and expected.²⁸ Otherwise, they simply will not attend meetings. The Council must have regular, scheduled meetings chaired by the Vice-President.²⁹ *Member participation in meetings would be "for principals only."*

The proposed Council has line responsibility for providing management of the Executive Branch. Questions are raised by senior OMB officials about the implications for OMB of the proposed line management responsibilities assigned to the President's Management Council. Their question is expressed in terms of "What are the Deputy Director for Management in OMB and the staff on the 'M' side of OMB supposed to do?" The "M" side of OMB would have staff responsibility for a variety of functions:

- (1) Implementation of GPRA, including preparing GPRA guidelines, and approving pilots and waivers.
- (2) Oversight of the quality of performance objectives and measures and the implementation of Government Performance and Results Act of 1993 (GPRA).³⁰

- (3) Coordination and consolidation of performance measurement reporting requirements of GPRA and the Chief Financial Officers (CFOs) Act of 1990.³¹
- (4) Incorporating performance measurement and other aspects of GPRA into the budget process and reviews and insuring that sufficient funds are made available for GPRA implementation.
- (5) Oversight of Executive Branch management through compliance, clearance, and review processes concerning financial management, procurement, information resources, statistical policy, regulatory practices, information collection, property and administrative services, and human resource practices and policy.
- (6) Support for the Council through the participation and membership of the OMB Director.

5. Update and refocus the Executive Order that established the President's Council on Management Improvement (PCMI) and change the Council's name to reflect its membership.(2)

The President's Council on Management Improvement was established by Executive Order 12816.³² This Executive Order should be revised and issued by September 30, 1993. It needs to be updated and refocused to better reflect the responsibilities of PCMI's members for administrative management, the actual work of the current PCMI, and to remove possible confusion with the responsibilities of the President's Management Council.

The PCMI recommends "improvements in Government management and operations" and "the development, review, revision, and implementation of Government-wide policies in support of the central management agencies of the Federal Government"³³ It is a large advisory body chaired by the Deputy Director for Management in OMB and composed of at least 44 members from administrative management staff organizations in the Executive

Branch. Its members are responsible for a variety of staff activities in their agencies concerned with administrative matters (e.g., food service, security, motor pools, building maintenance), personnel, budget, procurement, information resource management, and other administrative management issues that correspond to the compliance, clearance, and review responsibilities of OMB, OPM, and GSA.³⁴

PCMI's name and some of its functions have a broad focus on the overall management of the federal government, though the actual work of the current PCMI is limited primarily to administrative management concerns. The functions of the PCMI should be revised to focus on the responsibilities of its members for administrative management. The responsibilities and experience of PCMI's members position it to act as a clearinghouse, communications network, and advisory body for reviewing the appropriateness of existing and proposed directives and regulations involving administrative management staffs in agencies and central management agencies. Its name should be changed to be descriptive of its membership to a name, like the President's Council on Administrative Management.

PCMI now has more than 40 members. Senior officials in OMB and other agencies consider PCMI too large and unwieldy to be effective. PCMI's membership should be reduced to a smaller group representing larger agencies and the central management agencies.

Fiscal Impact

These recommendations are revenue and cost neutral.

Cross-References to Other NPR Reports

To be determined

End Notes

1. See for example, U.S. Congress, House Committee on Government Operations, *Managing the Federal Government: A Decade of Decline*, Majority Staff Report, Washington, D.C., December 1992 and General Accounting Office, *Government Management Issues* (GAO/OCG-93-3TR), Transition Series, December 1992.
2. Morton Rosenberg and Mark Gurevitz, *Preliminary Catalogue of Office of Management and Budget Authorities and Directives* (Washington, D.C.: Congressional Research Service, January 17, 1986) included as appendix in U.S. Congress, Senate Committee on Governmental Affairs, *Office of Management and Budget: Evolving Roles and Future Issues*, Washington, D.C., February 1986, pp. 395-696.
3. Based on an analysis of two OMB documents: "Appendix 1: Authorities of the Office of Management and Budget," n.d., and "C. Oversight of Executive Branch Management," n.d.
4. William A. Galston and Elaine Ciulla Kamarck, "The Transition: Reasserting Presidential Leadership," Chapter 14 in Will Marshall and Martin Schram (Eds.), *Mandate for Change*, (New York: Berkley Books, 1993), p. pp. 328-331.
5. Ibid., p. 329.
6. Carolyn Burstein, Federal Quality Institute, notes in an August 2, 1993 memorandum that "Kotter and Haskett's book *Corporate Culture and Performance* which examined over 200 corporations concluded that the 'single most visible factor that

distinguishes successful major cultural change from change efforts that failed is strong support from top leaders."

7. Memorandum from Elliot Richardson, July 29, 1993.
8. Administrative management includes areas such as buildings and lease management, security, food services, personnel, budget, and procurement.
9. House Committee on Government Operations, *Managing the Federal Government: A Decade of Decline*, 1992, p. v.
10. Government of Australia, *Resource Management--The Framework: An Overview of How Resources Are Managed in the Australian Public Service*, Department of Finance, (Australia: December 1992) Parliament of the Commonwealth of Australia, House Standing committee on Finance and Public Administration, *Not Dollars Alone: Review of the Financial Management Improvement Program*, (Australia: September 1990).
11. Ibid.
12. Oregon Progress Board, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Government Performance*, Report to the 1993 Legislature, December 1992, pp. 1-6.
13. The "Managing for Results" approach incorporates principles that represent a vision of an Executive Branch that
 - (1) provides for empowerment of line agencies, managers, and employees to meet and exceed customer expectations,
 - (2) demonstrates continuing quality and productivity improvement, and
 - (3) has clear accountability for results.
14. These criteria are consistent with the principals underlying "Managing for Results." They are described in Federal Quality Institute, *Presidential Award for Quality: 1994 Criteria* (Washington, D.C.: Federal Quality Institute, June 1993). The criteria are discussed further in the section below on "Improve Government Performance through Strategic and Quality Management."
15. "Productivity Improvement Program for the Federal Government," Executive Order 12637, The White House, April 27, 1988.
16. Based on discussions with Hermann Habermann, Deputy Assistant Director, OMB, Walter Groszyk, Evaluation and Planning Branch, OMB, and Carolyn Burnstein,

Acting Director, Federal Quality Institute.

17. The Civil Service Reform Act of 1978 gives the authority to appoint career SES executives in any political position, including the deputy secretary position, without causing them to forfeit their ability to move back into a career position.

18. Jessica P. Lipnack and Jeffrey S. Stamps, *The TeamNet Factor: Bringing the Power of Boundary-Crossing into the Heart of Your Business* (Essex Junction, VT: Oliver Wight Publications, Inc., 1993), p. 96 as quoted from David A. Nadler and Deborah Ancona, "Teamwork at the Top: Creating Executive Teams that Work," in David A. Nadler, Marc S. Gerstein, Robert B. Shaw, and Associates, *Organizational Architecture: Designs for Changing Organizations* (San Francisco: Jossey-Bass Publishers, 1992), p. 212.

19. Interview with James Colvard, former Deputy Commander, Naval Material Command and former Deputy Director, Office of Personnel Management, August 1, 1993.

20. The process of organizing a well-managed and effective network like the Executive Branch is well known. Lipnack and Stamps in *The TeamNet Factor* define an organizational network as a network that "has independent members with multiple leaders, a unifying purpose with lots of voluntary links, and interacting levels." They identify five steps for a successful organizational network (pp. 29-52):

- (1) Develop a unifying purpose or mission that is shared by its member organizations.
- (2) Identify organizational members who choose to contribute to achieving the shared purpose and maintain their independence. Effective organizational networks "thrive in the dynamic balance between self-assertion and integration. They seesaw between the decentralizing forces of independence and the integrating forces of cooperative interdependence."
- (3) Create ongoing links through voluntary relationships, repetitive interactions, and physical ties. The Council of Excellence in Government concludes that "Separate, single-agency efforts loosely linked in a conventional interagency framework are no longer a match for the sorts of domestic dilemmas now confronting the country. Instead, the best road to solutions lies in truly integrated coordination and continuous dialogue between concerned government entities that breaks through the boxes of the organization charts." (John H. Trattner with Mary J. Beaulieu and Jessica R. Davidson, *The 1992 Prune Book: 50 Jobs that Can Change America* (Washington, D.C.: The Council for Excellence in Government, 1992), pp. xii-xiv.) The idea of "virtual organizations" embodies cross-agency links along common functions, programs, and other aspects of formal organizations.
- (4) Recognize and make use of the power of multiple leaders. Lipnack and Stamps comment that "Diversity and fluidity of leadership are hallmarks of [organizational networks]....[M]ultiple leadership arises from the multiple roles, skills, and knowledge required to address the complex problems taken on by the [network]."

(p. 48.)

- (5) Stay connected at all levels within and across boundaries of member organizations. The Council for Excellence warns that senior executives "must abandon the old habits of depending mostly on the policy planning and resources of their individual agencies and working in...isolation from other federal agencies involved in the same efforts. Rather,...senior executives would lead the way in developing cross-agency systems and making them work." (Trattner, *The 1992 Prune Book*, p. xiv.)

21. Ibid., p. 96.

22. House Committee on Government Operations, *Managing the Federal Government: A Decade of Decline*, and National Commission on the Public Service, *Leadership for America*.

23. This approach is outlined in Paul D. Epstein, "An Investment Approach to Implement and Sustain Reinvented Government," Discussion draft report, June 19, 1993. Epstein suggests that start-up funding for the President's Fund would come primarily by "reserving a small share (e.g., 2 or 3 percent) of reinvention savings from a variety of sources (e.g., end of year shared savings in agencies, earnings from all innovation funds)." He proposes further that a "reinvention leadership network" be created to be peer reviewers of proposals for use of resources from the Fund, reinvention advocates, and a network for dissemination of reinvention ideas and approaches. Members of the network would include "managers... who voluntarily participate in reinvention efforts, e.g., managers who achieve savings while maintaining performance, and who participate in reinvention labs or other significant change projects."

24. This award would consolidate four awards that are currently being administered by (1) Federal Quality Institute--*the Presidential Award for Quality, and Quality Improvement Prototype*, (2) the Office of Personnel Management--*the Presidential Quality and Management Improvement Awards*, and (3) the President's Council on Management Improvement (PCMI)--*the Award for Management Excellence*.

25. The forum is a national version of productivity and quality councils that have been established in private and public organizations. It also resembles the National Quality Council described by Congressman Don Ritter in "Needed: A National Commitment to a Culture of Quality," *Looking Ahead*, National Planning Association, October 1992, pp. 1-5. The National Quality Council was signed into law in February 1992, but never funded. Congressman Ritter also suggests creation of "A Bipartisan Commission on Total Quality Government" in this article that has similar purposes.

26. The size of the Council is an important decision. It must be large enough to facilitate decision-making by having key COOs included in Council meetings. It must be small enough to have effective, decision-focused meetings. Any choice will be a judgement call that can be modified with experience. The Council must have mechanisms for involving all of the Executive Branch. Agencies that are not included on the Council can be involved through the committees, work groups, commissions, and forums of the Council.

27. This 3-6 person support team for the Council is a "virtual" team of key people in different units of the EOP with current responsibilities relating to the operation of the Cabinet and President's Management Council.

28. Based on his own experience, Elliot Richardson suggested in an interview that 80 percent of the work of COOs is the work of their organizations. Twenty percent of the issues they deal with go outside organizational boundaries, and those 20 percent tend to have lower priority. To make the Council successful, he recommends that members need the President's direction through performance agreements and other means and that the Council's work be energized with effective staff work.

29. Based on an interview with Bruce Reed, Director of the White House's Domestic Policy Council.

30. OMB has responsibility both for implementation of GPRA and oversight of the GPRA's implementation. Particular care and attention will need to be given to carrying out these tasks. They are difficult to accomplish within the same organization.

31. Public Law 101-576.

32. "Management Improvement in the Federal Government," Executive Order 12816, The White House, October 15, 1992.

33. Ibid., p. 3.

34. The specific range of activities for which members are responsible varies for different PCMI members.

**RLM.2 IMPROVE GOVERNMENT PERFORMANCE THROUGH
STRATEGIC AND QUALITY MANAGEMENT****Background**

The "Managing for Results" approach builds on the *Government Performance and Results Act of 1993* that provides for the establishment, testing and evaluation of strategic planning and performance measurement in the federal government. It is also linked to principles of strategic and quality management described by the criteria for the Presidential Award for Quality.¹ The Presidential Award for Quality was created in 1988 to recognize organizations that have implemented quality management in an exemplary manner, resulting in high quality products and services, providing best value for tax dollars; and to promote quality management understanding and implementation throughout the Federal Government.

The Presidential Award criteria are an adaptation of the Malcolm Baldrige National Quality Award criteria, but reflect the unique Federal environment and culture. Federal agencies competing for the Award are evaluated against the same standards of excellence used for private sector companies. The award is administered by the FQI.

There are seven criteria for the award:

The **Leadership** principle requires the personal commitment and involvement of top leaders and managers in creating and sustaining an organizational vision and customer focus orientation. It includes how they integrate vision, values and customer-focus orientation into the management system, labor relations and external partnerships and in the way public responsibilities are addressed.

The **Information and Analysis** principle requires an organization to have a data, information and analysis system to support improvement of customer satisfaction, products, services and processes.

The **Strategic Quality Planning** principle requires short-term (1-2 years) and longer-term (3 years or more) plans that include (1) customer requirements and expected

evolution of these requirements; (2) organizational and individual capabilities to address key requirements or technological opportunities; (3) capabilities of external suppliers; (4) changing work processes to improve performance; and (5) productivity improvement and reduction of waste. It covers the organization's planning process as well as the specifics of the plan itself.

The **Human Resource Development and Management** principle requires the organization's entire work-force be enabled to develop its full potential, and to pursue quality and operational performance improvement goals. It requires an organization to build and maintain an environment for work-force excellence which is conducive to increased involvement, personal and organizational development. Employee education and training, employee performance and recognition systems and employee well-being and satisfaction are all emphasized and considered essential.

The **Management of Process Quality** principle requires an organization to use systematic methods for continually improving quality and operational performance. It includes the design and management of process quality for all work units, the management of internal customer-supplier relationships, supplier quality and quality assessment.

The **Quality and Operational Results** principle requires organizations to measure trends and quality levels for products and services, internal businesses processes (e.g., procurement) and support services, quality of goods and services provided by outside suppliers, e.g. subcontractors and comparison data against competitors and against world class standards (known as benchmarks).

The **Customer Focus and Satisfaction** principle requires an organization to know what external customers require, and that organizations establish and maintain positive relationships with customers. It also requires methods be in place to determine customer satisfaction, in terms of absolute levels as well as tracking trends in customer satisfaction.

Strategic and Quality management is not a technique or a program. It is based on an integrated set of behavioral and systems principles of management. Each principle supports and reinforces the others. The quality of the system depends on the effectiveness of the

organization with respect to each principle separately and together.²

Over the last decade, General Accounting Office (GAO) management reviews of large federal agencies and departments have shown that the more innovative and progressive systems fundamental to a well-run organization are not always present in the Federal government. In a survey of 103 federal agencies conducted by GAO in December of 1991, only 48 percent were using strategic planning techniques or had articulated and promulgated a vision statement. Further, only nine percent collected and/or used performance data or reported on progress towards goals articulated in strategic plans.³

Quality management efforts fared somewhat better. The General Accounting Office's 1992 study of quality management indicated that 68 percent of federal agencies had started or were starting to implement quality management.⁴ (Only 13 percent of employees were involved.) While most of these efforts are in components of agencies, a few have been organization-wide, such as the Internal Revenue Service, Departments of the Navy, Air Force and Army, Defense Information Systems Agency, NASA, and the National Security Agency. (In the legislative branch, GAO has an organization-wide effort.) The GAO study showed that those agencies that had been implementing quality improvement beyond the initial stages (for 3-5 years), achieved significant results in customer satisfaction, organizational performance (productivity, effectiveness, quality) and work-force excellence (improved employee morale, greater skill levels, reduced grievances). This demonstrates that organizational change, both cultural and systems change, is a long-term effort. Some specific examples of agencies that had ongoing efforts for at least 3-5 years and have won Federal Quality awards are:

IRS Ogden Service Center:

- A taxpayer service desk provides taxpayers with easy access and personal, one-on-one assistance with problems. Since its establishment in 1988, this service has been used by more than 16,000 taxpayers. Of this number, 89 percent were able to resolve their problems on the spot. The Center also received over 41,000 telephone calls on a practitioner hot-line and

immediately resolved 92 percent of these calls.

- Recommendations from more than 50 Quality Improvement Teams improved customer service and improved effectiveness and productivity, resulting in realized savings and cost avoidance of over \$3,730,000.

Air Force Logistics Command:

- On-time delivery rate for contract line items across the command rose from 65 percent in April, 1988 to 76 percent in April, 1989, and by March, 1990 had improved to 79 percent.
- Although AFLC had only 15 percent of the personnel eligible for the Air Force Suggestion Program in FY 1990, their suggestions comprised 28 percent of the total suggestions submitted, 37 percent of suggestions adopted, and 33 percent of the awards paid.

Veterans Affairs Regional Office & Insurance Center:

- The Center improved issuance of insurance policy loans from 4.6 days in 1988 to 1.5 days in 1992.
- The Center increased release of incoming mail on the day of receipt, 38 percent in 1989 to 95 percent in 1992.

The results achieved by these early pioneers in meeting and exceeding customer expectations, achieving quality and productivity improvement and cost reductions held sufficient promise for the affected agencies to escalate their efforts and for other federal organizations to begin following suit.

Need for Change

President Bill Clinton in *A Vision of Change in America* - February 17, 1993 noted that "The American people deserve a government that treats them like customers. Government must be accessible to those it serves and to those who pay its bills. It must be responsive to [their] concerns. It must be run efficiently and well with respect for the tax

dollars on which it depends. It must pay its way and live within its means."

Although no absolute figures are available, it can be assumed that the government's cost of poor quality is at least as high as the 25 percent of poor quality in the nation's service industries. Thus, the potential savings from correcting, and preventing errors in government products and services could exceed \$55 billion over a five year period.⁵

Each time citizens have less than perfect interaction with government, they wonder why do they have to visit different offices to transact related business? Why can't the government answer my request in less than two months? Give me the right information the first time? Spell my name correctly and send my mail to the right address? Why can't government employees be pleasant on the telephone and find someone else to help me when they can't? Take responsibility for correcting the same computer error that has occurred month after month? Treat me like a customer?⁶

On the other hand federal agencies now face severe, sustained budget cuts, have fewer staff to serve more customers, enforce more regulation, suffer tighter constraints on discretionary spending, and bear sharper criticism from customers and a Congress that is itself getting bitter complaints from constituents.⁷

Legislative action has been taken over the years to improve management of the government. Of particular note is the Government Performance and Results Act of 1993. The Government Performance and Results Act of 1993 requires all agencies to develop strategic plans, set agreed-upon goals and objectives, and measure their progress toward these goals and objectives. This Act also helps create a leadership environment that provides managers with incentives and tools to focus on results and program outcomes. Implementation of the Act is an important step toward the long-range change in management culture needed within the federal government. However, the Act does not absolutely ensure that government exists to serve its customers. This means agencies must develop ways to identify and meet their customers' needs and expectations, make themselves customer-friendly, maintain excellent relationships with their customer groups and continually increase customer satisfaction.

Several barriers exist in changing the culture of government to focus on management improvement. The major barrier, according to FQI, is strong leadership at the top to focus on results.⁸ Up until now, strategic and quality management practices in the government have been most often led by mid-level managers rather than department and agency heads. Also, where authoritarian and bureaucratic styles of management exist, they must change to a leaner, more participatory, quality conscious approach - a change in organizational culture.

To achieve a change in the quality culture and in outcomes, there must be a broad Executive Branch commitment to creating this new culture. Top officials, starting with the President, Vice-President, the Cabinet, department and agency heads, must understand, support and lead the transformation in the federal sector. The good news is that there is already recent progress and momentum on which to build. There is no need to start from scratch. What is needed is continued visible leadership from the President and his management team. Recent participation by the Executive Branch's top leadership in quality and productivity conferences, town hall meetings, and recognition programs have attracted the attention of public servants and sent a positive message that there is a commitment for change in the federal government.

Another area requiring attention is employee participation and involvement. Research increasingly shows that employee involvement is essential to achieve quality and productivity improvement.⁹ If the work force is represented by one or more unions, top leadership needs to address union involvement in the strategic and quality management effort very early. To date, there are two primary ways in which union and management have chosen to deal with employee involvement when implementing quality and productivity improvement efforts. Some have chosen to work "cooperatively," where unions have membership on quality councils and participate fully in planning, implementation, and evaluation of the entire effort. Others have adopted the more "traditional" mode of bargaining the impact and implementation actions affecting those in the bargaining unit. Either approach presents benefits and risks for both management and

labor. Management includes the union in some activities traditionally reserved to management such as planning, training, and reward-and-recognition systems. But the union leadership runs the risk of criticism from other union members if it is perceived as working too closely with management. Experience has shown the nature of the relationship of unions to the quality and employee involvement effort will be determined by the background and history of labor-management relations in the organization and the willingness of the union to participate. The FQI recommends the leadership of the organization should seek the early involvement of the union and make the nature of the involvement as specific as possible.¹⁰

While not considered a significant barrier, the present quality recognition efforts underway in the federal sector need to be consolidated to improve the overall administration and efficiency of the various efforts. Currently three different organizations are involved with the development, solicitation and administration of government-wide awards related to quality and productivity. The FQI administers the Presidential Award for Quality. The purpose is to recognize organizations in the federal sector that have implemented quality management in an exemplary manner and achieved excellent results in operational performance and customer satisfaction. A public/private sector evaluation partnership is used to select the winning organizations. The FQI also administers the Quality Improvement Prototype (QIP) Award, designed for organizations that have recently successfully begun the quality transformation process.

The President's Council on Management Improvement (PCMI) administers the Award for Management Excellence to recognize excellence by federal employees, groups or entire agencies. Nominations are submitted by PCMI members.

The Office of Personnel Management (OPM) administers the Presidential Quality and Management Improvement Awards. This award is for tangible benefits to the Government of \$250,000 or more, or significant improvement in the quality of government services or products. It is awarded to individuals or teams that have been recognized by their individual agencies. It is currently inactive and awaiting a decision as to whether or

not it should be continued.

In addition to the four public sector awards given each year, the Malcolm Baldrige Quality Award recognizes private sector organizations for their quality management efforts resulting in significant improvement in operational performance and customer satisfaction. This award is administered by the National Institute of Standards and Technology, Department of Commerce.

The ideal situation would be to have one federal quality award to apply to organizations within the federal government just as there is one federal quality award for the private sector (Malcolm Baldrige). Moreover, these two award systems should be closely linked together.

Agencies should continue to be encouraged to recognize and reward individuals and teams who improve products and services to customers and increase effectiveness, while the emphasis at the government-wide level would be on agency transformation and reinvention.

A Malcolm Baldrige Award category should also be established and implemented for federal government suppliers. This would provide an incentive for government suppliers and also clearly send a message that the federal government relies on its suppliers to achieve quality results and customer satisfaction.

Recommendations

1. Encourage all department and agency heads to lead and manage in accordance with the criteria in the Presidential Award for Quality. (2)

The President should encourage all department and agency heads to adopt the criteria in the Presidential Award for Quality to assist in providing for a well-managed and effective organization. Department and agency heads should be encouraged to conduct on-going organizational assessments using the criteria to identify areas for improvement and to

provide a baseline measurement for judging progress.

2. Require all Executive Branch employees to attend appropriate educational sessions on strategic and quality management, to include the criteria for the Presidential Award for Quality. (2)

The responsibility for undertaking this effort should rest with the FQI in their role as facilitator of strategic and quality management in the federal government. The objective of the educational session is to foster an awareness and use of strategic and quality management principles, and to encourage management and employees of agencies to adopt these principles to the way they do business. The session should also include salient information to help implement the GPRA. The first session will be given to the President, Vice-President and Cabinet no later than October 30, 1993.

This will require a new governmental training initiative. An appropriate educational model and module needs to be developed. The model should include a cascading approach which calls for leaders, after receiving training, to subsequently personally train their immediate subordinate employees. This approach would indicate commitment by top management and send a clear message regarding the expectation of the organization's leadership. The educational module consists of a common set of material to be given to everyone in the Executive Branch. To ensure the best results, input from top leaders of high performing organizations in the private and public sector as well as academia should be elicited to help to develop the education model and module.

3. Encourage all department and agency heads to establish a top level Quality Council in order to effect broad change in department and agencies. (2)

The President should encourage all department and agency heads to establish a top level Quality Council. According to Dr. Joseph Juran "the first step in mobilizing for the projects collectively is to establish a quality council. The basic responsibility of this council is to launch, coordinate, and institutionalize annual quality improvement. If no such council is in existence, the upper managers should create one".¹¹

The FQI reports that virtually every organization which has successfully introduced quality management in the federal government has formed a quality council of top leaders. This team is also called the Executive Steering Committee or Executive Steering Group.¹²

The Quality Council is usually chaired by the department or agency head or deputy, and includes membership by the top leadership team. In organizations with cooperative labor-management efforts underway, union leaders are often members. The chairperson responsibility is often rotated between management and labor. Membership could also include major suppliers.

By establishing a quality council, top leadership provides identity, structure and legitimacy to the quality improvement effort. It becomes the first concrete indication that top leadership has recognized the need to improve and has begun to change the way the organization conducts business.¹³ This is especially true of cooperative labor-management efforts.

4. Authorize one set of Presidential Awards for Quality in the federal sector. (2)

The President should authorize one set of Presidential Awards for Quality. The program would be administered by the President's Management Council with staff support from FQI and the Baldrige Award Office of the National Institute of Standards and Technology. Combining existing awards will facilitate cooperation and the exchange of information between public and private organizations.

Fiscal Impact

This recommendation should result in long-term benefits and savings due to more efficiently distributed resources and more clearly defined public needs. Large private sector organizations have traditionally achieved productivity increases of at least 25 percent over a 5 year span. Applying this experience to the federal sector suggests savings of about \$55 billion. The recommendation does entail some administrative costs for training and other related related expenditures. However, these administrative costs can be absorbed within current agency operating budgets.

Cross-References to Other NPR Reports

To be determined

End Notes

1. Federal Quality Institute, Presidential Award for Quality - 1994 criteria. To order, write the Federal Quality Institute, Post Office Box 99, Washington, D.C., 20044-0099.

2. Federal Quality Institute, Training Module 1 "overview", July, 1993. To order, write the Federal Quality Institute, Post Office Box 99, Washington, D.C., 20044-0099.

3. United States General Accounting Office, Washington, D.C., "Performance Measurement: "An Important Tool in Managing for Results", [GAO/T-GGD-92-35], page 5, May 5, 1992.

4. United States General Accounting Office, Washington, D.C., "Quality Management: Survey of Federal Organizations", [GAO/GGD-93-9BR], various pages, October, 1992.

5. Salary and support costs are approximately \$225 billion. Assuming productivity increases and improved processes amounting to about 5 percent annually would result in savings of 25 percent over the next 5 years

6. Don G. Mizaur, "Is Quality Government Possible"? Printed in *Looking Ahead*. (Washington: National Planning Association, October 1992)

7. Ibid.

8. FQI, Training Module 1 "Overview".

9. FQI, Employee Involvement and Quality Management in the Federal Government, (U.S. Government Printing Office, Superintendent of Documents, Mail Stop: SSOP, Washington, D.C. 20402-9328), page 1.

10. Ibid., page 47

11. Joseph M. Juran, *Juran on Leadership for Quality* (New York: The Free Press, 1989) pages 43-45.

12. Federal Quality Institute, *How to Get Started-Implementing Total Quality Management*, (U.S. Government Printing Office, Superintendent of Documents, Mail Stop: SSOP, Washington, D.C. 20402-9328), page 18.

13. Ibid.

**RLM.3 INSTITUTIONALIZE SUPPORT FOR STRATEGIC AND QUALITY
MANAGEMENT****Background**

To facilitate the creation of a government-wide strategic and quality management approach, new frameworks for top leadership must be created. The basic framework can be observed in both the public and private sectors. As noted already, numerous strategic and quality management efforts are underway in the federal government. Thousands of private sector organizations have also instituted such efforts. There are two critical organizational elements which characterize private and public sector organizations that have entered into the strategic and quality management arena:

- A cross-functional top management council, headed by the organizational head or second in line (e.g. COO, Deputy Secretary).
- A small staff which provides support for the council, the CEO and the COO by helping to develop management policy and plans, assess progress towards the accomplishment of the organization's mission and goals, identify and facilitate the acquisition of training and technical assistance.

This type of organizational framework characterized efforts to restructure state government in Oregon and the national government in Australia.¹ It characterizes the framework used by the Navy, Air Force, NASA, IRS and many other agencies. In virtually all these organizations, public and private, the small support staff reports directly to the CEO or COO. In almost no instance does it report to anyone at a lower level such as the comptroller, budget department, personnel department, etc. This arrangement is seen as essential for the effective implementation of a strategic and quality management approach. It is founded on advice of quality experts,² and is followed by virtually all U.S. organizations involved in the strategic and quality movement including winners of the

Baldrige award and Presidential Quality Awards.

The Federal Quality Institute (FQI), established in 1988, has been the principle government organization involved in making quality improvement an integral part of management in the Executive Branch. This includes providing the leadership and resources for the implementation of quality management government-wide. Since then, they have started to expand their services to address topics such as strategic planning, organizational performance -- measurements and results, understanding the federal customer, leadership development and other related topics.

Need for Change

The federal government currently lacks an adequate mechanism to ensure a continued, organized emphasis on management improvement. Changing the way the government manages involves changes in management culture, processes and structures. Three general guidelines can be suggested as the basis for improving management in the federal government:

1. A strong Executive Office of the President capacity to develop and drive the management improvement agenda.
2. Focus on improvement in the quality of line management in departments and agencies.
3. The establishment of a strategic, quality-based performance-driven management system to steer the implementation of government-wide management improvement. The shift to a new management process will require change agents, consultants, and trainers to bring about organizational, structural and cultural redirection and reinvention of management processes.

OMB has had primary responsibility for fostering and promoting effective management practices in the federal government. However, the management focus of OMB

has been subordinated to the values and demands of the budget and legislative oversight, and compliance review activities.

There is some incompatibility in OMB's dual roles: improving management of federal agencies and regulation, compliance review and oversight of these agencies. The first role includes helping to build the capacities of managers, facilitating the provision of training and technical assistance to agencies, empowering and enabling managers through the provision of incentives and the removal of unnecessary rules that impede their effectiveness. The second role emphasizes the use of levers of control to force agencies to comply with sets of rules and regulations. The "culture" that has evolved in OMB reflects its latter role. A GAO review concluded that "OMB needs to change. It needs to understand much better the problems agencies have and what it takes to solve them".³ Agencies tend to be distrustful of OMB because of its "watchdog" approach and what is perceived as a heavy handed approach to regulatory oversight and compliance review. This makes it difficult for OMB to take the lead in helping the President continually impact government-wide management in a way that is focused on management for results. What is required is a management approach which acts to reinforce and galvanize effective management structure, processes, and culture throughout the government. Given the critical state of the federal budget deficit, and the need for OMB to focus on the budget, it is unlikely that they will be able to meet the strategic, long-term management needs of the federal government enterprise in the foreseeable future.

To promulgate strategic and quality management into the federal government, we will need a strong commitment from the top leadership and a mechanism to serve as a change agent from the top. The National Academy of Public Administration (NAPA) and the Comptroller General both agree that the government needs a central agency "to facilitate; to instigate, promote, and assist; and not primarily to regulate, control, or audit."⁴ Therefore, new approaches are needed to help the President implement the strategic and quality management process government-wide.

The FQI, with its multi-organizational focus, has the potential for providing the impetus to institutionalize strategic and quality management throughout the federal government. Its staff has developed the experience and knowledge base and networks essential for this undertaking. Most importantly, they can function as an enabling and empowering change agent across the Executive Branch.

Recommendations

- 1. Assign the staff of the Federal Quality Institute (FQI) to provide support to the President, Vice President with responsibility for promoting and facilitating the implementation of strategic and quality management throughout the federal government. (2)**

The President should designate the FQI as the lead staff with responsibility for fostering the implementation of strategic and quality management throughout the federal government. FQI's primary mission should be to provide staff support and policy advice to the President and Vice President and to serve as a focal point for communications, networking, training and research related to the implementation of strategic and quality management throughout the federal government. FQI would accomplish most of its responsibilities through collaboration and joint activities carried out in conjunction with other federal agencies and an expansion of its current responsibilities.

To accomplish its mission, the role of FQI should be expanded to include the following specific functions:

- Provide staff support for the President, Vice President, Cabinet, and the President's Management Council related to the formulation and implementation of policies related to the improving line management operations of federal agencies;

- Provide agencies with guidance for using the strategic and quality management approach (e.g., the Presidential Award criteria) and facilitate recognition for exemplary accomplishments;
- Sponsor research of management practices and theories through OPM and DOD educational institutions and behavioral labs as well as academia and other private sector institutions, to keep government on the cutting edge of new and innovative practices, and collect and disseminate information about "best practices" in management from private, non-profit and government organizations;
- In conjunction with FQI and OMB, facilitate and support the creation of networks of technical assistance resource centers within agencies to provide assistance for strategic planning, performance planning and measurement and continuous management improvement;
- Work with other OPM staff and other agencies such as DOD to incorporate strategic and quality management principles into all management development programs (e.g., FEI, the Federal Executive Development Centers, National Defense University and Defense Systems Management College) and agency training curricula; and
- Sponsor outreach programs that promote the principles of strategic and quality management in our schools, work-force, and businesses;

FQI would collaborate with OMB in its responsibilities for assisting agencies in implementing the Government Performance and Results Act of 1993 (S. 20). This includes:

- facilitating training and other operational procedures to help agencies link performance planning and measurement with management, and budget decision-making and financial reporting.

Other areas of collaboration with OMB would include helping agencies establish and strengthen their program evaluation capabilities and link program evaluation more closely to resource allocation decisions. Specifically, FQI would assist OMB to:

- Provide implementation guidelines and oversight strategic planning, performance

measurement and reporting;

- Incorporate performance measurement into budget process/review;
- monitor implementation of performance agreements between the president and political appointees; and
- lead the development and implementation of an Executive Branch downsizing strategy.

Fiscal Impacts

The staff of the FQI is currently set at 11 FTEs including a presidential appointed Director. In addition, there are up to 10 senior level staff who are from time to time detailed by their respective agencies to FQI. These detailees serve as trainers and analysts for a period of up to two years and are then rotated back to their agencies. While assigned to FQI, detailees' salaries are paid by their home agencies, and FQI meets all other operational costs (travel, office space, equipment, etc). It is likely that the permanent staff of FQI will have to be increased to about 20 to accommodate their expanded responsibilities.

Cross-References to Other NPR Reports

To be determined

End Notes

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Standing committee on Finance and Public Administration, *Not Dollars Alone: Review of the Financial Management Improvement Program*, (Australia: September 1990).

Oregon Progress Board, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Government Performance*, Report to the 1993 Legislature, (Salem, Oregon: December 1992).

2. W. Edward Deming, *Out of Crisis* (Cambridge, MA: Massachusetts Institute of Technology, Center for Advanced Engineering Study, 1992), pp.466-467.

3. U.S. General Accounting Office, *Managing the Government: Revised Approach Could Improve OMB's Effectiveness* (GAO/GAD-89-65, Washington: Government Printing Office, 1989) p. 4.

4. National Association of Public Administration, A statement of the Standing Panel on Executive Organization and Management, *Strengthening Presidential Leadership by Establishing an Office of Federal Management* (Washington: NAPA, December, 1988), p. 11.

RLM.4 STRENGTHEN THE CORPS OF SENIOR LEADERS**Background**

Over the past 8 years, GAO has performed reviews examining the general management of the most major federal departments and agencies. One finding is absolutely consistent across those reviews -- good management requires stable leadership in key positions, and most government institutions fall short of the mark.¹

With its immense size, budget and complexity, the executive branch requires a tremendous amount of executive talent. The executive branch uses a combination of political appointees and career executives to provide this necessary leadership and management. However, the executive branch has often neglected to place enough people in senior line leadership and management positions, for long enough periods of time, who have the necessary knowledge, skills, interest and continuity to accomplish major management improvements. This is true for both top political appointees and top career executives.

The President relies on the political appointees to promulgate his policy and make policy decisions on his behalf. Political appointees are placed throughout the executive branch to ensure the President's policies are carried out by the entire civil service. The President relies on the career executives to provide the continuity, knowledge and institutional memory to successfully implement his policies.

The career executives are members of the Senior Executive Service (SES); there are approximately 7400 at this time². Political appointees consist of Presidential Appointments with Senate Confirmation (PAS)--approximately 820--who hold very high level positions such as Cabinet secretaries; Presidential Appointments (PA)--approximately 1500--who generally hold positions on boards and commissions and often hold part-time positions;

noncareer SES--approximately 820; and Schedule Cs--approximately 1600--who hold mid-level positions and lower and serve in policy-related positions or as confidential assistants to other political appointees.³ The number of political appointments has increased over the past three decades.⁴

Political appointments are a link between the President and the bureaucracy. They enable the bureaucracy to be responsive to the electorate who put the President in office. Due to their relatively short stint in government, political appointees have been referred to as "in-and-outers."⁵

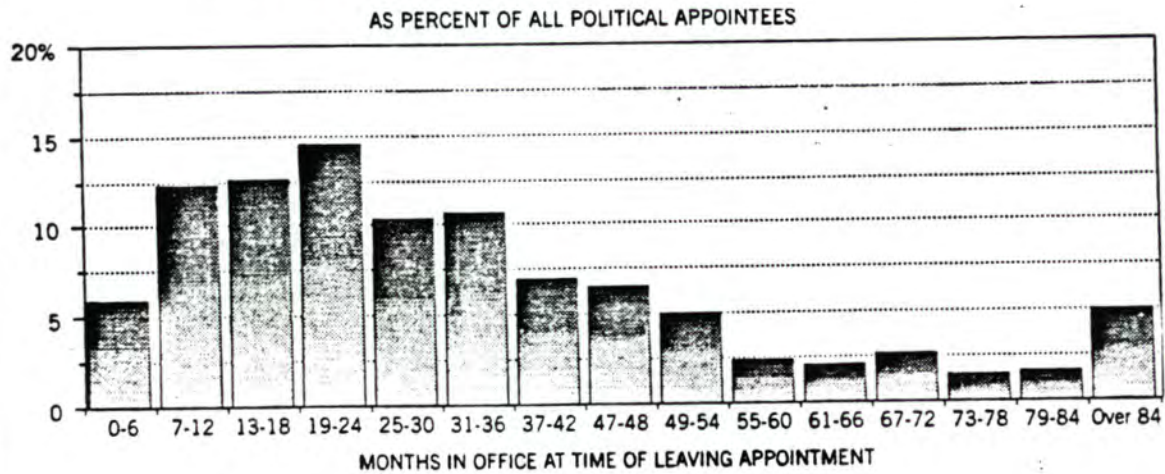
[INSERT FIGURE 1]

The Civil Service Reform Act (CSRA) of 1978 set up two categories of SES -- general SES positions which can be filled by either career or noncareer appointments; and career-reserved SES positions. No more than 10% of the total SES can be filled by political appointees. The CSRA gives the President the authority to fill any political position with a career civil servant, including PAS positions, allowing the career civilian to retain his or her career status, thereby guaranteeing job placement after serving in the PAS slot. While this is not widely used, the flexibility built into the system permits better use of qualified career employees.

Need for Change

There are not enough qualified leaders in place for long enough periods of time to meet the demanding requirements of managing our complex government. The heart of this problem lies with the selection, placement, training and development of both career and non-career appointments. In addition, the relationship between these two corps plays a critical

Figure 1 Tenure of Executive Schedule Political Appointees Who Served Between 10/1/82 and 9/30/91⁶



role in the effective management of the executive branch.

When a new administration comes to office, it has numerous critical issues with which it must deal, including filling the political personnel positions throughout the government. The political appointment process is vital to the success or failure of a Presidency. It is an arduous process of selection, clearance, and confirmation. According to Laurence Thompson, Assistant Comptroller General/Human Resources Division, "No modern administration has yet fully succeeded in developing a set of initial staffing procedures that are comprehensive, timely, or adequately related to the new president's immediate policy objectives."⁷

In the Jacksonian era, it was believed that anyone could fill a government job.⁸ Now, the size and complexity requires highly skilled leaders and managers to fill these top slots.

One key area that has been identified as an obstacle to the political appointment process is the lack of a list of political positions with the corresponding responsibilities and requisite skills needed to carry out the duties of each position.⁹ The Senate Governmental Affairs Committee¹⁰ has published what is referred to as the "Plum Book"¹¹ that lists non-career positions; the Council for Excellence in Government has published the "Prune Book"¹² listing key sub-cabinet political positions and the recommended qualifications needed to fulfill the duties of the jobs. Yet, there is no thorough listing of the duties of political positions and the general requirements of these position.

Another obstacle in the political appointment process is the vetting process which includes background investigations, financial disclosures, conflict of interest clearances, and confirmation hearings. The increasing complexity this process has played a major role in delaying the placement of political appointees. One veteran journalist laments:

...In the time I have been in Washington the vetting, and in some respects, harassing and humiliating of people about to enter the public service have become increasingly detailed, comprehensive and intrusive, often unfair and equally irrelevant to their suitability for the job.¹³

The President's Commission on the Federal Appointment Process addressed the issue of the complexity of the forms that political appointees must fill out: financial disclosure form (SF-278), Personal Data Statement (White House), FBI personal history form (SF-86) and forms required by Senate Committees.¹⁴ The purpose of the vetting process is to set standards for the political appointees and to make them accountable.¹⁵ However, the process as it stands now it also serves a frustrating obstacle that slows down the placement of appointees. Figure 2 shows the increasing amount of time that it takes for the appointment process.

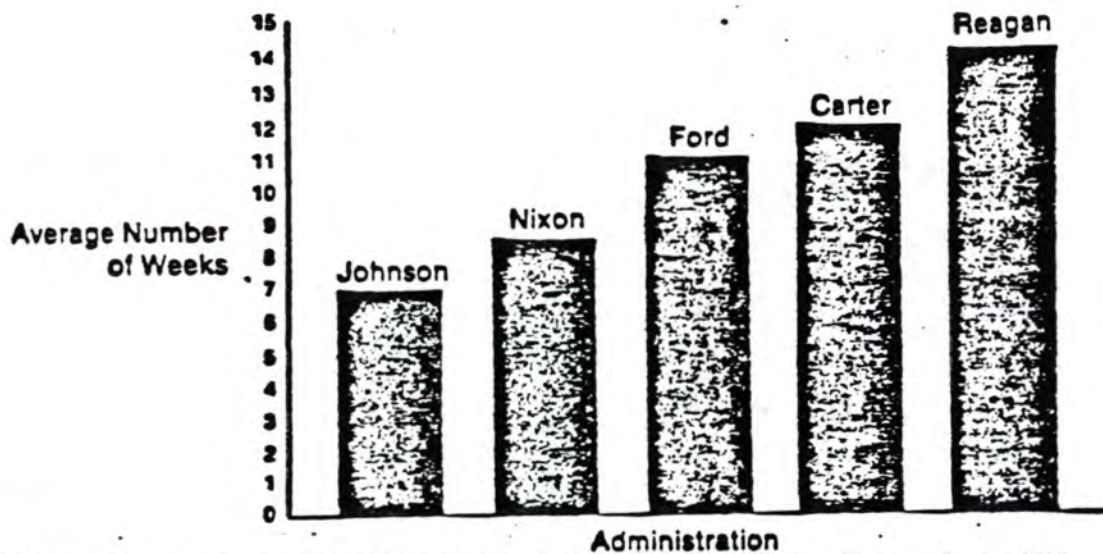
[INSERT FIGURE 2]

The long vacancies in the top positions are devastating to the smooth operations of the government¹⁶ and make it exceedingly difficult to institute management improvement initiatives. One major agency, for example, has had its second-highest position vacant for almost two years.¹⁷ Companies in the private sector would never think of leaving major leadership and management positions vacant for months or years. Yet, this has become the norm in the federal government. Figure 3 illustrates the void that occurs during a change of administration.

[INSERT FIGURE 3]

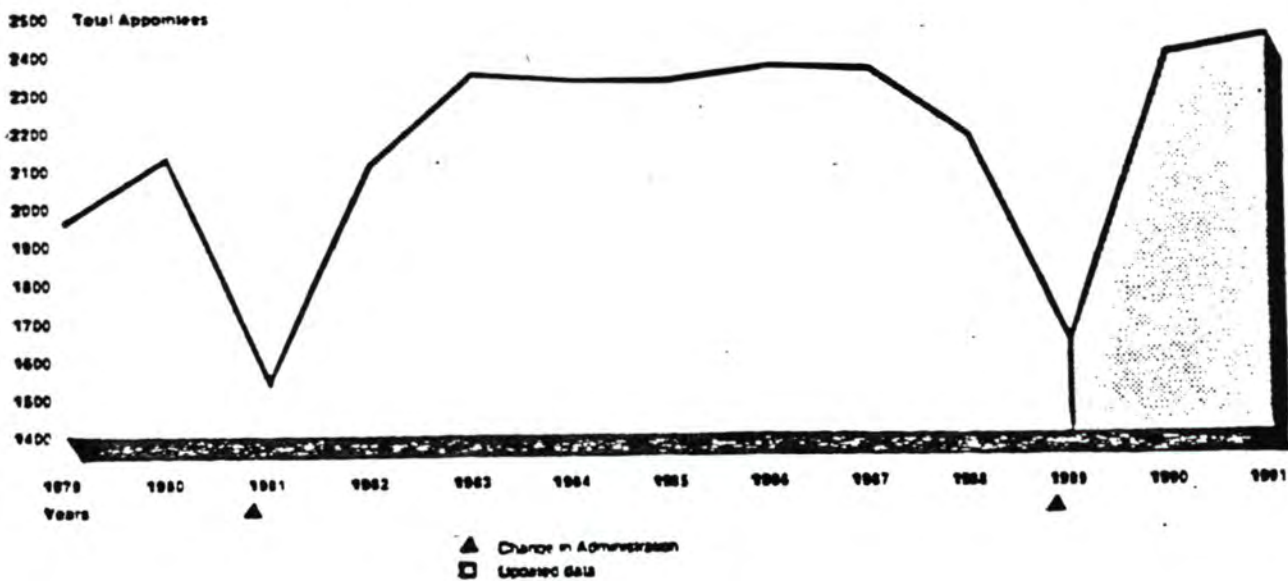
Another attribute of the political appointment process that affects the government's operations is the background of political appointees. Many of them have been very successful in the private sector; the experience they bring is an asset to the government. However, few are familiar with the workings of the federal government and Washington. Since the Ford administration, the need for political appointees to attend an orientation and

Figure 2 Average Length of Time from Decision on Final Candidate to Confirmation, 1964-1984¹⁸



SOURCE: National Academy of Public Administration, Presidential Appointee Project, Appointee Survey, 1985.

Figure 3 Noncareer SES and Schedule C Appointees Governmentwide (Sept. 1979-Sept. 1991)¹⁹



Source: Office of Personnel Management.

follow-on seminars has been recognized. However, the method for carrying this out has not been institutionalized and must be developed with each new administration.²⁰

Performance agreements are used to a certain extent for noncareer SES and Schedule C appointments, but not for PAS appointments, who serve in the key leadership and management positions throughout the government. A way to make political appointees accountable is to establish performance agreements. These agreements can clearly lay out the responsibilities and expected outcomes to be achieved by a political appointee during his or her tenure. (Refer to Mission-Driven Budget team report for further discussion on performance agreements.)

A second factor that hampers effective leadership and management of the executive branch is a lack of U.S. government tradition in using career SES in senior line management positions, such as deputy secretaries, chiefs of staff, and undersecretaries. There are several negative results of underusing the career SES corps. One is that they are not positioned to continually pursue major management improvement efforts during times of political turnover. Another is the weak linkage between senior political and career leaders. Senior career leaders are the primary conduit between the political leadership and the rest of the civil service workforce. Few important changes in management systems can be institutionalized without their efforts.

As more positions become reserved for political appointments, career civil servants become frustrated. The Volcker Commission pointed out that civil servants who spend their careers developing the capability to serve in high level positions are often denied that opportunity because many high level positions are reserved for political appointees.²¹ This stands in contrast to a number of other countries, such as Great Britain and Canada, which make much better use of this resource. Since political appointee turnover is part of the political process, Laurence Thompson, the Assistant Comptroller General for Human Resources claimed that, "the challenge for those who want to improve the quality of public service and agency management is to develop strategies that can help to overcome the disruptive effects of these leadership changes."²² The career SES represent a logical asset

to help with the continuity and management improvement. (Refer to the Personnel System Team report for further discussion of career managers and executives.)

The third significant factor that hampers good leadership and management of the federal government is the generally poor relationship between political appointees and career leaders and managers. Political appointees and career executives generally distrust one another. Career civil servants are often disillusioned by the constant turnover of political appointees, the long vacancies in critical political appointee positions, and what is often seen as a lack of qualifications of those chosen to serve in the appointed positions. Political appointees sometimes do not believe that the career civil servants will carry out the President's policies adequately and often bring with them the belief in the stereotype that civil servants are lazy or uncommitted. As the Volcker Commission stated in its report, it is the responsibility of both career and non-career federal executives to make efforts to improve their working relationship.²³

Recommendations

1. **Establish qualification guidance for selected senior political appointee positions.**
(1,2)

The Office of Personnel Management (OPM), with the assistance of the White House Presidential Personnel Office, should create a written statement of the normal duties and recommended experience requirements for each PAS and other key leadership and management positions, similar to those in the "Prune Book"²⁴ published by the Council for Excellence in Government. Each incoming administration can use this as a tool to hasten the process of determining the requirements and duties of the critical political appointments. This should not be seen as an inflexible check list of qualifications required of each candidate for a political appointment, but rather as a resource for the administration.

2. Provide adequate orientation and on-going training to all political appointees.(1,2)

The White House Presidential Personnel Office, OPM, and agencies should ensure that all political appointees receive both orientation and follow-on training. The orientation serves to acclimate political appointees to the federal government and allows the administration to convey its policies and priorities. It covers topics such as Congressional relations, media relations, ethics, and the regulatory process.

Training serves to educate political appointees throughout their tenure, to cover areas that may not be covered thoroughly during the orientation, and to promote the need for continuous improvement for all government employees. A handbook should be published for both career and political leaders to augment this education process.²⁵

Management education should be a key area of follow-on training provided to politically appointed executives and managers to provide them with the management techniques that are suited for the unique needs of the federal government and the priorities of the President.²⁶ The effort should first begin for the PAS appointees and then extend to the other political appointments. The President should lead the way by having the Cabinet be among the first to participate in these sessions. More specifics on what is included in the management education program are given in the issue paper on strategic and quality management (RLM.2).

Career and political executives should attend orientation and training programs together to every extent possible to open dialogue between these two groups who are leading and managing the federal government. Conferences held in the mid-1980's for career and non-career political appointees were considered to be very successful.²⁷ The Clinton Administration has begun preparing to conduct an orientation for PAS appointees and has begun conducting orientation programs for career and non-career SESers. This should be institutionalized for future administrations.

3. Streamline the clearance and hiring process for political appointments to shorten the hiring cycle time(4).

The proposed President's Management Council in partnership with the Office of Government Ethics and the Senate Governmental Affairs Committee should make efforts to reduce the unnecessary and overlapping requirements of the political appointment process. Streamlining and re-engineering the political appointment process, along all necessary dimensions will make the political appointment process less time consuming.

The White House should set the goal of filling all PAS positions within three months of the inauguration and the remaining political appointments within six months after the inauguration. This will be facilitated by a greatly simplified clearance process.

Fiscal Impact

(To be further developed.) The fiscal impact will be negligible. The costs can be absorbed by agencies. By hastening the political appointment process and assuring qualified individuals are in place to lead and manage the executive branch, the benefits are tremendous.

Cross-References to Other NPR Reports

Personnel Systems team

Mission-Driven Budget team

End Notes

1. Laurence H. Thompson, "Service to the Public: How Effective and Responsive is the Government?" Statement of Laurence H. Thompson, Assistant Comptroller General, Human Resources Division, General Accounting Office, before the Committee on Ways and Means, House of Representatives, Wednesday May 8, 1991, pp. 4-5.

2. Source: Office of Personnel Management.

3. Figures provided by the White House Presidential Personnel Office, July 1993.

4. National Commission on the Public Service, *Leadership for America: Rebuilding the Public Service* (1989), p. 170.

5.G. Calvin Mackenzie, *The In-and-Outers: Presidential Appointees and Transient Government in Washington* (Baltimore: The Johns Hopkins University Press, 1987).

6. Source: Senate Committee on Governmental Affairs; printed in the Washington Post, April 6, 1993, p. A19.

7. Laurence H. Thompson, "Service to the Public: How Effective and Responsive is the Government?" Statement of Laurence H. Thompson, Assistant Comptroller General, Human Resources Division, General Accounting Office, before the Committee on Ways and Means, House of Representatives, May 8, 1991, pp. 4-5.

8. James Pfiffner, "Strangers in a Strange Land: Orienting New Presidential Appointees," *The In-and-Outers* (Baltimore: The Johns Hopkins University Press, 1987).

9. James Pfiffner, Statement Before the President's Commission on Federal Appointments, October 2, 1990, in the Report of the President's Commission on Federal Appointments, p. 41.

10. The House Committee on Post Office and Civil Service and the Senate Governmental Affairs Committee publish "Policy and Supporting Positions" alternately, following the Presidential election.

11. U.S. Government Policy and Supporting Positions, Committee on Governmental Affairs, U.S. Senate, November 10, 1992.

12. John H. Trattner, ed. *The 1992 Prune Book* (Washington, D.C.: Council for Excellence in Government, 1992).

13. Meg Greenfield, "Has Vetting Become Harassment?" *Newsweek* (July 19, 1993), p. 62.

14. Report on President's Commission on the Federal Appointment Process, p.6.

15. Ibid.

16. Thompson, p. 5.

17. Vacant PAS positions are temporarily filled by officials designated as "Acting." However, these people have little capacity for permanent influence since they are viewed as only place holders.

18. Source: National Academy of Public Administration(NAPA), Presidential Appointee Process, Biographical Database, 1985; printed in NAPA, "Leadership in Jeopardy" (November 91985), p. 11.

19. Source: General Accounting Office, "Political Appointees: Number of Noncareer SES and Schedule C Employees in Federal Agencies" (June 1992), p.4

20. Pfiffner, "Strangers in a Strange Land," p. 151.

21. National Commission on the Public Service, p. 170.

22. Thompson, p. 6.

23. Volcker Commission, p.?

24. John H. Trattner, ed. *The 1992 Prune Book* (Washington, D.C.: Council for Excellence in Government, 1992).

25. The National Academy of Public Administration published a handbook in 1988 and the Office of Personnel Management currently drafting a revision.

26. Edward Preston, "Orienting Presidential Appointees: An Essential White House Task," p.3.

27. Interview with Rosslyn Kleeman, July 30, 1993 and interview with Edward Preston, August 6, 1993.

RLM.5 IMPROVE LEGISLATIVE-EXECUTIVE BRANCH RELATIONSHIP**Background**

The legislative and executive branches were designed to be institutionally separate co-managers of the administrative functions of the Federal Government. Congress has the responsibility for enacting laws, establishing "departments", authorizing money, and providing for raising and supporting the armed forces. The executive branch has the responsibility for executing laws. Many believe that in order for government to operate effectively and to ensure that all power does not accrue to one branch, this relationship must be adversarial. Although a "healthy" adversarial relationship can preserve institutional prerogatives, our current legislative-executive relationship is not always effective, does not preserve institutional prerogatives and is sometimes adversarial to the point of being destructive.

In its January 1992 study, the National Academy of Public Administration (NAPA) stated "The relationship between the Congress and the Executive Branch lies at the heart of the successes and failures of the U.S. Government. Neither branch acts alone at any stage of the policy process. But the view is widely expressed that the congressional-executive relationship and the institutional capabilities of both branches are in trouble -- that the national performance has suffered as a result. The sense of frustration and distrust in both branches and among the public is very real and very high."¹

The perception is that Congress has stepped over the lines of legislative responsibility, into the executive branch's execution function in response to pressures by the press, special interest groups, and constituents. According to NAJA, this trend is attributed to Congress' lack of faith in the executive branch's ability to carry out congressionally mandated programs, and provide reliable performance information for effective oversight. In fact, it

could be argued that Congress stepped in only after the executive branch had abdicated its responsibilities.

Others suggest that the decentralization from single strong committee structures, to extensive sub-committees, has diluted Congress' focus. Still others think the problem was exacerbated as a result of divided party government over the past 12 years. e.g., the President and the Congress in opposing political parties.

Finally, NAJA concluded that most of the problems identified in their ten case studies, were "the result of failures in both branches to recognize and adjust to an external environment that has been evolving over the past half-century."² Some of the problems shaping legislative-executive relations and policy implementation include forces of social, economic, and governmental change such as:

- o the acceleration in the rate of social change (e.g. size, distribution, and ethnic diversity);
- o fundamental changes in international order (e.g. the collapse of communism);
- o massive and increasingly severe fiscal imbalances;
- o increasing public distrust and an increasing dependence on governmental services;
- o divided party government and an era of distrust and heightened partisanship;
- o shifts in responsibility for government action (e.g. the shift of responsibility toward state and local governments);
- o growth of novel instruments and entities performing executive functions (e.g. boards, commissions, quasi- public organizations, mixed-ownership corporations and other third party and government-sponsored entities);
- o changes in how people get information about what government is doing; and
- o the proliferation of congressional subcommittees and staff.

NAPA "believes that these and other forces in our society are eroding the nation's infrastructure-financial, social and governmental."³

Need for Change

In some instances, a distortion of roles and responsibilities between the legislative and executive branches has resulted in what many have described as Congress' micro-managing of the executive branch. The 5,348 congressionally required reports cited in SMC.6, are construed by some as evidence of this micro-management.

Where it exists, the effects of micro-management in the short run have been both positive and negative. For example, in 1984, in response to EPA's slow, unfocused implementation of the 1976 Resource and Recovery Act, and their ignoring important technological information that could have led to additional environmental regulation or increased cost, "Congress rewrote the book on hazardous waste management as well as congressional-executive relationships."⁴

In 1984, Congress recaptured the role of regulator from the executive branch by writing into law the desired level of environmental protection, which would go into effect unless the executive branch could define alternatives by a specified date. These regulations were referred to as "land ban hammers."

The initial result of these land ban hammers was positive. EPA met the congressional deadlines and as a result of the structuring of the statute, EPA was empowered to take action. In addition, congressional hammers realigned relations between EPA, OMB and industry into a common interest. However, the imposed deadlines and penalties were blamed for thwarting development of an adequate, cost effective implementation framework.

In the case of highway demonstration projects the short term effects were nothing but negative. The escalating trend by Congress to earmark funds for these projects in members' districts in reauthorizations and appropriation bills, resulted in distorted state priorities and undermined the integrity of the highway program. These distorted priorities made it more difficult for states to achieve short- and long-term planning goals and side-tracked more critical projects. Despite these problems the number of these projects continues to grow, with 489 more projects authorized in 1991 than in 1987.

Congressional intervention in executive program administration is thus a two edged sword with each branch both acting and reacting to the others behavior. Although short-term effects are mixed, in the long-term, this governing response limits both branches' ability to recognize and act on broad policy issues.

According to NAPA, this stifling has "robbed executive managers of the flexibility and discretion necessary for effective performance."⁵ It has also severely impacted the manager's ability to make decisions, adjustments and changes when necessary to respond to economic, social and technological changes. Congressional participation in the administration of government programs also compromises Congress' ability to perform oversight.

Distrust between the branches has also resulted in the tendency of both branches to manage to the small percentage of thing that go wrong, the anomalies. Managing to the anomalies is expensive. The costs of a system intolerant to acceptable error or without a process to appropriately respond, far outweigh the benefits to the public. Our current tendency is to react to bad press by enacting a new law or regulation to show the American public that we were responsive. This reaction, in the absence of an established policy and without an effective analysis of the extent of the problem, costs the tax payers millions of dollars annually with little benefit. It is essential for both branches to take a critical look at how they react when things go wrong. The Federal Government needs to deal with problems similar to the methods used by industry, by performing an analysis of causes and only implementing system-wide changes when a system is not working, not when single individuals make single mistakes. In industry system-wide changes are not considered as an appropriate solution when the impact is analyzed to be less than two percent.⁶

It is critical that the legislative and executive branches engage in developing a partnership for the future, a partnership that preserves constitutional separations, ensures effective co-management of administrative functions, and combines our resources and talents to design a better future for our nation.

Recommendations**1. Rebuild the management and performance information capacity throughout the Executive Branch for congressionally required reporting. (Category 2)**

The president should task agencies heads with improving the quality and timeliness of planning, budget, financial and performance information provided to Congress. Providing quality and timely access of information to Congress will enable legislators to engage in less micro-management and engage in more quality oversight. High quality reports will also allow both branches to cut down on the number of required reports

2. Improve communications between the executive branch and members of congress and congressional staff on key issues during and after program and policy development and implementation.(Category 2)

This communication should begin with staff-to staff-working groups and informal and educational policy and program briefings. Over the past years communications between the Executive and Congressional Branches have suffered. The President should direct agency heads to begin rebuilding these communications mechanisms. Increasing communication provides both branches with a mechanism to talk outside the formal process (testimonies). This mechanism creates a structure that allows each branch to obtain a broader understanding of the issues and impacts, to view issues in new ways, and to discuss the past with a vision to deriving new ways to the future. It also provides a way to identify and pave the way for resolving differences before they negatively impact programs or policies.

The President should further encourage agencies to seek additional opportunities to build better relationships with Congress. Activities such as proposing pilot programs where Congress would give an agency more discretion and allow more innovation in a program

area in exchange for the agency's commitment to measurable goals should be pursued. Such a program would help to demonstrate the effectiveness on non-regulatory techniques.

3. Create a Joint Legislative-Executive Conference.(Categories 2 and 3)

The President should work with Congress to create an conference where leaders in both branches begin a dialogue about the issues, needs, priorities and direction for the nation. An initial subject for this conference should be to develop an agenda for the future needs and priorities of the country. This could enable participants to discuss issues that they are not currently, politically committed to and could therefore find more common ground. This conference should create a mission and a vision statement for the Federal government and demonstrate top leadership focus and coordination of the change process.

In order for this committee to be effective it should be:

- o Facilitated by an outside group (e.g. the Brookings Institution, Council for Excellence in Government, National Academy of Public Administration, American Enterprise Institute for Public Policy Research, etc.) which has done extensive research, education and/or consultation in the area of legislative and executive relationships.
- o Composed of the President, Vice President and top congressional leaders, no substitutions should be allowed. Cabinet secretaries, business , community and union leaders would be included at times, when appropriate;
- o Able to transcend parties, sectors, branches and administrations.

4. Develop an agreed upon approach for dealing with management failures, crisis, and chronic program difficulties.(Category 4)

At the current time the government's management philosophy is to manage to zero risk. This type of management approach is very costly to the American public. Both branches need to change the way they think and react to problems. This policy should ensure that a complete analysis of the extent of the risk is performed before any laws or regulations are added or changed. If the analysis indicates that the government-wide impact is small, the President and Congress should agree that no changes or additions will be made to existing legislation as part of the corrective process unless the safety or security of the country is threatened. To ensure accountability, other actions such as changes to agency policy or disciplinary actions would be taken.

The public and the press should be made fully aware of this policy along with analysis data, corrective actions undertaken, and the savings that can be realized by not managing to zero risks.

Fiscal Impact

Improved relationships with Congress, enhanced information systems and managing to a level of acceptable risk, could save the government hundreds of millions of dollars annually. Minimal costs would be incurred to perform analysis of acceptable risks.

Cross-References to Other NPR Reports

To be determined

End Notes

1. National Academy of Public Administration, "Beyond Distrust: Building Bridges Between Congress and the Executive", January 1992.
2. National Academy of Public Administration, "Beyond Distrust,...", p. 69.
3. Ibid., p. 80.
4. Ibid. p. 41.
5. Ibid., p.5.
6. Interview with Bill Rowe, Rowe Engineering.

PART 2: SUMMARY OF FISCAL ESTIMATES TABLE

TO BE PROVIDED

**APPENDIX A: SUMMARY OF RECOMMENDATIONS BY TYPE OF
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TO BE PROVIDED

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TO BE PROVIDED

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TO BE PROVIDED

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STREAMLINING MANAGEMENT CONTROL

National Performance Review

**Accompanying Report Number xx
September 1993**

NOT FOR DUPLICATION OR DISTRIBUTION

Contributing to this report: Laurie Broedling (Team Leader), NASA; Michael Brazzel, USDA; Lani Horowitz, HHS; Leon Hunter, USDA; Aby Mohseni, NRC; Brian R. Reed, DOT; Tom Sachs, DOT; Robert Wenzel, IRS; Christine R. Williams, NASA.

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SUMMARY

Management control is needed in organizations to ensure that missions and goals are being achieved within the boundaries of laws, regulations, and officially agreed upon behavioral norms. In the Federal Government we have historically used an after-the fact inspection and evaluation process, performed by outside staff functions such as IG, GAO, etc., to provide this assurance. Unfortunately, this process has proven to be costly and for the most part ineffective.

The staff functions used to inspect, review, audit, investigate and study our federal programs have focused mainly on the negative aspects of control namely the detection of fraud, waste, and abuse. For example, Inspector General semi-annual reports emphasize dollars recovered as opposed to program effectiveness and "best practices" are hardly ever reported. Little emphasis is placed on program/project effectiveness in meeting missions or customer needs. Our propensity toward compliance monitoring and negative feed-back have stifled innovation and instilled a risk adverse environment throughout most government programs. Rigid ethics laws enforce this narrow line philosophy and further entrench managers in a safe, "do it the way we've always done it" routine and general counsels tend to provide conservative advice to maintain the status quo.

The management control system of the Federal Government is vast. Over 33 thousand work years and \$2.9 billion dollars are expended by federal control organizations. Additional manpower is expended in each agency for audit staff which support these outside oversight functions and still more manpower is expended by line managers providing data and information as well as ongoing reporting status'. At a mid-sized agency installation of almost 4,000 employees over 31 thousand hours were hours expended in one fiscal year to support these external oversight activities was estimated to take 15.3 work years.

In addition to these oversight functions, federal agencies are besieged by compliance reporting requirements. In the age of technology, paper still props up the bureaucracy. In 1993, the U.S. House of Representatives Information System listed 5348 Congressionally

mandated reports required of the executive branch. In addition, executive branch central management agencies add to this compliance philosophy by levying an additional _____ annual reports on an already over burdened system.

In order to implement effective management that ensures missions are accomplished and customers are satisfied, line managers must be held accountable for results. Along with holding line managers accountable we must also give them increased flexibility and authority over their programs and teach them to engage in continuous oversight and operational improvement to meet the changing needs of their customers. We must also encourage them to take risks and be inventive by providing relief from rules and regulations through waivers.

Some external staff oversight in the Federal Government will always be required but in order to be an effective management control system, real-time oversight needs to be performed as processes are occurring, by the people who know those processes best, the line managers. External staff organizations should be supportive to these line managers, providing information on "best practices" and assessing the effectiveness of their oversight activities vs performing the activities themselves.

The enclosed recommendations will help create a accountable, innovative atmosphere that on focuses results and customer needs. This new system will also cost the taxpayers billions less.

OVERVIEW**CREATE A MANAGEMENT CONTROL SYSTEM THAT
FOCUSES ON IMPROVEMENT**

In any organization, all members have some responsibility for control. Used generally, "control" refers to the act of monitoring to assure work is getting done properly.¹ Such monitoring requires use of feedback to assess task progress and outcome achievement. While all employees have some control responsibilities, leaders, managers and supervisors have the broadest control responsibilities over their processes and organizational units.

In the federal government, "management control" in the Executive Branch is looked upon as ensuring that work gets accomplished according to two criteria:

- (1) Specified outcomes are achieved as effectively and efficiently as possible;
- (2) Work is done within the boundaries of laws, regulations and officially agreed upon norms of behavior. (These norms of behavior encompass official concern for ethics and avoidance of fraud, waste, abuse and mismanagement.)

As technology advanced and competition grew, some private and public sector organizations adopted very different approaches to management control. These organizations realized the need to become more customer-focused and developed a management strategy based on continual improvement rather than on meeting minimum specifications. "Improvement" is defined as achieving innovation in product or service, producing more than minimum requirements, eliminating process waste.

It is time for the federal government to redesign its whole approach to management control so that it, too, can become customer-focused. It needs to develop a management strategy that will enable it to anticipate, meet, and even exceed its customers' needs and expectations. This new approach to management requires a careful analysis of how the government currently manages itself to determine what is efficient and productive, and what is non value-added.

The first noticeable characteristic of American government today is its valient

struggle to maintain control of an organization that is thousands of times larger than the largest existing corporation. There is a labyrinth of disjointed, individual mechanisms put in place by executive and legislative branch officials and Congress in an attempt to achieve control. A partial listing of these is presented in Table 1. Table 1 is indicative, but not all inclusive. These methods were developed at different times, primarily as reactions to specific external or internal pressures. Each one was created to address a particular problem at a particular time. In the aggregate the various methods overlap, duplicate, confuse and sometimes contradict each other. They also tend to emphasize problem detection rather than problem prevention. As most successful corporations have discovered, detection of problems after the fact is costly and inefficient.

The federal government's approach to management control, still encumbered by its attitude that problem detection and punishment is a primary method for control, is highly ineffective. The control mechanisms were never designed as a system, or, until now, reviewed as a system. The overall approach is costly, confusing, damaging to workforce morale, and yields poor results relative to the billions of dollars per year paid to administer it. Despite the enormous resources expended on control, the public perceives waste, fraud and abuse as extensive in government. There is little wonder for this public perception when all control mechanisms revolve around detecting problems after they occur. There is never any room for good news.

The primary cause for these disjointed mechanisms is the lack of a strong line leadership and management function in the Executive Branch. Secondary causes are the collective reactions of the Congress, press, and public responding to isolated problems with pressures to adopt inappropriately broad solutions. An abdication of the fundamental responsibility to manage effectively, over a succession of administrations from both political parties, has encouraged the government's management system to grow into an incomprehensible, fragmented, incredibly costly situation where ultimately no one is in control.

The worldwide quality movement has proven clearly that overly layered and poorly

coordinated control systems result in less control and improvement than control systems with minimal layers and clear roles and responsibilities.² A control system, consisting of multiple layers of supervision, inspection, and other forms of "checking," existing simultaneously in both line management and staff support offices results in less control and very high costs. Over-control results in less control because those responsible for oversight assume that others responsible for oversight are performing their functions thoroughly. However, those receiving multiple versions of guidance from multiple groups become confused about what is expected and important.

Even a cursory look at the federal system of management reveals an overly layered and poorly coordinated set of controls that were intended to result in problem detection, but have long since evolved into a snarl of ambiguity, lack of control, and unprecedented focus on unimportant things. The following items are mentioned to illustrate this point. They are in no way all-inclusive.

Roles. In the federal government, control is exerted by two groups--line management and staff offices. Line management, or "line control," can be both internal or external. internal line management is exerted by internal program offices within each department or agency. Typically internal management control methods include performance monitoring and appraisal, formal program evaluation, development of internal controls, and compliance audits (e.g., financial audit). In the Executive Branch, external management runs from the president down to the heads of each department or agency.

Staff offices can be both internal or external, and tend to exert control by providing "oversight." Most internal oversight is conducted by program evaluation offices, the General Counsel's Office, the procurement office, the personnel office, and other groups that tend to see themselves as support or internal "watchdog" organizations. Oversight methods include investigations, audits, reviews, special studies, evaluations, and inspections. External organizations having a direct or indirect role in oversight of the Executive Branch include Congress, the General Accounting Office (GAO), the Office of Personnel Management, the Office of Management and Budget, the General Services Administration, the

Equal Employment Opportunity Commission, the Environmental Protection Agency, the Merits Systems Protection Board, the Office of Government Ethics, and the Offices of Inspectors General (OIGs). Currently, over 50,000 employees perform oversight functions within the government.

Ambiguity of responsibility. Some external oversight organizations have taken on the role of internal oversight by virtue of the fact that internal line management has failed to perform this vital function on its own. For instance, a few IGs have acted on their belief that their legislative mandate to promote the efficiency and effectiveness of programs requires actions and capabilities above and beyond that afforded by traditional audits and investigations. They developed a third function called inspections--an IG term for program evaluation. These inspection offices vary widely in purpose, staffing, and operations, but they do have some things in common. They concentrate on shorter-term studies in order to produce more timely results and use in-house staff rather than contractors. Their reviews range from quick responses to Congressional inquiries to on-site management reviews, to in-depth evaluations of program practices. In-depth program evaluations concentrate on program effectiveness and efficiency (how well and at what cost programs are achieving their objectives), and program integrity (how well they are protected from wrongdoing). They reflect the type of program evaluation that line management should be conducting internally.

Some IGs conduct these internal program evaluations because they are a vital function that needs to be carried out to provide information to help management to assess program operation, supplying needed information and advice to improve program results and ensure efficiency and economy. The IGs took over this responsibility because traditional internal evaluation offices across the federal government were in steady decline. The General Accounting office estimated that many lost one-half of their staff and financial resources in the last 12 years. However, once the OIGs begin performing program operating functions, they thwart their own external oversight effectiveness and divert accountability away from management. In addition, internal program involvement by OIGs

can have the effect of causing IGs to make program judgments that they may not be completely qualified to make because of inadequate knowledge or understanding of the technical areas. Once these judgments are reduced to written recommendations, a great amount of management resources are expended in defending an agency's actions. When this happens with regularity, the credibility of IG recommendations is adversely affected, thereby putting IGs at odds with the program managers they are trying to support. (This phenomena basically forces internal management into shifting its role to that of external oversight.)

IGs are not the only external oversight group that has fallen into this perverse sort of role-reversal. GAO on occasion has conducted the same kinds of evaluations, realizing that line management has forsaken the responsibility. "This seeming paradox of appalling management deficiencies at the same time independent oversight has been growing has raised questions about the extent to which current oversight trends really help improve agency effectiveness. Could they be counterproductive?"³

Ambiguity of Goals. In the private sector, the relationship between mission and outcome is clear. A corporation is set up to maximize profit. Management and the shareholders have a reasonable understanding of the degree of acceptable risk to be undertaken and most importantly, success can be measured in terms of corporate income, dividends, or share appreciation. Audits by an independent organization give shareholders assurance that information and results provided by management are accurate.

In government, the mission and commitment of many managers is ambiguous, and measures of outcome or performance also are less than clear. The lack of a government equivalent to income, dividends, or share appreciation leads to proxies for outcome measurement. These proxies are characterized by detailed reporting requirements focused on components of the process by which results are to be delivered rather than the results themselves.

These compliance-monitoring systems focus on deviation from the required process, spawn elaborate oversight systems to identify deviations, and lead to a management culture

intolerant of mistakes. Managers operating in this environment have little incentive to exercise their creativity or undertake the risk of making mistakes.

There also is major ambiguity introduced by lack of any statutory or regulatory definitions of key terms. One example is the use of the term "fraud, waste and abuse"--key terms used in FMFIA and the IG Act. Fraud has a civil and criminal definition in unrelated statutes; "waste" and "abuse" remain undefined for the most part. This means that "waste" and "abuse" are defined by whomever is charged at the moment with making that judgement call; a given practice may be labelled as "abuse" by one party and "best practice" by another. This creates not only confusion, but fear of innovation. Without coordination, it results in inconsistent direction and mixed signals to the workforce. It also casts a serious pall on those who are sincerely trying to improve their products and services by being innovative and taking personal initiative.

Inappropriate focus. By focusing so strongly on compliance monitoring--often-times dubbed "the prevention of fraud and abuse"--public perception is that most government employees can not be trusted. Accompanying this perception is the notion that fraudulent and abusive practices are pervasive in government. In actuality, instances are rather low when measured in dollars as a percentage of the total government spending. However, it appears high to taxpayers in absolute numbers, ie., hundreds of millions of dollars per year.

Waste is a byproduct of all successful operations. The goal of efficient organizations is to reduce waste as much as possible. In the federal government, there seems to be a notion that waste must be eliminated completely. This unrealistic approach to waste has forced the government to create highly inefficient methods of ensuring compliance with strict rules. Waste in terms of most work processes is fairly high, especially in areas where redundancy and rework are mandated. In many instances, efficiency is purposely sacrificed to insure compliance to rules. The excess checks and balances used to reduce vulnerability to fraud, waste, and abuse result in waste that oftentimes results in greater loss than the evil they were intended to ensure against.

Cost of this approach to control is too high. The sum total involves millions of staff hours, hundreds of thousands of people and billions of dollars. Staff hours expended include all those performing appraisals, audits, reviews, investigations, evaluations, inspections and all those who are being appraised, audited, reviewed, investigated, evaluated, or inspected. There is no upper limit imposed on how much management control can be levied per year on a given organizational unit or program. Audits, reviews, investigations and inspections in a single governmental organization can easily number in the hundreds per year and can be initiated at any hierarchical level in the system, from Congress, the central management agencies, a department headquarters, on down. A mid-size agency of about 20,000 people, for example, reports it currently has 130 externally initiated audits ongoing. This does not include internal audits. It is conceivable that sometimes the amount being spent to monitor and control work in some programs exceeds the amount being spent to accomplish the work. There is no accounting system to document the costs. Most importantly, there is no one assigned responsibility for controlling these costs or assuring these resources are being spent wisely. There is no control over the controls.

Once line management reestablishes its responsibility for conducting internal program evaluations, the OIGs, GAO, and other external oversight organizations can perform independent management control evaluations as part of their external oversight function. The need for external oversight of internal program evaluations is fully consistent with the tenets of quality management. One tool of quality management is "cause and effect" analysis. This simply is a technique by which the many factors that influence the outcome of a process are identified to determine the degree of their impact. Then specific factors can be changed and the impact of the changes evaluated to determine whether the results of the process are improved. IG organizations, for example, are capable of identifying the factors that influence results and of evaluating the degree to which changes to these factors impact program results.

Quality management strikes a careful balance between the doers and the overseers. In a management culture that reestablishes the responsibility of management to evaluate its own programs and operations, external oversight organizations like the OIGs can return to performing the tasks required of them by statute--to evaluate the systems put in place by management to ensure that those systems (and safeguards) promote efficiency and economy, and to help detect and prevent fraud, waste, and abuse in agency programs and operations. Obviously, external oversight offices must change their focus while management changes its culture.

Two problems are solved with placing internal oversight back into line management. First, we dispense with the "gotcha" approach to evaluation--the strict process-compliance evaluation that tends to restrict information sharing, and does not generate any appreciable information regarding how well an organization is achieving its objectives. Second, it allows the external oversight organizations to concentrate on rooting out deliberate malfeasance, such as fraud or abuse, or to assure that management has adequate control mechanisms in place. "Decreasing central management controls and giving line managers authority to act within an overall framework of results-oriented objectives have been significant management trends in private corporations and in the governments of some states and other countries during the past decade."⁴

End Notes

1. Juran, Joseph, *Juran on Leadership for Quality*, (NY: The Free Press, 1989), p. 146.
2. Deming W. Edwards, *The New Economics*, (Cambridge, MA: MIT, 1993).
3. Dwight Ink, *Are Federal Oversight and Agency Management Out of Sync?* (NY: Institute of Public Administration), p.1.

4. U. S. General Accounting Office, Government Management Issues, report no. GAO/OCG-93.3TR, (Washington, DC, December 1992), p. 36.

EXTERNAL STAFF

General

ATTACHMENT A

DRAFT--FOR INTERNAL NPR USE ONLY Reviews, Audits, Inspections, Investigations, and Studies

Office	Authority	Function	Work Year	Estimated Budget	Overlap	Schedule
Inspector General (I,A,R)	Inspectors General Act 1978, As Amended, 5 USC, App (1982) OMB Circular A-73 & A-110	Policy direction for audit and investigation activities, review legislation, promote economy, prevent fraud, waste & abuse	15,158	\$1.3B*	Broad investigative & audit authority. Can overlap all other offices.	None
General Accounting Office (A)	31 USC 712	Performs Audits as directed by Congress	4,900	\$437M	Broad audit authority. Can overlap all other offices.	As requested
Congressional Research Service (S)	Administrative Order of the Librarian 1914 Legislation Reorganization Acts of 1946 & 1970	Research & studies requested by Congress	768	\$58M	Coordinates study activity government-wide. Can overlap all other offices.	As requested
Office of Technology Assessment (R&S)	Technology Assessment Act of 1972, Public Law 92-484	Analytical support agency for Congress. Assessments of probable impacts of emerging technology.	210	\$21M	Coordinate studies with other Congressional agencies. Minimal overlap.	As requested depending on resource availability.
Office of Management and Budget	Presidential Directives and EO 11541, EO 12151	Preemptive activities Intervention in management when there is breakdown or when there is budgetary shortcomings. SWAT Teams	534	\$53M	NONE	NONE
Environmental Protection Agency (R,I,A,S)	Clean Water Act, Clean Air Act, Superfund, etc...	Control environmental degradation - set standards - monitor compliance and enforcement	3500	\$350M	State Programs	As Needed

A=Audits, P= Inspections, I=Investigations, R=Reviews, S=Studies

*FY1994

EXTERNAL STAFF

Personnel

ATTACHMENT A

DRAFT--FOR INTERNAL NPR USE ONLY Reviews, Audits, Investigations, Inspections, and Studies
Estimated

Office	Authority	Function	Work Year	Budget	Overlap	Schedule
Merit Systems Protection Board (R,S)	Civil Service Reform Act 1978, Reorganization Act 1204 (a) (3) and 1206	Conducts special studies & reviews OPM	17	\$2.2M	Coordinates with GAO on some studies.	Annual studies on selected topics
OPM, Agency Compliance & Evaluation (A,I)	Civil Service Reform Act, Title 5 USC 1103 & 1104	Audits federal agencies compliance with government personnel laws & regulations	140	\$8.0M	Some overlap in area of prohibited personnel practices with OSC.	5 years
Office of Government Ethics (R&A)	Ethics in Government Act 1978, Title 4	Review agency ethics programs, audits financial disclosure reports	39	\$3.2M	Overlap agency responsibilities	3 years
Office of Special Council (I)	Civil Service Reform Act 1978, Reorganization Act, 5 USC, Section 1214 (a) (1) (A)	Investigate allegations of prohibitive personnel practices & Hatch Act violations	100	\$8M	Overlap agency responsibilities.	None
Equal Employment Opportunity Commission (A)	Title 7 of Civil Right Acts of 1964 Expanded Authority under the Civil Service Reform 1978	Limited investigations & some audits to ensure compliance with federal EEO requirements	Not reported	Not reported	Overlap agency responsibilities	As needed or requested
Office of Safety & Health Admin. (P)	Occupational Safety & Health Admin. Act	Set safety & health standard and inspect. of employees & federal workers	2323	\$289M	Some overlap in the private sector (migrant labor camps)	By priorities (inspects 6 million employers with 90 million employees)

A=Audits, P= Inspections, I=Investigations, R=Reviews, S=Studies

EXTERNAL STAFF

Procurement

ATTACHMENT A

DRAFT--FOR INTERNAL NPR USE ONLY

Reviews, Audits, Inspections, Investigations, Studies
Estimated

Office	Authority	Function	Work Year	Budget	Schedule	Overlap
GSA, Information Resource Management Policy (A)	Paperwork Reduction Act, Brooks Act	Audit agencies to determine level of procurement authority to approve. Provides outside assessment of IRM program	15	Not reported	None	3 years
OMB, Office of Federal Procurement Policy	Public Law 98-191 1974 Public Law 93-4000 Amended at least 4 times	Provides procurement policy leadership. Brings consistency to federal procurement policies & practices, advises the President on Procurement issues. Oversees federal agencies to ensure compliance	31	\$3M	None	None
Defense Contract Management Command						
Defense Contract Audit Agency	DoD Directive 5105.36 OMB Circular 73	Audits 95% of federal government contractors	5524	\$355M	None	Annual

A=Audits, P= Inspections, I=Investigations, R=Reviews, S=Studies

EXTERNAL STAFF

Financial

Reviews, Audits, Inspections, Investigation, and Studies

Office Schedule	Authority	Function	Work Year	Budget	Overlap
Congressional Budget Office (S)	Congressional Budget and Empowerment Act 1974	Performs Analytical studies and forecasts for Congress	230	\$23M	None
Annual economic forecasts & reports. Also studies on requests					

A=Audits, P= Inspections, I=Investigations, R=Reviews, S=Studies

SMC.1. IMPLEMENT A SYSTEMS APPROACH TO MANAGEMENT CONTROL**Background**

The current government approach to management control is complex and costly, resulting in decreased productivity, innovation, morale, efficiency, as well as increased paperwork, reporting requirements, frustration and emphasis on compliance.

A major component of the government management control arena is oversight. (For purposes of this section oversight includes: audits, reviews, studies, evaluations, inspections and investigations.) Oversight activities at their best, can provide feedback to management and leadership about the agency output, program and policy effectiveness, customer satisfaction and social outcome. At their worst, oversight activities can create a false sense of accomplishment and achievement which in turn may result in misplaced priorities.

Need for Change

Executive Branch senior line leadership has primary responsibility to overhaul the current approach to management control and create and implement a comprehensive management feedback, control and improvement system, using a systems design approach. In doing so they face the challenge of ensuring that: outcomes are achieved as efficiently and effectively as possible, and work is done within the boundaries of laws, regulations, and officially agreed upon norms of behavior.

Authority must be balanced by adequate accountability. Subsequent chapters describe new management approaches which include increased flexibility and empowerment. The challenge is to design a management control system which allows for flexibility and empowerment, especially of those directly involved in program execution, while it minimizes

fraud, waste and abuse and holds government managers accountable for ever-improving results.

The needs of the 21st century government includes a vastly re-engineered and streamlined approach. This approach would be a true system that: emphasizes the need for continual improvement and not just control; is more effective; is far less costly; entails significantly fewer staff-hours dedicated to staff control; is much less complex; is understandable to most employees; reduces fraud and abuse from current levels; drastically reduces waste; and greatly enhances program outcomes and customer satisfaction.

The design of a new management control system would be based on systems thinking, and fundamentals of leadership and management, psychology, measurement.

(1) Systems thinking: The government is an open system. An open system is comprised of inter-related subsystems that are subject to outside influences. Heclo, a senior fellow with the Brookings Institution, points out that our government, more so than governments in many other democracies, is highly "permeable," that is, easily influenced by outside groups.¹ Control, which is comprised of processes such as audit, inspection review, study, and evaluation, is one sub-system of the overall management system. These processes need to be defined and their inter-relationships understood in order to eliminate redundancy and confusion.

(2) Leadership and management principles: The system needs to be based on giving line managers responsibility, for and authority over, processes and systems, and then holding them accountable. While this is an axiom of effective organizations, it is uncharacteristic of today's federal government. In the new management control and improvement subsystem, responsibilities would be assigned as follows:

- (a) Line management will have primary responsibility for management control and will be given the necessary resources to accomplish this (e.g., program evaluation staff).
- (b) Staffs will have secondary responsibility for management control. Staff oversight will be kept to a minimum, simply enough to assure that line managers are performing their control functions (i.e., by reviewing their control

and improvement systems). Staff would not perform control functions for line managers.

The majority of oversight functions in the government are performed by staff organizations. This process exacts a tremendous cost to the taxpayer. Although procurement audits can save the government billions of dollars, evidence does not exist to indicate whether there is a downward trend in the number of findings or if these findings are being used to correct root causes or problems or improve government operations. It is also unclear whether the current oversight system produces a net gain or for the government. i.e., the resources expended to identify the problems outweigh the dollars saved.

For effective oversight of government programs the primary emphasis needs to be changed from after-the-fact compliance audits performed by external staff organizations, to ongoing reviews and monitoring performed by line management. Oversight activities should be an integral part of line management's overall management control system performed on an ongoing basis.

(3) Fundamentals of psychology: The current approach to management control and staff oversight emphasizes the negative and causes people to resist management controls rather than use them an opportunity to improve. Semantics used to describe components of government control mechanisms include "deficiencies," "material weaknesses," "problems," "fraud, waste, and abuse," "investigations," "inspection," "audits," and groups such as "Inspectors General" and "SWAT" teams to ferret out indiscretions. The following is a key question: How can we provide incentives and encourage people to admit to having these difficulties in their organizations? The answer from the basics of psychology : By rewarding them, not punishing them, for doing so.

Almost all high performing organizations are based on the assumption that most people, under most circumstances, are honest, well-intended and want to fully contribute on the job. The small minority who are not well-intended should be dealt with entirely differently. Right now, the government's general approach implies that all employees are under potential suspicion and potential investigation for some type of malfeasance or dereliction of duty. This

hardly creates the atmosphere for constructive improvement.

To change the management control and oversight atmosphere from negative, "gotcha" to positive, continual improvement, distinctions need to be drawn and semantics must be changed.

The first distinction to be drawn is between the large majority who have good intent and the small minority who have bad intent, e.g., purposely steal, are abusive to fellow employees, purposely refuse to meet minimum job requirements, etc. The second distinction is fraud and abuse vs. waste. Fraud and abuse should be reserved for those activities of the small minority described above. Waste, on the other hand, is present in all processes to varying degrees and therefore, all organizations and work units have waste. "Waste is the difference between the way things are now and the way things could be if everything were perfect - no errors, troubles, problems or complexities."² Since a minimum level of waste is unavoidable, having any amount of waste should not automatically be a cause for blame. It's a question of how much waste is present and what the manager is doing about it.

One characteristic that distinguishes high performing organizations from others is their approach to reducing waste. Such organizations are extremely proactive in their efforts to continually reduce waste. Employees at all levels are given constant positive reinforcement for participating in continual improvement and waste reduction activities. These organizations do not define problems as deficiencies, material weaknesses or problems; they instead have never-ending opportunities for improvement.

(4) Measurement and Feedback: "The *right measures* are critical to the effective management of work process... If you cannot measure your results, then you cannot control your process and improve your performance."³ A key principle of measurement and feedback is that people respond to what gets measured. The re-direction of government away from an emphasis on input measurement toward measurement of outcomes, results, and customer satisfaction is a major step in the right direction. Another principle comes from the work of Walter Shewhart, one of the original experts in quality improvement of manufactured products,⁴ who demonstrated that there is variation in all processes and that managers must learn how to properly analyze and interpret the meaning of their production data. The final

principal is known as the "Taguchi Loss Function".⁵ Because it is not possible to ever reach perfection, this principle demonstrates that waste is present in all processes to varying degrees and it is the responsibility of management, with the assistance of all employees, to continually reduce waste. Some Baldrige Award winners have succeeded greatly in this. For example, due to their "Six Sigma Program," Motorola now has some manufacturing processes that produce less than 3.2 defects in every million chances to produce a defect.

Recommendation

- 1. Develop a comprehensive management control system for the Executive Branch, using a systems design approach (Cat. #2).**

The President should task his Management Council to design this management control system for the Executive Branch. Three initial steps should be taken:

First, complete the description and documentation of the existing set of management controls. This report sketches an overview, but a more detailed description should be compiled, including all the (a) formal requirements for control (e.g., laws, regulations, rules); (b) types of methods (e.g., audits, reviews, investigations, etc.); (c) organizations or groups directly involved in performing these activities; and (d) organizations or groups involved in requiring these activities.

Second, define all key terms relating to management control and publish this as an official list. Examples of key terms in particular need of definition include waste, abuse, evaluation, program evaluation, and inspection.

Third, in order to produce a comprehensive system, adopt the recommendations in the following sections of this issue paper on management control. They represent good progress toward the long-term goal.

This new management control system should be consistent with the overall strategic and

quality management approach of the Executive Branch, both conceptually and behaviorally.

Fiscal Impact

(Fiscal estimates are being developed.)

The fiscal savings gained from having a well designed management control system total billions of dollars. These savings are one of the major components to a small, but more effective government. However, as noted above, the gap between the existing situation and a systematic management control system is great. It will probably take the President's Management Council about two years to fully design this system

. Full implementation will take approximately three more years. While five years may seem long, it is really not, given the magnitude of profound change involved. All authorities on the subject of major organizational change say that the process cannot be rushed.⁶ If it is, it usually results in failure. The ultimate savings from this fully operational management control system would be billions of dollars per year, combining actual costs and opportunity costs.

However, even substantial short-term savings will results from implementing the immediate changes recommended in this issue paper. Also it should be noted that savings in management control will accrue from other NPR chapter recommendations that reduce the number of laws rules and regulations. The amount of compliance monitoring can drop in direct proportion to the number of rules with which employees must comply.

End Notes

1. Hugh Heclo, *A Government of Strangers* (Washington, D.C.: The Brookings Institution, 1977).

2. *Waste Chasers* (Nashua, NY: Conway Quality, Inc, 1993), p. 1.

3. AT&T Quality Steering Committee, Process Quality Management & Improvement Guidelines (AT&T Bell Laboratories, 1987), p. 33.

4. Walter A. Shewhart, Economic Control of Quality of Manufactured Product (New York: D. Van Nostrand Company, Inc., 1931).

5. William W. Scherkenbach, The Deming Route to Quality and Productivity (Rockville, MD: Mercury Press/Fairchild Publications, 1986), pp. 40-46.

6. Joseph Juran, Remarks at Philadelphia Summit on Reinventing Government, June 1993.

SMC.2. STREAMLINE THE INTERNAL CONTROLS PROGRAM TO MAKE IT MORE COST EFFECTIVE**Background**

The formal internal controls program of the federal government consists of two parts: (1) the design and implementation of internal controls and (2) the review of the adequacy of those internal controls. Internal controls, now referred to as management controls, are an integral part of the management of government programs. They assure that organizational missions are being fulfilled through effective and efficient means. They also protect the government's resources and assets from fraud, waste, abuse and mismanagement.

The term "management controls" reflects a broader concept than the traditional view of internal controls, which is rooted in financial management and accounting. This broader notion has been growing in use in the government since the late 1980's.

Management control techniques include policies, procedures, and organizational plans and physical arrangements.¹ Some examples of management controls are locks, fire alarms, time clocks or sign-in sheets, computer password protections, and required signatures for approving documents. Other examples include the separation of duties, a form of checks and balances. Management controls are in place to keep us from paying secretarial staff the amount due to an executive; they keep Head Start grant money from being awarded to drug dealers.

Due to concern that the management controls of the government were not adequate, Congress enacted the Federal Managers' Financial Integrity Act (FMFIA) in 1982 to establish a review process of internal accounting and administrative controls and accounting systems. Each agency must report annually to the President and Congress on the condition of the agencies' management controls and accounting systems, identify "material control weaknesses,"² and describe the actions that will be taken to correct the material weaknesses.

FMFIA requires the Office of Management and Budget (OMB) to issue guidelines and the General Accounting Office (GAO) to issue internal control standards.³

OMB requires agencies to segment their organizations and functions into assessable units or components. Reviews of these components' management controls are carried out through Risk Assessments, Management Controls Reviews and Alternative Management Control Reviews as prescribed by OMB guidelines and guidance. OMB's guidelines intended to place the responsibility with the manager to assess the adequacy of the management controls of his or her component.

Typically, small staffs in agencies have been dedicated to monitoring the requirements of FMFIA and OMB Circular A-123. In addition, GAO and IG staffs selectively review agencies' management controls. Therefore, the annual reports are a combination of material control weakness which have been uncovered by managers, management control staffs, GAO or the IG.

According OMB, since 1982, agencies have reported approximately 4500 material weaknesses and corrected 3855 of them. Currently, 645 material control weaknesses are pending.⁴ Overall, the reports indicated that the majority of the weaknesses had been disclosed by Office of Inspector General (OIG) or General Accounting Office (GAO) staffs. Some agencies, such as the Veteran's Administration, relies on the OIG staffs to disclose material control weakness; others, such as the Department of Health and Human Services, rely more heavily on management to disclose the weaknesses. In 1992, the majority of HHS' material weaknesses had been disclosed by managers rather than by OIGs or GAO.

Some agencies now have high level management councils that assist the agency head in determining which material weaknesses should be in the annual report and track the progress of corrective actions. In addition, the Interagency Management Control Coordinating Council exists to share information regarding the implementation of FMFIA.

To emphasize the importance of correcting management control weaknesses, OMB began its High Risk program in 1989, in the aftermath of the HUD scandal. This program

highlights areas that are particularly vulnerable to fraud, waste and abuse to the extent OMB deems that they need specific attention at the highest management levels. High Risk areas are chosen from several reporting sources such as the annual FMFIA report, IGs and GAO.

OMB also began using "SWAT teams" in 1990 to carry out comprehensive reviews of select High Risk areas and other programs with significant management problems. The SWAT teams formulate detailed recommendations for corrective action of material weaknesses.

Need for Change

Despite the intentions of FMFIA and A-123 to develop a program/tool to ensure that effective management controls were in place, the HUD and S&L scandals occurred, costing the taxpayers billions of dollars. If proper management controls had been in place, or if their ineffectiveness had been brought to the attention of high level executives early enough, these debacles may not have taken place.⁵

At the same time that we ensure management controls are in place, we must be sure that they are appropriate and effective. Many government employees, for example, feel stifled by the number of signatures they need to send a letter out or purchase an item. While there can be too few or inadequate management controls, there can also be too many management controls that are counterproductive and not cost-effective.⁶

For example, to ensure that employees are working the appropriate number of hours, management must decide whether to have employees punch at a time clock each day, sign in and out on a time sheet, or show that they have completed the required work at the required level of quality regardless of the time spent on accomplishing the mission.

While the management controls must be cost-effective, so should the review of the

controls. FMFIA and A-123 have received an abundance of criticism. One agency refers to FMFIA as "flim-flam." While many people we interviewed consider management controls important to safeguard the government's assets and resources, FMFIA generally is perceived as a labor-intensive, paperwork-focused reporting requirement with little positive results.

Its current implementation provides few incentives to managers to report on management control problems. One cause, or result, of this situation is that a large number of reviews and reports of material weaknesses come from staff organizations such as GAO and the OIGs. The other is the concern that sanctions will result from reporting weaknesses. Management controls are an integral function of management; accountability for and the review of management controls should be in the hands of the line managers.⁷ Managers are the ones dealing with their programs every day. They can identify problems relatively early.

The external reporting aspect of FMFIA has caused a tremendous burden on agencies. It is important to bring management problems to the attention of the President and Congress, to assure that resources are committed to resolving problems. However, the government would be better served by focusing more time and resources on actually fixing the problems than on debating which "material control weaknesses" should be reported to Congress and the President.

The contemporary FMFIA program will be more integrated with other reporting requirements to reduce the time spent on paperwork and increase the time and resources spent on implementing findings and on serving customers. It will allow agencies to develop management control plans as an integral part of their operating practices and strategic planning. It will encourage the use of information technology wherever possible. It will also encourage the early warning of potential problems or embarrassments by giving managers the incentives to surface problems. Management controls and the process of reviewing management controls should be cost-effective.

Agencies have developed their own techniques for fulfilling the FMFIA requirement.

It is critical that OMB give agencies more flexibility to do this, so that each agency can tailor its program to its mission.

Recommendations

1. **Rewrite (not revise) Circular A-123 to be a succinct document that defines the policy for establishing and reviewing management controls (Cat. #2).**

OMB should incorporate the following in its new Circular A-123:

- a. Emphasize that management controls are more than financially based
- b. Emphasize reliance on line managers to incorporate management controls into their strategic plans and regular operating practices and strategic plans.
- c. Emphasize managers' accountability for results: Are the management controls appropriate and adequate? Do they help us attain the desired results of our programs? Are we meeting the needs of our customers? Are we using our resources and assets most efficiently?
- d. Encourage the use of a cross-functional (program and staff) management council at all executive branch agencies; include in its responsibilities the review of management control in terms of operating practices as a whole and in the context of strategic and quality management. These management councils should have a membership that represents both line and staff management and should include access to information technology specialist(s).
- e. Promote a role for auditors (IGs, GAO, FMFIA staffs) that is secondary but supportive of the line managers. Auditors should review the agencies' processes for reviewing and implementing management controls.
- f. Promote FMFIA as primarily a management tool to be used within agencies--for

- surfacing management control concerns and initiating corrective actions-- and not solely as an external reporting process.
- g. Encourage agencies to include management information systems experts in the development of management control systems.
 - h. Promote the use of the FMFIA review process as an early warning tool to surface problems or "management control improvement areas" long before they cost the government billions of dollars.

This new A-123 will set the direction for management controls and their review and allow agencies to develop the flexibility to develop their own system for management controls. Given that the GAO "Standards for Internal Controls in the Federal Government" exist, the circular does not need to be prescriptive, but rather more policy oriented.

By focusing FMFIA as a tool for assuring adequate and reasonable management controls are in place and decreasing the role of outside auditors, OMB will be conveying to agencies that the FMFIA annual report is not an end in itself--it is a tool to surface management concerns and bring them to the attention of high level management.

Congress should consider renaming the Federal Managers' Financial Integrity Act and reviewing the reporting requirement to reflect this new focus that is being placed on management control reviews as a tool to be used internal to departments.

2. Rescind the current Internal Control Guidelines and replace it with a handbook on management controls (Cat. #2).

The proposed President's Management Council should work in partnership with OMB, the President's Council on Management Improvement and the Management Control Coordinating Council to develop a handbook on management controls to replace the Internal Control Guidelines that were issued by OMB in 1982.

The new handbook should include:

- a. Definitions of key items (e.g. material weaknesses, high risk, management controls) as defined by those agencies identified as having "best practices." These will be identified by the Management Control Coordinating Council.
- b.. Identification of the membership and responsibilities of effective agency management control councils, based on "best practices."
- c. Examples of how to redirect resources to correct potential weaknesses before they become material.
- d. Examples of effective early warning systems.
- e. Examples of combined review and reporting requirements.
- f. Names of individuals who are willing to provide training and technical assistance.

The handbook should be updated annually through supplements or complete revisions.

This new handbook will be an aid to managers who must ensure that adequate management controls are in place. By including examples of what are widely recognized as "best practices," there will be leadership by example. The focus will be on the implementation of effective management controls and not on the cumbersome reporting requirements. This new format allows for change and continual improvement.

- 3. **Focus the presentation of management controls in government-sponsored management training (OPM, agency, on-the-job) as an integral function of**

management, not as a reporting requirement (Cat. #).

Much of the training on management controls has been geared toward the reporting and review requirements of FMFIA, not the significance of management controls as a management tool. The role of management controls, and the techniques by which managers ensure that resources are being properly used, must be a normal part of our management training.

Fiscal Impact

The fiscal impact of streamlining the management controls program is difficult to quantify. The recommendations do provide for a shifting of resources from areas of lower priority to areas of higher priority. The prevention of problems that could result from management control weaknesses can save up to billions of dollars.

(in million dollars)

ITEM	1994	1995	1996	1997	1998
Budget Authority (program)					
Budget Authority (salary and expenses)					
Outlays (program)					
Outlays (salary and expenses)					
Changes in FTEs					

Cross References

Financial Systems

Executive Office of the President/Office of Management and Budget

End Notes

1. General Accounting Office, "Standards For Internal Controls In The Federal Government" (issued in 1983)," p. 7.

2. According to A-123 and OMB guidance, a material control weakness is one that: significantly impairs the mission of an agency or component; deprives the public of needed services; violates statutory or regulatory requirements; significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets; or results in a conflict of interest. A material control weakness should also: merit the attention of the agency head/senior management, the executive Office of the President and Congress; and/or exist in a majority of agency component or in a major agency program or activity; and/or risks or results in the actual loss of either \$10 million or 5 percent of the resources of a budget line item; and/or reflect adversely on the credibility of the agency when reported to the public.

3. The implementation of FMFIA is guided by OMB circular A-123 "Internal Control Systems"(revised in 1986), OMB's "Internal Control Guidelines" (issued in 1982), OMB's annual guidance and GAO's "Standards For Internal Controls In The Federal Government" (issued in 1983). Many agencies have also developed handbooks.

4. Source: Management Integrity Branch, Office of Management and Budget.

5. Werner Grosshans, "Internal Control Assessments -- Are They Needed on Performance Audits?" *Government Accountants Journal* (Winter 1992), p. 44.

6. John C. Camillus, *Strategic Planning and Management Control*(Canada: D.C. Heath, 1986), p. 13.

7. William L. Kendig and Wayne D. Howard, "The Maturing of the Management Control Process," *Government Accountants Journal* (Spring 1992), p. 48.

SMC.3 CHANGE THE FOCUS OF THE INSPECTORS GENERAL**Background**

The Congress established the Offices of Inspectors General (OIGs) as a reaction to growing concern over fraud, waste, and abuse in federal programs and operations. The offices were set up to perform external oversight of internal federal operations. The Inspector General Act of 1978 (IG Act) requires the Inspectors General (IGs) to conduct audits of program expenditures, and investigations of possible fraud and abuse. The IG Act specifically mandates each IG office to create an audit division and an investigations division, and calls for the IGs to promote the efficiency, economy, and integrity of federal programs. Audits and investigations assist in achieving that goal by focusing on compliance--by examining whether program offices, federal employees, grantees, contractors, and others connected to the government conform to laws and regulations.

The IGs compliance focus typically results in audits of program operations and financial records, including the more recent reviews of annual financial statements required by the Chief Financial Officers Act. These audits identify weak internal controls, mismanagement, and misspent funds. Investigations uncover cases of outright theft and other types of intentional wrongdoing. By 1988, Congress had created sixty statutory offices of Inspectors General. These statutes established 26 presidentially-appointed IGs for the larger Executive Branch agencies and 34 smaller IGs for Designated Federal Entities (DFE). The FY 1994 President's budget provided budget authority of \$1.3 billion and staffing of over 15,000 FTEs for these IGs. They communicate their findings in audit reports to their agency heads, investigative reports to U.S. Attorneys, and semi-annual reports, which summarize both audit and investigative findings, to Congress.

Statutorily-mandated reporting requirements, however, have led most IGs to allocate staff resources primarily to evaluate whether programs comply with statutes and procedural requirements rather than to determine if programs are cost effective or results are achieved efficiently. The IG Act requires the semiannual reports to Congress to outline the number of dollars recovered or put to better use, and the number of convictions obtained as a result of their criminal investigations. These reporting requirements, along with previous administrations' desire for this type of information, have influenced the OIGs to allocate staff to perform audits that report non-compliance with process requirements, and to conduct investigations that lead to convictions despite what may be best for the agencies they serve.

On the audit side, the IGs have authority to evaluate more than mere compliance with procedures. The IG Act requires all audits to comply with auditing standards established by the Comptroller General of the United States. These government auditing standards address requirements for both financial audits and performance audits. A financial audit determines whether financial reports and related items are fairly presented, whether financial information is presented in accordance with established or stated criteria, and whether the entity has adhered to specific financial compliance requirements.¹ Performance audits include both "economy and efficiency" and "program" audits. Economy and efficiency audits determine whether the entity is acquiring, protecting, and using its resources economically and efficiently, the causes of inefficiencies or uneconomical practices, and whether the entity has complied with laws and regulations concerning matters of economy and efficiency. Program audits determine the extent to which the desired results or benefits established by the Congress or other authorizing body are being achieved, the effectiveness of organizations, programs, activities, or functions, and whether the entity is complying with applicable laws and regulations.²

The IGs do not generally conduct strict performance audits, although many assert

that they do. For the most part, IGs conduct program audits that result in reporting areas of non-compliance with rules and regulations. These compliance audits seek to achieve change by identifying areas of non-compliance with statutes and policy and using negative sanctions, targeted primarily at individuals, to correct problems after they occur.³ IG reports usually recommend compliance with the rules and regulations as the corrective action to be taken by the agency. Because the IGs' work is generally focused on what is wrong, rather than on a balanced assessment of program results, agency personnel are often reluctant to cooperate as fully as the law contemplates, for fear of being implicated in wrongdoing.⁴ Audits focused on compliance, alone, generally do not lead to more effective government because the recommendations do not address program results.

Many program offices do not have internal program evaluation capabilities. As a result, the IGs' external compliance audits provide line management with their only systematic source of information on program operations. According to Dwight Ink, the president of the Institute of Public Administration,

when [line management] no longer has auditors under its control because they have all been shifted to the IG, [line management] has lost much of its capability to utilize auditors effectively in managing their organizations. For example, consider the frustration and the vulnerability of an agency head who wishes to look quickly at an emerging financial problem but has to wait until it has grown into a scandal because the auditors are under someone else's control.⁵

Furthermore, when IGs step into the shoes of management and conduct internal program evaluations, the resulting recommendations oftentimes reflect program judgments made by IG staff that are not be seen as reasonable by program staff.

IG recommendations must be viewed by program management as being completely objective in order for the recommendations to be taken seriously. Of the 26 IGs who are presidentially appointed, those who were appointed from prior positions in the Senior

Executive Service are entitled to bonuses under the Civil Service Reform Act of 1978. At least nine IGs accepted bonuses between 1987 and 1989, calling into question their objectivity when called upon to investigate the agency heads for possible wrongdoing.

Need For Change

For management to be more effective and accountable, it must become responsible for self-monitoring. As this internal oversight function is transitioned back into the management line, the IGs must change their focus away from performing compliance audits to providing oversight of management controls and self-evaluations.

According to one IG, the emphasis on compliance with technical standards and program requirements has weakened the audit process. This focus on compliance has driven the audit process toward extensive, expensive, and unnecessary over-documentation at the expense of analysis, evaluation, logic, common sense, or communication skills. Consequently, auditors tend to concentrate on numerical accuracy and volumes of information without determining need or relevance. They often do not develop causes of weaknesses or make practical recommendations necessary to achieve improved and efficient government operations.⁶

Others have suggested that IG operations create a culture that discourages entrepreneurship and innovation because of excessive emphasis on compliance. The implication is that IGs help produce a management cadre focused on following rules at the expense of effectiveness and cost.⁷

Some feel that an implicit assumption underlying the IG Act is that program managers who performing their own internal program evaluation cannot be trusted to self-report accurately. So long as external oversight entities like the IGs can ensure that the

systems for self-evaluations being used by program managers will provide accurate data, a program office can be empowered to self-report, and reap the other benefits of possessing that capability as well. When IGs develop and operate a system of program evaluation for the program offices, there is no external oversight over that particular operation, and therefore, no accountability. Government accountability demands that OIGs do not engage in program operation activities of their agencies. Additionally, the oversight reviews must be conducted with one end-item in mind: timely, relevant, and accurate reports that are valuable management tools. Finally, there must be no question in the public's mind about an IGs objectivity. In regard to bonuses, there should be a consistent practice among all IGs to insulate themselves from questions of objectivity.

Recommendations

1. Enter into performance contracts with each IG to establish a clear focus of IG audits. (2)

During a change in administration, IGs usually are anxious to learn what is expected of them by the President. A performance agreement between the IG and the agency head, with oversight by OMB, can establish clear guidance for the IGs with regard to Presidential expectations and focus. A change in focus of IG audits, from compliance audits to management control evaluations, can be established by agreement with the agency head, with oversight by OMB, without necessitating a change in the IG Act. In addition, the performance agreement can address the mechanisms needed to evaluate the effectiveness of the change.

a. Inspectors General should change their focus from strict compliance auditing to evaluating management controls.

By shifting emphasis from an audit focused on compliance to one on evaluating management controls, the IGs will be expected to assist agency line management by testing the systems that management develops to ensure compliance with program requirements and efficient and economical service delivery. The reviews should:

- * assess potential management and system problems;
- * analyze internal management evaluations for strengths and weaknesses; and
- * test management controls to reduce unnecessary spending, improve government purchasing, recover misspent funds, and detect areas vulnerable to fraud and abuse.

Findings and recommendations should be limited to specific items that are significant in terms of the objectives of the review. Some IGs are performing this type of audit in their "Inspections" divisions on a limited basis. IGs should be encouraged to broaden this type of audit and limit their involvement in procedural compliance audits. While there may be some value to procedural compliance audits, compliance audits should not be conducted for the sole benefit of producing data for semi-annual reports.⁸

Inspector General evaluations are not to be regarded as substitutes for internal management program evaluations. IGs should not duplicate reviews that are the responsibility of line management. The external oversight function of the IGs requires that their activity be concentrated on monitoring the internal program evaluations conducted by some entity other than the IG.

- b. **While retaining their independence, the IGs should change their method of operation to be more collaborative rather than adversarial.**

Many OIGs are burdened with a negative image because of the current adversarial relationship between line management and OIG employees. This image can be changed if OIGs conduct their reviews in a more collaborative manner with line management. All results should be timely and reliable and focus on improving program effectiveness rather than the current emphasis on compliance with minor statutory and policy requirements that are no longer relevant or reasonable. Toward this end, each audit should begin with discussions to reach consensus between the OIG staff conducting the evaluation and management staff on the review goals and objectives and the audit methodology that will obtain desired objectives. While the IG must maintain independence, obtaining input from line management will ensure that any concerns about the objectives and methodologies are addressed prior to the beginning of an audit rather than after the recommendations have been presented. Collaboration does not necessarily guarantee agreement; therefore, it should not undermine the IG's objectivity or independence.

To ensure collaboration, the following steps in initiating a review are encouraged:

1. The IG staff and program management jointly should determine the audiences for the review.
2. The IG staff and program management jointly should clarify and reach agreement on the exact purpose of the review.
3. The IG staff needs to study and understand the activities to be reviewed, and the programmatic and policy contexts of the topic of review.

4. The IG staff needs to clarify the OIG context.
5. The IG staff and program management need to agree on the specific scope of the review
6. The IG staff should meet with program management on an on-going basis to discuss preliminary results and unanticipated outcomes.

c. Each IG should establish performance criteria.

The President's Management Council, with support from OMB, should establish criteria that can be used to judge the IGs' performance. The criteria should include a performance measurement system that is easily understood and usable, and is consistent with the spirit of the Government Performance and Results Act of 1993. The performance measurement system should include a routine feedback loop, by use of questionnaires, to determine to what degree the OIG service to the agency has been timely, relevant, accurate, and useful, and what steps can be taken to improve IG performance. The information will be useful in determining the degree to which IGs have redirected their focus, as outlined in their performance agreements. The overall results of the feedback should be shared with the agency head and OMB.

d. IGs should not engage in program operating activities.

IGs should not engage in program operations activities (such as operating a program for their agencies because no one else is performing the work). This activity is prohibited by statute, case law, and Attorney General legal opinions. IGs must clearly report the failure of management to perform functions that are the responsibility of line management.

e. IGs should not accept bonuses.

Although presidential appointees generally are not entitled to bonuses, some of the 26 presidentially appointed IGs were career civil servants who are still entitled to receive bonuses as members of the Senior Executive Service. Furthermore, the 34 non-presidentially appointed IGs are career civil servants who are eligible to receive bonuses. Agency heads should no longer offer bonuses to IGs, even if the IGs are entitled to them under the civil service system. This will lend credibility to the notion that IGs are independent enough to perform objective investigations of the heads of their agencies if the need arises.

2. Redirect resources from OIG "Inspections Divisions" to line management. (2)

Some OIGs have developed the expertise needed to conduct internal program evaluations. In agencies where program offices already have these capabilities, the staffing and resources of IG offices conducting this type of review should be transferred to these offices. This would eliminate redundancy and reduce the potential for conflicting program evaluations during the transitional period when the responsibility is being established within internal line-management support offices. However, in agencies that do not have a program evaluation capability, IGs should continue to establish expertise in this area. With the IGs' shift toward audits of management controls as outlined in a. above, line management can begin developing its own internal program evaluation capability.

The program evaluation function transferred from the IGs should be assigned to an internal management support office, such as an Office for Program Evaluation and Planning. The Office must be at a level with enough stature to maintain a cooperative working relationship with the program offices it evaluates, while

maintaining enough independence to be objective. The method of evaluation should be similar to that described in section b. above; recommendations must be collaborative and useful. Mere compliance monitoring should not be the main focus of program evaluations.

Fiscal Impact

Changing the OIG focus from compliance testing to evaluating management controls will result in minor savings, however, the amounts are not quantifiable. In addition, minor savings will be achieved by eliminating bonuses to IGs.

(in million of dollars)

	1994	1995	1996	1997	1998
Budget Authority (Program)					
Budget Authority (Salaries and Expenses)					
Outlays (Program)					
Outlays (Salaries and Expenses)					
Changes in FTE					

1 to 3 Years:

3 to 6 Years

SMC.3

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End Notes

1. U.S. Comptroller General, *Government Auditing Standards*, (Washington, D.C., General Accounting Office, 1988), p. G-4.
2. Ibid., p. G-9.
3. Paul C Light, *Monitoring Government: Inspectors General and the Search for Accountability*, (Washington, D.C., The Brookings Institution, 1993), Page 15.
4. Dwight Ink, *Are Federal Oversight and Agency Management Out of Sync?* (New York, Institute of Public Administration, 1993), p. 2.
5. Ibid., p. 3.
6. Letter from Hubert Sparks, Inspector General, Appalachian Regional Commission to Paul Light, February 2, 1993.
7. Memo from Ed Quatrevaux, Inspector General, Legal Services Corporation, July, 1993.
8. This shift in focus should not be construed as limiting an IG's authority or independence under the IG Act. There may be some value to conducting compliance audits sporadically. Each IG should consciously assess the potential benefit to be realized by the agency when a compliance audit is contemplated.

SMC.4 INCREASE EFFECTIVENESS OF OFFICES OF GENERAL COUNSEL**Background**

In 1825, Charles Caleb Colton wrote, "The science of legislation is like that of medicine in one respect: that it is far more easy to point out what will do harm than what will do good."¹ This statement is also true today in the legal culture of the federal government.

On July 18, 1979, President Carter established the Federal Legal Council by Executive Order 12146, in order to promote coordination and communication among federal legal offices. This council which was chaired by the Attorney General and included representatives from 15 other federal agencies, became inactive in the mid 80s. The Offices of General Counsel, by the nature of their authority and position, have the resources and expertise to help managers find new roads to the future, which many do, or to keep them stranded in the quicksand of the past.

As government line managers in the 1990's struggle with improving their operations, providing improved customer service, and cutting costs, they are continually faced with the enormous web of legislation and regulations that bind them to the past. Today more than ever federal managers are taking risks in the quest to serve the greater public good.

Although the main function of the Office of General Counsel (OGC) is to support line management by providing them with legal advice and representing the agencies in legal proceedings, over the years some of these offices have become involved in making management decisions. This shift in the OGC function over the years stems from how some of these offices have been used by the agency heads and the ambiguity which exists in who the OGC client is. Sometimes an agency head expects OGC to "keep him or her

out of jail", which is contrary to the OGC advisory function. Further confusion is added to their function when we consider who OGC considers to be their client. General Counsel staff, generally view their clients in one of three ways, which, in an ideal world, would be compatible. One set of OGC clients is the agency "mission." The second client category is the American public, the taxpayer or the "greater good." The third client category is line management.

In general, OGC staff perform their functions by providing advice and serve as a resource to management on legal matters. In many agencies, however, the OGC role has changed from one that provides legal advice and recommendations to one that makes management decisions. In those agencies, this change in role has come about by requiring OGC concurrence for most management decisions. Recommendations which do not have OGC blessing are rarely implemented. In these agencies OGC has earned a veto power over management decisions.

Their veto power coupled with the ambiguity of who their client is often times results in OGC confronting line management rather than supporting it. Additionally, considering that there over 9000 OGC staff employed at government agency headquarters alone, the perception to some is of a government body more concerned with protecting itself than serving its customers, a government overwhelmed by excessive rules and regulations, dedicating more resources to ensure compliance and less resources on producing results and management improvement.

Some agencies have institutionalized the OGC veto power in their management decisions by formalizing the requirement to have OGC concurrence on most decisions as a standard practice. By institutionalizing OGC concurrence, line managers have abdicated their responsibility resulting in OGC making policy decisions by virtue of its veto power.

Offices of General Counsel are often the pivotal point in departments or agencies in determining the level of risk associated with various options available to management. Recommendations and often decisions made by the Offices of General Counsel, are seen by some as becoming increasingly conservative and less supportive of new, creative

approaches to problem solving. This is expected when the OGC function becomes one of "keeping the boss out of jail." In the OPM guide for the new General Counsel in the federal government, the dual role of federal lawyers is stated to be interpreting the law and representing their clients' interest.² The guide further states that there may be an actual or perceived conflict between the two roles of federal lawyers. As a result, the guide continues, some program offices have learned to view the General Counsel's office as nay-sayers ("if you want to be told you can't do something, go to the General Counsel's office") and have either hired their own attorneys or done without legal advice.

Need for Change

Based on recent experiences in government agencies, OGC staff frequently finds itself considering, discussing and even counselling on non-legal matters, or making management decisions.

There is a need to clearly identify who the client is for OGC in our challenge to redesign government operations. Line management should be strengthened, not weakened, by the legal counsel it receives from the OGC. When OGC assumes its client to be only the agency "mission" or only the "taxpayer", and represents that client, it in effect weakens line management. Although the "mission", the "taxpayer", and the line management should all be compatible with each other in the ideal world, but prioritization of goals and the political realities can often make them, at least in appearance, not exactly congruent. The OGC was never intended to be in a decision making role for the agency. The OGC, which was never intended to be in a decision making role for the agency, should recognize that the client is the agency line management, make every effort to point out the laws applicable to the situation, assess the risk for various options, and let the management make the decision.

In many cases, the OGC performance is not tied to the agency products and services. This is partly due to the "keep me out of jail" approach and partly to the conservative

culture of many of our government lawyers which is steeped in a history of avoiding bad press, rule compliance, and the avoidance of litigation. Although many Offices of General Counsel provide progressive advice and opinion to line management based on the "if it's not specifically prohibited by the law you can do it" theory, too many still adhere to the safe "if it's not specifically allowed by the law you can't do it" approach. In other words, the OGC staff often times do not provide legal counsel to their clients based on their clients successful delivery of products and services, but rather on the maximum protection of the boss. Consequently the success of OGC performance is usually not measured by program results but by successful compliance to the narrow letter of the laws and regulations.

Resources available to the OGC staff in the field are often times not as current as those at headquarters. As a result, the quality of the legal counsel provided in some field offices throughout the country may not be at the desirable level. The Federal Legal Council which was established in 1979 and tasked with promoting coordination and communication may be the proper place to address the issues raised here.

Recommendation

Create a clear understanding that the line-management is the OGC client, and role of OGC is to provide legal counsel and representation to their clients and not making management decisions.

The agency heads should redefine OGC role, mission and performance criteria, with clear definition of their clients (line-management) and their needs. The agency heads should not expect nor allow OGC to be involved in management decisions by eliminating the standard practice of requiring OGC concurrence in most decision. The OGC should go

beyond just providing conservative, safe, risk-free, decisions and opinions based on the path of least resistance and least litigation. The OGC should provide legal counsel to line management on the premise that agency operations should continually improve and provide better services, and that success will be measured against improvement in delivery of services and products by line management. As managers take on new initiatives and challenges, so must General Counsel Offices take on a culture of support, in helping find new solutions to old problems. Line managers and attorneys need to forge a partnership for the future and work proactively to meet program goals and objectives. The agency heads should develop a set of performance criteria, and success measurement tools for the OGC staff which reflect the above mentioned expectations and results.

In addition, in order for attorneys to provide broader advice they must be well informed and current on legal decisions. The Federal Legal Council could be resurrected to improve coordination of resources and communication among the federal legal offices. Also, the Federal Bar Association should enhance the sharing of technology and data bases to provide General Counsel Offices and field attorneys with access to up-to-date legal opinions and trends in the field.

Fiscal Impacts

More litigation may occur due to greater risk taking by line management. Line management will be strengthened by the OGC support and legal advice. Management will base its decisions on a clear understanding of their legal implications and hence become more accountable to its customers. This accountability and improved communications will enhance program effectiveness. Although the number of litigations may increase, it is anticipated that fewer cases will come to trial from managers ignorance of the laws or from lack of adequate legal advice and representation. The overall benefit to the public and the agency will be in improved program operations which cannot be quantified.

(in million dollars)

ITEM	1994	1995	1996	1997	1998
Budget Authority (program)					
Budget Authority (salary and expenses)					
Outlays (program)					
Outlays (salary and expenses)					
Changes in FTEs					

End Notes

1.Charles Caleb Colton, Larcon (1825),1.529.

2.THE COMPLEAT GENERAL COUNSEL. Page 23.

SMC.5. IMPROVE THE EFFECTIVENESS OF THE GENERAL ACCOUNTING OFFICE THROUGH INCREASED CUSTOMER FEEDBACK**Background**

Congress provides the Executive Branch both program direction and management control/oversight. Congress has several formal mechanisms for accomplishing oversight. These include hearings, reports submitted by agencies, IG findings, and General Accounting Office (GAO) audits and evaluations. "The GAO assists the Congress in its legislative oversight of the Executive Branch. We see our mission as seeking to achieve honest, efficient management and full accountability throughout government. We serve the public interest by providing Members of the Congress and other policymakers with accurate information, unbiased analysis and objective recommendations on how to best use public resources."¹ Therefore, the GAO has an important and useful role to play in assuring and improving leadership and management practices of the Executive Branch.

Need for Change

Similar to other staff oversight functions discussed in other issue papers, GAO is not perceived by many in the Executive Branch agencies as being as effective as it could be in fulfilling this role. For example, GAO audits sometimes document only negative findings and do not report best practices when they uncover them. One root cause of the perceived effectiveness gap is that GAO lacks an institutionalized feedback loop from the Executive Branch agencies, either individually or collectively. Therefore, GAO does not have enough information on how to continually improve the value and impact of its services. The official manual describing auditing procedures and standards, unofficially known as the "Yellow Book," clearly recommends describing "noteworthy accomplishments"² as part of

audits, but only partially deals with the need for feedback loops.³

GAO, under the leadership of Comptroller General Charles Bowsher, began a formal TQM initiative almost three years ago.⁴ "The agency's commitment to quality is the single most important principle governing its work. We define high quality work as (1) objective and independently derived; (2) accurate, timely and meaningful; and (3) presented in a way most useful to responsible officials."⁵ This initiative, with its strong emphasis on customer focus and continual improvement, has already pointed the organization in a direction which will address these issues.⁶ For example, GAO has already to some degree recognized the importance of crediting and publicizing best practices during an audit as well as documenting problems. Another example is that they have expressed their intentions to develop and institutionalize feedback loops from the Executive Branch. This feedback will give them information needed to improve their value-added contribution to better government.

Recommendation

1. Improve GAO's use of feedback loops and documentation of best practices (Cat. #3).

The President, working through Congressional leadership, should request that (1) as standard audit practice, GAO always document best practices when found and recommend institutionalizing and spreading them whenever appropriate; and (2) as part of the GAO's ongoing TQM initiative, accelerate the process of developing feedback loops to GAO from the Executive Branch.

GAO should revise the "Yellow Book" to further develop the concept feedback loops.

The Office of Management and Budget (OMB) and the proposed Office of the

President's Management Council (OPMC) should work collaboratively with the GAO to assist in setting up the feedback loops with the Executive Branch.

Fiscal Impacts

There is very little cost to implementing this recommendation. The costs are associated with the time spent by people in GAO and in the agencies creating these feedback loops. Since this was already in GAO's plans, no new costs are contained in this recommendation. On the other hand, the savings, both tangible and intangible, will be considerable. The audit process itself will be more streamlined, meaning the same or better audits will be conducted using fewer labor hours, both on the part of the auditors and on the part of the agencies being audited. Cycle time will drop, resulting in more timely feedback to Congress and the agencies. But most important, the percentage of recommendations implemented will rise because agency management will feel more participation and ownership in the overall process. Most GAO audit findings contain millions of dollars in potential savings. Even a 10% increase in the number of recommendations implemented would save the government hundreds of millions of dollars a year.

(in million dollars)

ITEM	1994	1995	1996	1997	1998
Budget Authority (program)					

Budget Authority (salary and expenses)					
Outlays (program)					
Outlays (salary and expenses)					
Changes in FTEs					

End Notes

1. United States General Accounting Office, Congressional Support Agencies, "The Role of the General Accounting Office," testimony by Charles Bowsher, June 10, 1993.
2. United States General Accounting Office, "Government Auditing Standards," (1988 Revision), p. 7-11.
3. Ibid, p. 7-10.
4. Ibid, pp. 16-17.
5. Ibid, p. 2.
6. United States General Accounting Office, Quality Improvement Plan: An Update, "Continuous Improvement: The Quality Challenge," March 1993.

**SMC.6 REDUCE THE BURDEN OF CONGRESSIONALLY MANDATED
REPORTS****Background**

Reporting requirements have escalated rapidly in recent years. In fiscal year 1980, agencies produced approximately 4,000 reports to respond to congressional reporting requirements. This year, Congress requires executive branch agencies to prepare 5,348 reports.¹

One reporting requirement can result in the production of multiple reports. For example, the Omnibus Budget Reconciliation Act of 1990 generated more than 38 reports from a single agency. Reporting requirements can be separated into two categories: recurring (annual or semi-annual) reports and one-time reports. One-time reports can pose a substantial burden. For example, the Agency for International Development (AID) must submit approximately 60 reports to Congress during fiscal year 1993; approximately half of those reports are one-time requirements, but the rest are annual reports.² The Department of Defense is required to produce 654 one-time reports in fiscal year 1993.³

Reporting requirements do not discriminate by size of agency. They apply to small as well as large agencies. For example, the Merit Systems Protection Board (MSPB), an agency with a staff of 300, must produce 120 reports this year, at an estimated cost of \$__ million, which is approximately __ percent of their budget.

Various estimates of the cost of report production have been made over the last 12 years. In 1980, the Federal Government spent \$80 million on producing 4000 reports.⁴ In 1983, \$86 million was devoted to the production of 4300 reports.⁵ In 1985, responding to 3,300 congressionally mandated reporting requirements cost taxpayers \$240 million.⁶

Need for Change

While agencies must report to Congress to ensure adequate oversight of the executive branch, some reports no longer merit the work required to complete them.

Eliminating unnecessary reports improves the way government functions. Reducing the number of reports streamlines the bureaucracy and also saves money. Federal agencies believe that some congressionally mandated reports should be eliminated; the Department of Education proposes cutting more than 40 reports which it considers obsolete or redundant.⁷ The President's Council on Integrity and Efficiency (PCIE) also recommends elimination of some reporting requirements. For example, the PCIE recommends the Chief Financial Officers' Act be amended to allow discretion in reporting on the financial condition of government funds rather than requiring annual reports on all funds. In addition, the PCIE recommends eliminating annual reports on compliance with requirements such as management controls over advisory and assistance awards and implementation of anti-influencing requirements.⁸

These reports are unnecessary for a variety of reasons. Some reports address concerns that are no longer high priority or repeat information already addressed in another report.⁹ Some reporting requirements date back to 1950,¹⁰ and no longer provide useful information.¹¹ Several full-blown, annual reports document only minor, procedural changes.¹² Other reports are useless because the programs they report about no longer even exist.¹³ Still others are no longer essential, because current information technology makes it possible for Congress to access data in other ways.

Reducing the number of reports required by Congress would free resources currently tied up in report production. These resources could be devoted to program implementation activities. As agencies begin to streamline and downsize, it is essential that their staffs devote their time to productive work and focus on the needs of their customers.

While previous efforts to reduce the number of congressionally mandated reports were not totally successful, these efforts resulted in significant savings. GAO and the Congressional Budget Office (CBO) estimated savings of over \$12 million annually as a result of the Congressional Reports Elimination Act of 1980 and the Congressional Reports Elimination Act of 1982.¹⁴ These two acts discontinued or modified approximately 150

reporting requirements. In addition, the Congressional Reports Elimination Act of 1986 rescinded 23 reporting requirements.

Central oversight and management agencies such as OMB, GSA, and OPM also require many reports from federal agencies. While this situation merits further study, the oversight agencies are required by law to collect this information. Therefore, the figures contained in this paper may not fully represent the burden of congressionally mandated reports.

Table 1 summarizes the current distribution of reports required by Congress from selected agencies.

Table 1: Reports required of selected agencies by Congress.

As of July 1993, the Reports Due to Congress System (database in House Information Systems) listed the following congressionally mandated reports:

<u>AGENCY</u>	<u># OF REPORTS DUE</u>
President of the United States	773
Department of Defense	443
Department of the Interior	235
Department of Health and Human Services	203
Department of Energy	199
Department of State	197
Federally Chartered Corporations	176
Department of Transportation	170
Department of Agriculture	106
Department of Commerce	106
Department of Education	99
Department of Housing and Urban Development	99
Department of Justice	98
Department of the Treasury	97
Office of Management and Budget	78
Environmental Protection Agency	70
Department of Labor	52

General Services Administration	46
National Aeronautics and Space Administration	38
Agency for International Development	32
Office of Personnel Management	31
Federal Emergency Management Agency	26
Resolution Trust Corporation	25
Department of Veterans Affairs	23
National Science Foundation	21
Small Business Administration	17
The Intelligence Community (CIA, NSA)	14
All others, including Independent Agencies and Commissions	1874

Recommendations

1. Eliminate all congressionally mandated reports, except two annual reports per agency.

All 5,348 reports, with the exception of two annual reports per agency, should be eliminated unless Congress demonstrates a need for the information contained in a report.¹⁵

If Congress asks for the continued submission of the report, agency heads should have the opportunity to demonstrate that a report is not necessary. Agency heads must supply an adequate justification for why Congress should not restore each report. Moreover, they need to discuss the proposed changes with the appropriate Congressional committee(s) before submitting the proposal. Such documentation is essential. In 1988, GAO concluded that inadequate justification of reports proposed for elimination contributed significantly to the failure of the 1986 effort. While Congress adopted 71 percent of recommendations that agencies justified sufficiently, it approved only 10 percent of those that agencies did not explain adequately. As a result, only 23 reports were eliminated, out of a total of 240 recommendations.¹⁶

NPR's Improving Financial Management report proposes similar measures. Specifically, it proposes legislation that would require agency heads to submit only two

reports annually: one on planned performance actions provided in September and one accountability report each March. Furthermore, the Financial Management report proposes that the appropriate congressional committee subject future reporting requirements to a cost benefit analysis and then incorporate these new reporting requirements into one of the two annual reports.¹⁷ OMB agrees with this proposal. In a 1988 response letter to a GAO report, OMB suggested that except in instances of an exceptional nature, all requested information be submitted as part of an agency's annual report to Congress.¹⁸

2. Review new reporting requirements for management impact, and include a sunset provision.

While all future reporting requirements should be incorporated into one of two annual reports, it is still essential to control the growth of those requirements. Congress should assess the management implications -- particularly the cost -- of each reporting requirement applied in the future. In other words, the cost of producing the report should be compared with the benefit of obtaining the information. Congress should report this comparison in committee.

Alternatives may exist that can provide the information at a much lower cost. An electronic information system shared by congressional committees and executive branch agencies would provide an avenue to exchange data more quickly and cheaply.

In addition, Congress should include a sunset provision in any reporting requirements adopted in the future. A sunset provision requires Congress to reassess each reporting requirement after a certain number of years to determine whether or not the information requested still merits the cost of preparing and analyzing the report. This provision ensures that the burden of congressionally mandated reports does not grow unnecessarily.

Fiscal Implications

To be determined.

Cross-references to other NPR sections

FM09: Simplify Reporting Process

HRM 01: Create a Flexible and Responsive Hiring System

End Notes

1. U.S. House of Representatives, House Information System Database, *Reports Due to Congress*, July 1993.
2. NPR Agency for International Development team paper. July 23, 1993 draft, page 12.
3. Office of the Comptroller, Department of Defense, *Memorandum on Assignment of Responsibility for Reports Required by Congress*. January 21, 1993, attached graph. These figures were obtained from the Department of Defense and do not correspond to the data listed by the House Information System.
4. U.S. General Accounting Office, *Comptroller General Report to the Congress of the United States. A Systematic Management Approach Is Needed For Congressional Reporting Requirements*. (PAD-82-12), November 25, 1981.
5. U.S. President's Private Sector Survey on Cost Control, *Management Office Selected Issues, Volume VIII: The Cost of Congressional Encroachment* (Winter 1983), p.83.
6. Senate Report 99-211, p2.
7. U.S. Department of Education list of reports proposed for elimination.
8. President's Council on Integrity and Efficiency, July 1993.
9. For example, the Annual Report from the National Advisory Council on Continuing Education was found to be duplicative. Senate Report 99-211, p.2.
10. For example, Section 114 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3513A).

11. An annual report on coal reserves disclosure from the Department of Energy was found to be not useful "because U.S. coal reserves are estimated to last in excess of 300 years." Senate Report 99-211, p.3.

12. For example, *Clearance Form for Data Reporting Burden*, is required annually of the Department of Education by the Paperwork Reduction Act.

13. For example, the Secretary of Education was required as recently as 1985 "to report biennially to Congress on the findings and recommendations of the Office of Education Professional Development, an office abolished in 1981." Senate Report 99-211, p.2.

14. OMB Bulletin No. 84-10. March 28, 1984.

15. In addition to the two recommended annual reports, additional reports may be required from the Office of the Inspector General.

16. U.S. General Accounting Office, *Congressional Reports* (GAO/AFMD-88-4), p.5.

17. FM09: Simplify Reporting Process.

18. James McRae, Jr., Deputy Director of OMB, Comment letter to GAO, *Congressional Reports*, p.12.

SMC.7 CLARIFY AND INCREASE FLEXIBILITY IN THE GOVERNMENT ETHICS PROGRAM**Background**

Government ethics are defined as those areas which come under the mission of the Office of Government Ethics (OGE) and the Designated Agency Ethics Official (DAEOs), relating to the prevention of conflicts of interest on the part of officers and employees of executive agencies . Ethics areas include: conflicts of interest, appearances of conflicts of interest, post employment restrictions, standards of conduct, procurement integrity and public and confidential financial disclosure.

"There can be no dissent from the principle that all officials must act with unwavering integrity, absolute impartiality and complete devotion to the public interest. This principle must be followed not only in reality but in appearance. For the basis of effective government is public confidence, and that confidence is endangered when ethical standards falter or appear to falter."¹

These words spoken by President Kennedy in his address to Congress on April 27, 1961, express a deeply held truth that the majority of public servants embrace as their personal responsibility as holders of our country's public trust. However, although this belief is widely held and observed, there appears to be something fundamentally wrong with our approach to federal government ethics.

In the wake of the Watergate scandal, the Ethics in Government Act of 1978, was passed, starting a 15-year process to specify and legislate the ethical behavior of government employees by imposing on them an abundance of prescriptive laws and regulations. With each new scandal the politically correct behavior of choice has been to add another layer of stringent restrictions. These laws and regulations have created a failed system that attempts to define what is ethical and moral not by what is right, but by what is

legal. Currently there are 31 ethics laws.

The result of all these laws and regulations is "a complex and formidable structure, whose rationale is increasingly obscure and whose operation is increasingly arcane."² If the proliferation of laws, regulations and political attention is any indicator, ethics should be improving exponentially and public confidence should be at an all time high. In fact, for all of our efforts and expense, no evidence exists that government employees are any more or any less ethical today than they were 15 years ago.³ Perhaps more importantly, there is no evidence that the public is more convinced of any improvement of government ethical behavior.

A fundamental problem with the attempt to legislate ethical behavior is that we have devoted our resources to the wrong end of the system. Our extensive system of ethics regulations has focused on eliminating the "appearance of impropriety"⁴ rather than creating an atmosphere where ethical values are encouraged, integrated into everyday management decisions, fairly applied, easily understood, effectively communicated (both to our employees and the public), and continually reinforced. As Henry Fielding said in 1743, in *An Essay on the Knowledge of the Character of Men*, we have been "taught rather to conceal vices, than cultivate virtues."⁵

The paradox of our current system is that it "promotes the appearance of propriety at the expense of substance..."⁶ Under our current system "correct appearances" are rewarded, while "appearances of impropriety" are career limiting. The primary purpose of ethics laws has become distorted. So strong are the signals to maintain appearances that we have somehow lost our true purpose of encouraging employees to do the right thing to serve the American public. Many DAEOs expressed a feeling that the government ethics regulations are used primarily to dispel the suspicion of unethical behavior. Also, the current ethics mind-set presumes bad behavior. In its January 1993 report, the American Bar Association's Committee on Government Standards indicated that "If we insist on treating government employees as if neither their motives nor their judgement can be trusted, those who do not leave in frustration and disgust will end by being no better than

they are posited to be."⁷ It went on to say that public servants need to be treated as "persons of honor and good will who will strive to make responsible use of the power entrusted to them."⁸ "The idea that an employee would betray her trust for the price of a lunch assumes government employees have no integrity."⁹

Other DAEOs contend that the ethics regulations do promote high ethical standards, but that the management and operation of the ethics system is muddled and has several points of failure. In other words the point of failure is in the interpretation of the regulation as opposed to the regulation itself.

Chief among the frustrations experienced by DAEOs are mandatory uniform training requirements that require extensive resources but which do not meet the needs of most agencies; the broad applicability of financial disclosure and reporting requirements particularly to Special Government Employees; and the restrictions on outside activities and the honoraria ban which prevent employee from engaging in, and receiving fees for activities even those unrelated to their government positions

.Need for Change

The government ethics program has in many ways have fallen short both the public servant and the public. Employees are no longer expected to take personal responsibility for doing the "right" thing. Nor are employees held accountable when they do the wrong thing. The program instead encourages abandoning fundamental ethical values and abdicating personal responsibility, while promoting the utilization of "loopholes". The narrow letter of the law is followed, while the more laudable spirit is all but forgotten.

Moreover, the use of the term "ethics" has added problems by making it politically difficult for law makers to eliminate, consolidate, or reduce ineffective laws and regulations. Eliminating or reducing an ethics law has the presumption of condoning unethical behavior when instead the purpose is to improve the ethics system.

The inability to change or eliminate ethics laws, and the narrow interpretations placed on these laws, has prompted an increasing need for costly and time consuming waivers throughout the government. Recently a task force of the Government's Interagency Ethics Group drafted a request for ten government-wide waivers involving financial interests. For example, one of these waivers would allow a chemist who owns stock in Corning to order test tubes from a GSA Blanket Purchase Agreement with Corning without risking violation of ethics regulations.

The recent attempt to further regulate appearances, the 1989 Ethics Reform Act, added an new requirement for uniformity. Varying missions, environments and personnel are now standardized into one rigid system of training, financial disclosure and standards of conduct. Ethics officials have been frustrated and rule bound and yearn to "get back to the bad old days"¹⁰ when agencies were given the responsibility and authority to do their jobs and act in the best interest of their agency, the government, the public, and their employees.

Many DAEOs expressed that the one hour, personally conducted, required training is too broad, too general, and does not address specific agency concerns. Because of its broad nature, many employees indicated that they find much of this required training useless. Agency DAEOs are further hampered by a lack of resources to provide meaningful agency specific training beyond this federal requirement.

In some agencies ethics laws have had negative effects on vital government programs. Ethics laws have even been found to cause delays in Food and Drug Administration (FDA) product approval. When the Conflict of Interest Statute¹¹, was interpreted to include FDA advisory committee members who review medical products that they, or their employers used in the course of medical treatment, almost all committee members were faced with criminal conflict of interests because they were doctors, a great many who are associated with university hospitals. HHS was required to create a resource-intensive system for screening 800 advisory committee members for such "conflicts" and writing individual waivers for each of them. The Center for Devices and Radiological Health recently reported that approximately five percent of their committee members

resigned because of the financial disclosure process.

While the Federal government continues to expend resources appealing two court decisions declaring the honoraria ban¹² unconstitutional, agencies continue to struggle with this law. "The government-wide honoraria ban,¹³ is grossly overbroad. The problem is well illustrated by one of OGEs hypothetical [situations described] in their Standards of Conduct: Under the current law, a Department of Justice attorney may not receive a \$50 honorarium for giving an informal talk [on her own time] to her garden club on how to design and grow a Victorian rose garden."¹⁴ The honoraria ban prohibits compensation for speeches, etc., regardless of whether they are related to the employee's official activities. The government-wide standards of conduct¹⁵ also prohibit honoraria in many innocuous situations. Recently an HHS employee was prohibited from receiving a fee for a speech on the history of ketchup. This problem is further exacerbated by the fact that OGE has interpreted the honoraria ban to extend to Special Government Employees, who may only work several days a year on a special committee.

While the OGE and DAEOs have made commendable efforts in providing information and improving ethics awareness, effective performance measures do not exist to determine if the public is truly getting its money's worth. Although much data is collected on the cost of this program, exact costs are illusive with estimates ranging from \$68 to \$101 million.

Just as importantly "ethics laws have become a major barrier to government service."¹⁶ Ethics laws intended to ensure the public trust have inadvertently deprived our country of talented individuals at a time when our nation needs them most. Alexander Trowbridge in his testimony before Congress, cited his 1985 article in the Harvard Business review which stated:

"...as the demands of the U.S. leaders have grown exponentially with the increase in our world-wide responsibilities, our capacity to recruit, develop and retain exceptional executives for public service has steadily weakened. As a nation, we seem to have built in a series of disincentives, hurdles and roadblocks that

hamper the entry of top-quality people..."¹⁷

Although much attention is given to this issue as it relates to obtaining political appointees, the problem of attracting and keeping talented people in government service, is not limited to these top positions. The recruitment and retention of all level of management as well as scientists, lawyers and other specialized policy experts have also been negatively impacted. For example, in 1992 the National Research Council found that during the Kennedy Administration it took an average of 2.4 months to fill a key position. This increased to 4 months under President Carter, to six months under Reagan and an average of nine months under President Bush. The time required for confirmation hearings and background investigations are also key factors in these delays.

The current ethics laws discourage and restrict movement of highly skilled people between the public and private sectors. Entrepreneurial efforts and private sector connections of spouse and family members are considered a detriment, as they are found guilty by association. "Conflict-of-interest restrictions have reached the point where their costs" to the nation and our society as a whole, "substantially outweigh their benefits."¹⁸ The Council for Excellence in Government (CEG)¹⁹ notes in its guiding principles on ethics that "the nation and society benefit from individuals who move back and forth between the public and private sector."²⁰

Recommendations

1. **Create an effective system of ethics through an examination of ethics laws and regulations.**

The President should task the President's Management Council to convene a panel, to examine and improve ethics laws and regulations. The President should work with Congress to implement the findings of this panel.

Members of this panel should include at a minimum representatives from the Office of Government Ethics, Department of Justice, the General Services Administration, Office of Personnel Management, Office of the Counsel to the President, and Interagency Ethics Group members who represent a cross section of government agencies. Advisory members should include members of Congress, American Bar Association's Committee on Governmental Standards, Council for Excellence in Government, National Academy for Public Administration, and National Research Council. To ensure success this panel should be facilitated by an outside group that has done research in the ethics area e.g. National Academy of Public Administration, the Brookings Institution, etc.

Rather than just focus on broad aspects of ethics in government this panel needs to address the details of the laws, interpretations made by OGE, and their impacts on individual agencies. The panel should give specific consideration to:

- developing a streamlined and clarified ethics law that is contained in a single, comprehensive section of U.S. Code;(16)
- delegating maximum flexibility to departments and agencies;
- decriminalizing certain salary supplementation and conflict of interest provisions to permit flexible agency specific sanctions;
- developing a more concise and effective definition of ethics excluding management issues that are only marginally related;
- developing a set of effective, measurable ethics performance standards;
- developing an effective, swift and certain method for enforcement of those laws that are maintained, modified and/or added;
- developing incentives to encourage employees to incorporate considerations for ethical concerns into everyday program decisions, not just personal behavior decisions; and
- providing an easy method for individual agencies to revise or eliminate archaic ethics statutes that are agency specific.

The recommendations of this panel need to be put in two categories: those which can be made within the Executive Branch, and those which need legislative changes. The latter should be proposed to Congress, not just as individual changes, but in the full context of the ethics system which has been created by the panel.

2. Approve the Government-wide waivers developed by the Interagency Ethics Group.

OGE should act immediately to approve the ten government-wide regulatory waivers requested under the conflict of interest statute for financial interests. These waivers are urgent and essential and their approval would "bring about a major rationalization and reform of ethics business under section 208."²¹ These waivers would also save agency resources by eliminating the need for request individual waivers.

With an effective ethics system government costly, burdensome, and confusing laws and regulations will be changed or eliminated. The new set will be packaged to be read and easily understood.

Law makers and executive branch leaders may be reluctant to deal with this area for fear of possible adverse public reaction. This negative reaction can be mitigated by providing the public and the press full information on the problem and intent.

Fiscal Impacts

The current government-wide ethics program is estimated to cost between \$68 and 101 million dollars. Over half of this cost is devoted to manpower with an additional \$12 million devoted to required training and financial disclosure reporting.

Giving agencies greater flexibility regarding financial disclosure reporting requirements, such as those involving special government employees, could free up an estimated one third of the funds spent in this area (\$4.0 million).

Eliminating the required one hour, personally conducted, broad, annual, training

requirement would give DAEOs flexibility to develop and conduct more meaningful agency specific training using more effective and efficient techniques such as video training and 800 numbers for questions rather than requiring travel.

(in million dollars)

ITEM	1994	1995	1996	1997	1998
Budget Authority (program)					
Budget Authority (salary and expenses)					
Outlays (program)					
Outlays (salary and expenses)					
Changes in FTEs					

End Notes

1. Peter W. Morgan, Stanford Law Review, *The Appearance of Propriety: Ethics Reform and the Blifil Paradoxes*, [Vol. 44:593], Page 600, February 1992. President Kennedy's address to Congress, (April 27, 1961).
2. American Bar Association, Government Standards Committee, *Keeping Faith: Government Ethics and Government Ethics Regulations*, Preface, (Working Draft -- January 1993).
3. Interagency Ethics Group, Washington, D.C., interviews with selected members, (July 1993).
4. Morgan, *The Appearance of Propriety...* page 600. See, e.g. Remarks on Signing the Executive Order Establishing the Presidents Commission on Federal Ethics Law Reform, 1 PUB. PAPERS 15 (1989); Remarks to Members of the Senior Executive Service, 1 PUB. PAPERS 19 (1989); The Presidents News Conference, 1 PUB. PAPERS 21, 28 (1989).
5. Ibid., page 604, February 1992. Henry Fielding, "An essay on the Knowledge of the Character of Men", in *1 MISCELLANIES* by Henry Fielding, Esq; 154 (Henry Knight Miller ed., 1972 (1743).
6. Morgan, *The Appearance of Propriety...* page 610.
7. American Bar Association, *Keeping Faith...*
8. American Bar Association, *Keeping Faith...*
9. Elliot Richardson, interview, July 15, 1993.
10. Interagency Ethics Group, Washington D.C., interviews with selected members, (July 1993)
11. Conflict of Interest Statute, 18 U.S.C. 208.
12. Honoraria Ban, 5 U.S.C., app. 501(b).
13. 5 U.S.C. app. 7501(b).
14. American Bar Association, *Keeping Faith...* p. 33.
15. Standards of Ethical Conduct for Employees of the Executive Branch, 5 CFR Part 2635, 2635.807.

16. Alexander B. Trowbridge, Testimony before the Subcommittee on Oversight of Government Management Committee on Governmental Affairs United States Senate, (March 5, 1993), page 8.

17. Ibid., page 2.

18. Ibid., page 5.

19. Council for Excellence in Government's Working Group on Ethics, "Ethical Principles for Public Servants", September 1992.

20. Trowbridge, Testimony before the Subcommittee...

21. Memo from Sub-Committee of the Interagency Ethics Group to Stephen D. Potts, Director of the Office of Government Ethics.

SMC.8. REDUCE INTERNAL REGULATION BY MORE THAN 50 PERCENT**Background**

What does regulation cost?

The cost of researching, writing, printing, storing, and maintaining internal regulations (those which apply within the bureaucracy) is huge, but only a small portion of the total cost. The total also includes the cost of training, learning, supervising, carrying out, waiting for clearances, collecting data, analyzing, meeting to discuss, monitoring, measuring performance, enforcing, and auditing the regulations, plus preparing the countless reports that this process generates. A full accounting must also include the cost of delay, confusion, loss of initiative, and paralysis resulting from the inevitable impression on so many workers that nothing is permitted, least of all creativity or initiative. All of these costs are overhead, subtracting from the resources available for client services.

The total cost of these regulations is not known and does not appear to have been studied. Everything in the government appears to have been counted, controlled, and priced except the controls, which have enjoyed nearly unchecked expansion.

There are indications, however, that the price is huge. A Forest Service study found that 20 percent of their total work years was needed just to monitor their budget.¹ The National Academy of Public Administration reported in 1983 that more than 200,000 employees are needed to maintain the enormous federal financial system including the budget process and related auditing, accounting, and fiscal control operations. And more than 135,000 employees are needed to operate procurement and supply systems.² The numbers have only gone up in decade since the report. A study of *external* regulation concluded that the total cost of regulatory paperwork required of the public is at least \$510 billion annually, equal to 9% of the gross domestic product.³

It is obvious that even a modest reduction in numbers this large leads to very substantial savings, on the condition that the laws are still carried out with appropriate fiscal and ethical propriety. This is one cut in government in government spending that would lead to *improved* services.

How many regulations?

The Shandler Tally on the following page shows an actual count of the number of regulations and the number of pages of regulations that apply to a single state office of a federal bureau.⁴ The state office was selected for its relatively unregulated role and well managed directives system.⁵ In other words, the total is offered as nearly a minimum rather than an average or a worst case. Using the most conservative definitions, he found more than 33,000 pages of internal regulations and handbooks that applied to the less than 200 people in that office.⁶ The numerous additional agencies with at least partial jurisdiction, plus the case law and interpretations, plus various other commentaries would increase the total pages several fold, as would the applicable state and local regulations.

The tally of regulations is an imperfect measure of burden--a single regulation may impose a huge burden while in many cases there were six regulations to a page, none of them appearing to have any impact or use. But the tally gives some feel for how tightly constricted the process has become. With a total this large, it seems unlikely that all these regulations can be understood, free of conflict, and always the best approach for local circumstances.

Why so many regulations?

Its easy to blame the proliferation of regulations on the oversight structure (Congress), according to Frank Reeder, OMB Assistant Director, General Management, but he believes the issue is more complex than that. He sees three categories of failure: system failure, individual failure, and a tolerable breakage rate. He says the current approach is zero tolerance for error, pretending that all error was caused by individual

THE SHANDLER TALLY OF REGULATIONS AFFECTING ONE STATE OFFICE

Source	Federal Regulations		Manual Directives/ Supplements		Circulars/ Bulletins		Interpretive Statements		Bi-Annual Instructional Memoranda		Handbooks	
	#	pages	#	pages	#	pages	#	pages	#	pages	#	pages
Office of Management and Budget	*	*			59	*						
General Services Administration	6,160	2,687										
Office of Personnel Management	3,501	1,766					2,040	1,721				
Occupational Safety and Health Administration	587	1,456										
Department of the Treasury	136	61										
Department of Energy	63	258										
Department of the Interior			1,628	3,081							830	1,890
Bureau of Land Management			19,112	9,569					750	*	7,366	8,093
State of Idaho BLM			109	917					227	2,047		
TOTAL	10,447	6,228	20,849	13,567	59	*	2,040	1,721	977	2,047	8,196	9,983
GRAND TOTAL OF PAGES	33,546											

The tally of pages was conducted by actual count of pages. The tally of regulations was conducted by actual count using the tables of contents when available. Both tallies were conducted with assistance and guidance from the responsible offices. In some cases, there is more than one regulation to a page. Guidance in the handbooks is required, equivalent to a regulation. Totals for OMB Circulars and Bulletins and for BLM Instructional Memoranda are for Fiscal Year 1993--large quantities of additional ones are still in effect from previous years. The tallies from handbooks and interpretive statements are based on the number of directives within the handbooks and interpretive statements respectively. The asterisk (*) notes offices which were unable to provide tallies, usually because the totals were larger than they were willing to count.

Narrow definitions were used for regulations and handbooks. As a result, their tallies are vastly lower than other published figures which include case law, interpretations, and other secondary sources. These secondary sources frequently exceed 5,000 pages per agency.

The tally is limited to the chain of command (the Department, the Bureau, and the state office itself) and the primary federal agencies with jurisdiction over the operations in the state office (Office of Management and Budget, General Services Administration, Office of Personnel Management, and the relevant portions from the Occupational Safety and Health Administration, the Department of the Treasury, and the Department of Energy). The tally excludes the regulations of numerous additional federal agencies with jurisdiction over aspects of the state office (e.g., Environmental Protection Agency, Equal Employment Opportunity Commission, Historic Preservation, Small Business Administration, etc.).

The tally also excludes the regulations and case law covering various aspects of government legal process which also have jurisdiction over the state office. These include the Administrative Dispute Resolution Act, the Agency Practice Act, the Claims and Debt Collection Acts, the Contract Disputes Act, the Equal Access to Justice Act, the Federal Advisory Committee Act, the Federal Tort Claims Act, the Freedom of Information Act, the Government in the Sunshine Act, and so forth.

In short, the total of pages is a very conservative figure.

failure, and demanding ever more regulations as new errors are discovered. A tolerable breakage rate (a tolerance for risk and an acceptance of some error) may be a much more sensible standard, as that last few percent toward 100 percent error free is *very* expensive, much more costly than the value of the savings gained. A more realistic view toward error would shift some of the focus to systems problems, where real savings can be made.

Another source of proliferation in regulations, according to Reeder, is that most people involved in regulations make a living from them, and thus have a conflict of interest against cutting back. For example, vendors have a self interest in complex procurement regulations -- they have mastered them, they serve as a barrier to entry of competitors, and the vendors get paid for the time it takes to follow them while outsiders do not. Federal employees use the number of regulations they are responsible for, their complexity, the number of reviews, and the number of small errors in procedures they catch as the basis for requesting larger staffs and promotions.

Do the regulations work?

The goal of regulations is to bring about implementation of Congressional mandate, using good management to bring the confluence of efficient procedures, the proper balance between uniformity and responsiveness, fiscal and ethical propriety, and accountability for goal accomplishment, all at the lowest possible price for the taxpayer. The total number of regulations needed to accomplish this confluence would be irrelevant, simply the cost of doing business, if this confluence were successfully brought about. But it is not. The regulations cause inefficient procedures and higher price while requiring so many clearances before action that individual accountability is nearly a thing of the past.

Need for Change

What's the result?

Procurement regulations have become so complex that it is no longer reasonable to expect qualified procurement officers to use them effectively, according to a recent study by the Merit Systems Protection Board.⁷ The root of the problem, they said, is the combination of the large number of regulations, their complexity, and the need to move quickly.

Overregulation is not limited to procurement, but is a problem across all government systems, according to a study by the National Academy of Public Administration. Their panel concluded that:

"...Federal management systems are now overregulated in the sense that, by accretion, each has acquired an overburden of controls, limitations and constraints, reviews and approvals, data requirements, and other mandates, which, in total, significantly reduce their value and effectiveness."⁸

Most regulations start with a law, usually designed to solve a specific problem. The central management agencies (Office of Management and Budget, Office of Personnel Management, General Services Administration, etc.) then develop a process to implement the law. The Departments then shape the way the process should be carried out in their agencies.⁹ And the agencies then customize that process, frequently at both the national and regional level and occasionally at the local level. This process produces an inevitable cascade of regulations.

What is the solution?

The goal of internal deregulation is to clear out the thicket of needless regulation so that: 1) the outcomes to be achieved are clearly articulated; 2) responsibility for decision making and action is clearly assigned to the person doing the work; 3) there is a direct and objective measure of the person's success in completing the task; 4) the oversight shifts from the process to the outcome; and 5) there is a clear understanding of the fiscal and ethical propriety required in public administration. Accomplishing this goal will greatly increase accountability, creativity, and motivation, while decreasing the administrative cost

of getting the work done. The goal is certainly not to cut federal workers loose to do what they choose, free from all controls, but to empower them to accomplish assigned work by the most creative means possible within the bounds of fiscal and ethical propriety.

Can it be done?

For years the burden of internal regulation has been something like Mark Twain's observation about the weather: Everyone talks about it, but no one does anything about it. But in the last few years there have been enough experiments that a best practices model has emerged.

A pivotal point was discovered at the Department of Commerce. According to Alan Balutis, the Director for Budget, Planning and Organization, about two thirds of the requests for waivers from internal regulations submitted as part of their new reinvention effort ask for relief from a regulation that turns out was not required in the first place. He concludes that much of the internal regulatory burden is self-inflicted, either from informal withdrawal of authority by non-required reviews, from a desire for "security blanket" documentation to avoid individual responsibility, or from a control mentality that confuses 100 percent review with an appropriate level of oversight. What is needed, Balutis said, is not an edit of the regulations but a fresh start.

Forest Service

Dale Robertson, then Associate Chief of the Forest Service, decided to try a fresh start. He saw the budget declining while overhead was going up, and feared the Forest Service was about to go under from red tape.¹⁰ The 20 page handbook written by Gifford Pinchot, the founder, had been expanded to a bloated series of instructions 17 feet in thickness.

In 1985, Robertson selected four test units (three forests and a research station) and completely deregulated them. He gave them authority to reach their planning targets in the most efficient way they could devise, discarding whatever regulations were in the way on

the condition that they remained within the bounds of the law, basic policy, budget integrity, and congressional direction.

He also implemented "end-results budgeting." The test units were responsible for only one to eight line items, consolidating from nine to fifteen programs in a single line item. Budget performance would be evaluated through output targets, such as number of acres reforested, rather than solely through rigid, detailed spending targets. Appropriations would be made available for two years instead of one, and the units had the freedom to shift dollars among any of the programs in a consolidated line item.

The test units were evaluated by the General Accounting Office, which concluded: "Our analysis has shown that the primary elements of the Forest Service's end-results budgeting proposal are conceptually sound. Further, it will facilitate accountability for appropriations... Accurate accounting for program costs will also be promoted."¹¹

In addition, internal evaluations showed that the test units saved money. In the Eastern Region, for example, 11 separate hierarchies were merged into five team groups with interlocking expertise and responsibilities. The regional office cut its budget by two million dollars, reduced its staff by 40 positions, and cut its overhead to the lowest in the service. The region provided 12,000 proposals that eliminated outdated rules, streamlined work procedures, and improved the quality of the work life.¹²

It was only when the needless rules were stripped away and managers were empowered to use the budget wisely that the managers truly became accountable for goal accomplishment and maintaining fiscal and ethical propriety, according to Bill Delaney, the analyst responsible for evaluating the pilot program. In 1989 the chief acknowledged the success of the pilot study and signed a new management philosophy establishing the pilot approach nation wide.¹³

Unfortunately, Congress rejected the proposal to allow end-results budgeting across the service, and the deregulation effort lost a good deal of momentum. The 17 feet of manuals were cut back by about two thirds. But objective measures were not established,

and the revision of the handbooks was not made part of the process. Program managers quietly shifted many of the requirements to handbooks or directives, with the result that much of the deregulation progress was illusory. The emphasis on management controls and documentation is so strong that the pilot efforts are "caught between two cultures," according to Delaney. He sees the current rate of progress as slow.

Veterans Administration (VA)

The Management Efficiency Pilot Program (MEPP) was conceived as a three year pilot program starting in 1987, supported department-wide and by the House Veterans Affairs Committee. The goals were to provide flexibility to managers in the field, cut red tape, and lessen restrictions and reports. Medical centers were allowed to identify burdensome restrictions and request waivers. If granted, the revised process was tested in five centers, and if it proved successful, the revised process was implemented nationwide. The program was initially limited to only 5 of 157 VA medical centers, because there were not enough resources to process any more requests for waivers. The experiment got off to a good start, died back during the change in administration, and was restarted as a Total Quality Management (TQM) initiative.

The results were positive.¹⁴ At Veterans Benefit Administration 895 of 1,940 requests for waivers were approved, saving over 300 staff days and \$640,000. During the 1988-89 year of measurement, productivity at MEPP stations increased by 35 percent, more than double the 17 percent at the control stations. At the Office of Information Management MEPP resulted in savings of more than half a million dollars brought by improvements in the procurement process. At the Veterans Health Services and Research Administration MEPP resulted in savings of \$3.1 million.

Air Force

A more sweeping example of a fresh start in internal regulation is the Air Force.

General McPeak, Air Force Chief of Staff, established a service-wide program to streamline the organization and cut out bureaucracy. His goal was to empower people to be creative, accept responsibility, and use initiative to seek out new, more efficient methods, while focusing the creative efforts on getting the right things done. In 1992 he started the Policy Review Initiative. The Initiative, headed by General Haines, set four goals: 1) identify and clarify the most important things the Air Force does; 2) set clear, concise policy; 3) fix accountability and responsibility; and 4) measure the accomplishment of policy objectives.

The Air Force is replacing 1,510 regulations with 165 policy directives and 900 instructions. The new policies average about five pages, of which one half to one page is the policy itself, about three pages are the measurement, and the remainder are definitions, applicability, and so forth. This will cut the 55,000 pages of intermingled policy and procedures to approximately 1,000 pages of policy; plus 19,000 pages of instructions to be written at a lower organizational level.

The deregulation effort is managed by a staff of about ten plus the policy writers and various consulting editors. The entire effort will require about 30 calendar months and will be completed in fiscal year 1994. Handbooks, manuals, and other non-directive publications will be produced over a five year cycle.¹⁵

General Haines group reports that there were many skeptics, particularly regarding the measures. Developing the measures was difficult, requiring several versions. It was also difficult for individuals to accept that they will now be held accountable by these measures. Most groups initially believed their area could not be measured, and so procedures were developed for those which proved unmeasurable. But measures were finally found for all but a few areas that turned out not to be appropriate for high level policy, so the procedures for exceptions from measures were discarded.

To develop the basic measures the team developed the process of first identifying the decisions, then the information basis for the decisions, then how the data is gathered, and finally how the data is normalized.¹⁶ This process appears to allow a good measure to be developed for most areas. For example, the basic measure for the motor pool is the

percent of requests filled with a suitable vehicle. The basic measure for the lawyers was the number of cases settled on favorably to the Air Force, which includes both cases won and settlements more favorable than the expected outcome of trial. The basic measure for long range planning was the percent of the plans that were adopted to the point they made it into the budget. The policy and measures for pollution prevention may have substantial applicability for civilian agencies.

At the end of this effort, the headquarters will be free to focus on policy, using real measures of the accomplishment of that policy. And the field will have clear guidance, clear delegations, clear accountability, and useful handbooks.

Now that all the policies, instructions, and handbooks are in digital form, the Air Force is converting the entire set of documents to CD-ROM disks. The process will be completed by mid-1994, at which point they will stop printing the paper copies.

The issues in comparing CD-ROM to traditional printing are clearly identified and easy to understand.¹⁷ For example, the Defense Logistic Agency (DLA) made an agency-wide commitment to CD-ROM technology for its many large logistical and policy databases covering 140,000 pages of text and images. For a one-time capital investment of \$900,000, DLA identified an annual cost savings of \$600,000 by eliminating conventional printing of publications and reducing distribution and storage costs. Additionally, DLA achieved an annual cost avoidance of \$1,370,000 through the elimination of inserting change pages in DLA publications. The CD-ROM disks are replaced every three months with an updated version. In other words, the savings more than paid for the conversion in the first year.¹⁸

The entire Defense Department is now converting their directives to give better guidance on what is desired and less on how it is to be accomplished. The Department has established three goals:

"First, to clarify--from top to bottom--its policy guidance, and to ingrain forever the principle of clear, concise policy unmistakably separated from essential procedures. Second, once the policy is clarified and separated, policy accomplishment must be measured to assess how well it is carried out.

Third, procedures must be pushed to the lowest possible level. People should be given the necessary latitude to carry out policy in a way that best fits local conditions."¹⁹

Central management agencies

The agencies noted above have cut their own regulations, but have no power to reduce the thousands of regulations from the central management agencies with jurisdiction over them. The following example shows that the central management agencies can also reduce the number of regulations. Deregulation is often more difficult in these agencies, because so many of the requirements are specified in law. But it is worth the effort because of the large multiplier effect on the remaining agencies.

The Federal Acquisition Regulation (FAR) Improvement Project was designed by GSA and the Civilian Agency Acquisition Council to determine how the FAR could more effectively serve its customers: government contracting personnel and the contractors. GSA sent questionnaires for dissemination to 12 federal agencies, the Small Agency Council, and the National Contract Management Association. 2,434 questionnaires were returned. About 95 percent suggested one or more ways to improve the FAR.²⁰ The most common suggestions were to provide greater flexibility in the FAR for exercising good business judgement, to consult users in the formulation of regulations, to ensure that regulations are consistent and clear, to provide more guidance but less regulation, and to notify users of the revisions prior to their effective date. These are essentially the same issues as for internal deregulation. The FAR Council formed an Executive Committee which reviewed the recommendations and established 19 implementation projects broken into four groups: philosophy, policy, automation, and training.²¹ Most of the projects are scheduled for completion by the end of 1995.

GSA also undertook internal deregulation of their own directives. A two phase plan was developed to cut back on the regulations but increase the helpful technical assistance.²² The first phase was a quick review of the regulations to cut out all the material that was

clearly not needed. The reduced regulations have been approved by OMB and are now in the process of being issued. In the second phase, standards for regulations will be developed and the regulations will be substantially revised, further purging unneeded material, simplifying the language, and moving the decision-making to the lowest level consistent with ability. The Office of Acquisition Policy anticipates that the revisions should be completed near the end of 1993, with a total reduction in the pages of regulations of nearly 50%. In addition, handbooks will be created to include the non-regulatory material such as technical assistance and legal reviews. They estimate that the entire effort will have used about five work years, and point out the major difficulties have not been at the policy level where the new regulations are written but at the program level where various offices have a vested interest in the current regulations.

The GSA model may provide a means for other central management agencies to deregulate. In the future, such efforts should include objective performance measures. The Bottom Line Outcome Measures developed by the Office of Personnel Management in conjunction with federal personnel directors illustrate that good measures are possible even in abstract administrative areas.²³ A strong deregulation effort in the central management agencies would provide a substantial inspiration to other agencies by showing that deregulation is possible even in areas highly constrained by laws.

What does all this show?

There are two effective approaches to deregulation. The top down method (Air Force and GSA) is faster, more systematic, and emphasizes clear headquarters policy. The bottom up method is slower, but allows testing and emphasizes field priorities. The bottom up method can be driven either by waivers (Veterans Administration) or pilot sites (Forest Service). Because waivers identify the specific decisions being decentralized, they allow the changes to be rapidly extended to all offices.

The general conclusion is that it is not only possible to cut back on internal regulation, with top management support it is relatively straightforward to *dramatically* cut

back, leading to better work at lower cost without endangering fiscal and ethical propriety.

What will it take to accomplish internal deregulation?

Identifying the need for deregulation is not enough. The solution has to be successfully carried through to completion. The National Academy of Public Administration points out:

"...there is wealth of evaluation and diagnosis of management problems which is simply not being effectively utilized, largely because the Federal government lacks the will and the capacity to agree on and implement its own reform.

At [NAPA's] suggestion, the General Accounting Office studied 12 government-wide management initiatives undertaken between 1970 and 1980. Their report concludes that these initiatives failed to achieve their objectives for a number of reasons: rapid turnover in Executive branch leadership, a lack of real consensus on what constitutes good management, lack of careful implementation planning and execution, and lack of adequate staffing and management attention to management concerns."²⁴

The agency examples described above give some dimension to the levels of leadership, consensus building, planning, resources, administrative support, and sustained effort required to achieve the deregulation objective. Successful accomplishment appears to require five somewhat separate efforts: 1) strong top management direction and conflict resolution; 2) a small task force to conduct the headquarters deregulation over the course of a year or two; 3) a related effort to develop, test, and redevelop the measures and information system; 4) a small task force to accept requests for waivers from regulations by field groups as a means of identifying systems in particular need of decentralization; and 5) a number of small groups of field people working for short periods of time to develop the handbooks. Both the deregulation and the waiver effort are needed so there is a "push-pull" effect, with deregulation driven both by the headquarters and the field.

The number of people required and the length of time will of course depend on the size and regulatory complexity of the agency, but the total is smaller than most people first assume. The range in the agencies described above is 5-15 concentrated work years for the headquarters policy task force, and probably a similar but more dispersed number to write the field handbooks. Most agencies can conduct an effort this size within current ceiling and budget.

In addition, both groups will need training. At the present time no such training exists, but the Department of Defense Policy Directive Team has prepared a very helpful work plan.²⁵ If there is a national effort toward internal deregulation, it would be appropriate to look for training from the federal training centers, who in turn may look to the agencies named above for assistance in training design.

There is no alternative to sustained sponsorship from agency top management. Only they can initiate sweeping deregulation efforts and overcome the resistance and conflicts that will inevitably develop.

Recommendations

1. Issue an Executive Order calling for at least a 50% reduction in internal regulation over the next two years. The 50% goal is a minimum standard -- most agencies should do far better. If GSA can do it, any agency can.

2. Recommend that department and agency directors follow the best practices model. The best practices model requires accomplishing four things at once:

1. *Purge agency internal regulations.* Excise everything but requirements of laws or other immutable outside guidance, requirements of health and safety, requirements where national uniformity is absolutely required, and the highest level policy guidance. Move all other decisions to the level where the work is done (i.e., the lowest possible level in the

organization). Ensure that these delegations are not withdrawn, either formally (through directives, instruction memoranda, circulars, bulletins, handbooks, or other issuances) or informally (through clearances or reviews), but establish a general procedure for withdrawing decision authority from specific individuals shown to abuse their discretion. Harshly edit the policies to ensure brevity and clear language. Eliminate conflicts with other policies. Get a thorough review by agency legal, program, and systems experts. Publish both the policies and a list of the authorities withheld, allowing adequate time for staff and the public to complain to the agency head if inappropriate decisions have been made. If economic, publish the policies electronically or on CD-ROM rather than on paper.

2. *Establish an objective output measure for each policy.* Agree on terms.²⁶ Define the measure and show a sample bar chart as part of the policy, so that it is evident what will be tracked and how. Build the information technology to track these output measures, specifying necessary data input from those to whom the decision making has been delegated. Allow lower levels to establish objective measures appropriate to their level. Limit the review to the measures of that level, so that additional or informal records are not needed. Incorporate user satisfaction and economic measures as appropriate. These measures may change with experience--plan for flexibility and periodic review. Updating other measurement systems (e.g., CFO Act) as measures are proven to be successful.

3. *Provide rich handbooks of best practices, technical assistance, and other optional help.* Get field practitioners to write the handbooks rather than headquarters policy staff. This tends to provide appropriate language and real help and ensures that the writer has a vested interest in not inserting requirements into these publications. If economic, publish the handbooks along with the policies electronically or on CD-ROM rather than on paper.

4. *Establish a waiver system in which field offices can request relief from specific regulations.* The assumption is that nearly all requests will be granted. The point is simply to allow the field to identify the priorities for headquarters delegations and deregulation. The mechanics of this approach are described in other NPR issues.

Agency directors should establish a speedy timetable and provide the continuing

resources, emphasis, and conflict resolution needed to bring the effort to a successful completion. The director must also ensure that no "shadow" systems develop to retain decision making at higher levels than the delegation, and ensure that the assessment of performance is indeed based on the measures of the deregulated policies.

3. Provide sustained coordination and support to the internal deregulation effort. A council of chief operating officers (as proposed elsewhere in the NPR recommendations) or similar group should be established for the top managers of agencies to alert each other to problems in internal deregulation as they are discovered, exchange information regarding effective approaches, coordinate development efforts, share solutions developed by one that apply to all, and so forth.

Training and training materials should be developed by the Federal Quality Institute and by the Federal Executive Institute. Both organizations should give particular emphasis to the development of objective output measures and their use in MIS and other feedback systems, as this appears to be the least understood area of internal deregulation.

4. Coordinate internal deregulation in the central management agencies. The issues for the central management agencies involve so many other agencies that high level coordination is required. The GSA model (an oversight committee, surveys of users both for problem identification and review of proposals, comprehensive purging and rewriting of regulations, specific projects to solve problems of common concern, and parallel development of comprehensive handbooks) plus performance measures should be used.

Fiscal Impact

Agencies undertaking internal deregulation will incur the cost of the headquarters task force and the field efforts to write handbooks, plus some training for a few individuals. All of these costs are within the current budget of nearly any agency that chooses to make

internal deregulation a priority.

End Notes

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2. National Academy of Public Administration, *Revitalizing Federal Management: Managers and Their Overburdened Systems*, November, 1983.
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4. Conducted by Mr. Chad Shandler, White House Intern and accounting specialist, on assignment to the National Performance Review.
5. The specific office, selected somewhat arbitrarily, is the Idaho state office of the Bureau of Land Management, Department of the Interior. This office is in turn broken out into Districts which are in turn broken into Resource Areas where the "on the ground" work gets done. These offices may add additional regulations.
6. According to the BLM Idaho personnel office, there are 195 permanent and 30 temporary employees in that office. There are an additional approximately 350 permanent employees in the Idaho District and Resource areas, but these offices also have additional regulations.
7. Merit Systems Protection Board, *Workforce Quality and Federal Procurement: An Assessment*, July, 1992.
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9. The nomenclature of government entities can be confusing. Technically, the heads of both departments and agencies report to the president, while the heads of bureaus report to department heads. In this paper, the term *agency* is used generically to refer to agencies, bureaus, departments, commissions, and other entities.
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SMC.9. EXPAND THE USE OF WAIVERS TO ENCOURAGE INNOVATION**Background**

Perhaps the most common complaint of citizens and public servants alike is that government is awash in a sea of red tape that paralyzes constructive action, stifles initiative and innovation, wastes untold resources, and generally represents bureaucracy at its worst. State and local governments chafe under federal mandates that are unfunded and often have marginal if any benefits in individual communities that don't "fit the mold" for which the mandate was created. Consider also that categorical grants from the federal government may require certain levels of expenditures for specific purposes (e.g., special education, drug rehabilitation, etc.) in every state regardless of the legitimate priorities of the community. In many cases, the enabling legislation prohibits federal agencies or local governments from reprogramming scarce funds to match the community needs.

At another level, many federal agencies encounter frequent frustrations with the Office of Management and Budget (OMB) and the central management agencies (i.e., Office of Personnel Management (OPM) and General Services Administration (GSA)) who are responsible for standardizing implementation of government-wide policies. Managers often find rigid, obsolete rules and regulations regarding budget utilization, personnel, and procurement to be insurmountable barriers to innovative management, improved customer service, and cost reductions. A frequent example expressed in the Vice-Presidents Town-Hall meetings FTE ceilings restrictions which forces agencies to contract out services that are more economically performed in-house. Although a few agencies (e.g., HHS, DOD, IRS) have been granted some latitude under research and demonstration authorities to waive non-statutory requirements, largely with positive results, this increased discretion is not widespread throughout government.

The irony is that the laws, regulations, rules, and policies that cause these frustrations, are for the most part motivated by a rational, well intended, and fair minded

desire to solve some particular problem or serve some specific public purpose. Thus we have a continuing paradox. Solutions to one problem simultaneously cause other problems, some which are worse than the original problem.

Our systems of laws and regulations are neither perfect nor consistent. It is exceedingly difficult to craft requirements that fit the wide range of conditions across the entire country. Even sound requirements that fit "on average" may be dysfunctional in situations that are not typical. Also, since different requirements often emanate from different parts of the government (e.g., EPA and Labor), conflicting or incompatible requirements may be imposed inadvertently. Moreover, as conditions, circumstances and public needs change, laws and regulations that may have once been effective are now obsolete.

The formal legal mechanisms to resolve these dilemmas are changes in the laws/regulations (or the pursuit of judicial relief through the courts). Both processes however, are time consuming, expensive, fraught with political uncertainty, and generally available only to those with the resources, expertise, and stamina to endure the lengthy and often frustrating appeals. Consequently many potential petitioners are often intimidated by the high costs and risks of challenging the requirements and choose the path of least resistance through minimal compliance even when the results are demonstrably undesirable.

Need for Change

There is an overwhelming need for a less arduous and costly processes for seeking relief from ineffective and unnecessary bureaucratic requirements. Even under the most carefully crafted rules, there are bound to be exceptional circumstances in which strict adherence would result in unintended and undesirable consequences. In these situations, there should be provisions for obtaining waivers from regulations/requirements. To be effective, obtaining these waivers needs to be a timely and reasoned resolution.

In the recently enacted Government Performance and Results Act (GPRA) Congress

recognized this need and instituted a process for "granting of managerial accountability and flexibility waivers; that is, the opportunity to be exempt from specific types of non-statutory administrative procedural requirements, in return for achieving greater program results than would otherwise occur".¹ However this provision of the GPRA applies to agencies in the Executive branch with specific limitations. "The requirements eligible for waiver are exclusively those regarding the internal allocation and use of resources. They do not include any requirements that directly affect persons or activities outside the agency." While the Congress "believes that the Act provides an important first step in a direction that may pay significant dividends", realizing the full potential of waivers requires even greater active responsibility by both the Executive and Legislative branches to extend the benefits beyond the boundaries of individual agencies.

Since different requirements may have different legal bases, (i.e., statute, regulation, rule, policy, procedure or guideline) the mechanisms for providing for waivers or exemptions will depend upon the legal foundation upon which the requirement is established. Only Congress can legislate the conditions under which a statutory requirement can be waived, except when the courts intervene to render a judicial finding to that effect. While federal laws should not be so porous that Congressional intent could be easily and frequently subverted, nor should they be inflexible nor insensitive to the dynamic and complex social and economic realities that they would produce inequities and injustices even while the public good is served in general. In principle, the design of legislative requirements should consider the conditions under which waivers and exemptions would be appropriate, and when justified such provisions should be incorporated into the statute. In addition to the GPRA, other examples of current legislation that provides for waivers include the Economic Enterprise Zone bill and the Goals 2000: Educate America bill.

Recommendation**1. Establish a process for obtaining waivers from federal regulations and identify those regulations for which this process should apply.**

The President should direct each agency to establish and publicize an open process for obtaining waivers from that agency's regulations and to identify those regulations or programs for which this process should apply. The process should include the following elements:

- To guard against frivolous petitions, waiver petitions must be submitted by heads of local or state governments or federal agencies. Petitions directly from private entities would not be accepted.
- Initial waiver decisions should be made in 90 days. If no decision is made, the waiver will be deemed to have been granted.
- The process should allow input from the office with line responsibility for issuing or implementing the regulation for which a waiver is sought, perhaps by having that office make the initial decision on the waiver.
- The process should include a right for the petitioner to appeal waiver denials to an agency or department office that does not have line responsibility for the issuance or implementation of the regulation at issue. (This might be a waiver appeals board, the general counsel's office, an office of program design, etc.) This is necessary to ensure that staff that are heavily invested in the existing regulatory structure do not block innovative programs.
- Decisions by the independent waiver appeals board can be appealed to the head of the agency by either the petitioner or the responsible office.
- As an additional safety valve, the President should designate an office within OMB to serve as an independent office from which petitioners may seek help when a waiver decision is appealed to the Secretary. A petitioner should be

able to present its position to this OMB office and then OMB would be required to advise the Secretary as to whether it thinks the waiver should be granted or denied.

- All documents submitted by the petitioners to either the agency or OMB must be made available to the public. Final decisions must be announced in the *Federal Register*.
- Initial waiver decisions could be granted by signature approval only, while denials would have to be supported by written explanations.

The rule adopting the waiver process should state that all regulations issued by the agency in the future will be subject to the waiver process unless explicitly prohibited in the new regulation.

The Administration should seek legislation that new legislative requirements would be considered to be subject to waivers by the administering agency unless explicitly prohibited in the new legislation.

Agencies must designate those existing regulations or programs for which the waiver authority will apply. The waiver process should be instituted immediately for those regulations for which the agency has the authority to do so. Where agencies need a statutory change to institute the waiver process, the Administration should seek such legislation.

Waiver authority should not be sought or instituted for all programs. It is appropriate in circumstances where the petitioner needs a waiver to try an innovative program, such as a state attempting to develop a new welfare program. It is also appropriate in circumstances where changes in circumstances outpace changes in rules. It is not appropriate in many situations where agencies are forcing private entities or states to take certain actions for health, safety or environmental concerns. For example, states should not have any additional authority to seek waivers of Clean Air Act requirements -- either for themselves or for private entities. Waivers of auto safety regulations are also probably not appropriate.

Each agency should be responsible for maintaining a data base that tracks the number and types of waivers that are requested and granted across the entire federal government. When significant patterns and trends suggest that a specific regulation or law is creating pervasive problems, then OIRA could initiate a formal review to revise or abolish the requirement. For example, 48 state agencies have waivers from the Medicaid program allowing them to provide community-based services as an alternative to nursing home care, which is the service routinely covered by Medicaid.² With such a preponderance of states seeking waivers, the basic policy clearly demands attention. Since the rigorous evaluation of the efficacy and validity of demonstration waivers may be complex³, the collection of accurate and reliable data reflecting positive and negative experiences is essential to sound policy formulation.

Fiscal Impact

At the federal level there may be a modest increase in the transactions costs of processing, approving/denying, tracking and analyzing the larger number of waiver requests induced by this recommendation. However this is likely to be greatly offset by the substantial economies and improved management efficiencies resulting from the liberation of countless civil servants now laboring under counter-productive "red tape". At the state and local level, such relief would yield even greater savings as the benefits are multiplied across the entire nation. Recent experience with more liberal waiver authority in DOD's Model Installation Program, the reinvention labs of the Veteran's Administration and the Forestry Service indicate that the returns on investment are substantial and risks of abuse and evasion are inconsequential.

Endnote

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