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- Budget -

Divider Title: _____

National Performance Review
750 17th Street
Box 101
Washington, DC 20006

U R G E N T

NOTE TO: REVIEWERS

FROM: Beverly Godwin *Beverly Godwin*
Leader, Mission-Driven, Results-Oriented
Budgeting Team

SUBJECT: Review of Draft Materials

DATE: July 20, 1993
(comments due back by Thursday, July 22)

Attached is a draft of the final Accompanying Report for the Mission-Driven, Results-Oriented Budgeting Team of the National Performance Review. Thank you in advance for your review of this material. We look forward to your comments and will incorporate as many of them as we can. Your review will enhance the quality of the final product. We are particularly interested in: 1) specific examples of horror stories that support the need for change; 2) specific success stories that prove the proposed changes have been tried and worked; 3) whether or not our recommendations are clear (and on the right track); and 4) any other suggestions you want to make.

The tight deadlines we are under require that we must receive your comments by close of business Thursday (July 22) in order for changes to be made to the next draft (which is due to Vice President Gore close of business Friday).

Please fax or messenger your comments to me.

FAX: (202) 632-1040

MESSENGER: 1120 Vermont Ave., NW
10th floor
Washington D.C.

We will treat your comments on a friendly personal basis; that is, we will not portray them as representing the official position of your organization unless you indicate otherwise (e.g., if you provide us with a specific quote or citation you would like us to use).

If you have questions, please call me at 202-632-0294 (x-178).

July 19, 1993
DRAFT
FOR INTERNAL NPR USE

MILESTONE 3

**MISSION-DRIVEN
RESULTS-ORIENTED
BUDGETING**

NPR Accompanying Report Number xx
September 1993

Contributing to this report: Beverly Godwin (Team Leader), HHS; Gerald Britan, AID; Pamela Johnson, AID; Brad Leonard, DOI; Jane McNeil, USDA; Carol Nicholson, HHS; Yesica Ramos, White House Intern; Gail Waiters, City of Sunnyvale, CA; David Worzala, DOT.

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SUMMARY

SUMMARY

OBJECTIVE

Our objective is to shift federal planning, budget development and resource management from an emphasis on "managing inputs" to an emphasis on "managing for the results." We envision federal agencies and programs with clear objectives, explicit strategies for achieving those objectives, and specific targets that they strive to meet. Accompanying this, we see performance agreements and regular performance measurement as cornerstones of a new results-oriented system of accountability. Within the executive branch, we see authority and responsibility for setting and adhering to Administration policy devolving from central agencies to agency heads. Once decisions on policy goals are made, we see program and line managers with clear responsibility for of day-to-day management decisions as to how to best achieve those policy goals. We see a budget process that eliminates unnecessary paperwork; focuses analysis on the critical issues facing our nation rather than not on decisions at the margin; and builds a consensus and commitment throughout the executive branch on the hard choices needed to reduce the deficit and better accomplish identified missions. We envision much more attention being paid to managing existing resources--to encouraging innovation and improving productivity --and less attention to planning and asking for more. And, we see empowered managers at all levels of the Federal government not only more accountable for results, but also freed from unnecessary controls that distort the way they spend their time, reduce their productivity, and reduce their ability to achieve results. We expect that the increased innovation and improved effectiveness associated with such mission-driven, results-oriented budgeting will more than compensate for any perceived lessening of control from fewer input controls and limitations.

BACKGROUND

Interest in measuring government performance, and tying those measures to the budget, is not new. Recently, however, there has been a renewed effort to legislate the measurement of performance in State and Federal governments, and to tie these results to budgeting.

At the Federal level, the Chief Financial Officers' (CFO) Act of 1990 requires development of systematic performance measures and financial statements that reflect the results of operations. The Federal Accounting Standards Advisory Board, an interagency group charged with developing common accounting standards for the Federal government, is currently looking at the use of performance measures for financial reporting. The Government Performance and Results Act of 1993 (P.L. _____), signed by President Clinton on July __, 1993, provides a very firm basis for improving government performance by requiring all Federal agencies to implement results-oriented planning and performance measurement over the next five years. It also requires several pilot projects in agencies linking performance measures to managerial flexibility and the budget process. Some Federal agencies, such as the Internal Revenue Service (IRS), the Department of Defense (DoD) and others, have already begun moving aggressively to introduce and use results-oriented objectives and performance measures for management and evaluation, to tie performance measures to unit costs and budgeting, and to allow greater flexibility for managers in exchange for results. Such successes, however, are found only sporadically, and much more needs to be done to improve the Federal government's capability to plan and measure results in order to achieve mission-driven and results-oriented budgets and services.

The current budget process has four major phases that are only loosely tied to most agencies' efforts at strategic planning and performance measurement: 1) formulation by the executive branch; 2) presentation of the President's budget; 3) Congressional review and decision; and 4) management of the enacted budget. Any given year's budget stretches over at least five years from initial formulation to final close-out. The \$1.5 trillion annual budget is offset by \$1.2 trillion in annual revenues, thereby adding to the

deficit at a rate of \$300 billion per year. At the end of May 1993, there was \$3.2 trillion of debt held by the public, compared to \$785 billion at the end of 1981. It is estimated that the public debt held will be \$4 trillion by the end of 1996. More than half of the budget is made up of entitlements and interest on the national debt. Only 36 percent is discretionary, that is, not mandated by law and controllable through the process of Congressional appropriation which is the focus of the current budget process.

Some agencies (such as the Department of and Defense and the Forest Service) have, on their own, eliminated many unnecessary controls and have simplified their internal budget processes. In addition, the Clinton Administration has introduced innovations that are already simplifying the budget process, providing earlier and clearer guidance about program priorities, defining desired outcomes, and encouraging collaboration across agency lines. Yet, much more still needs to be done.

PROBLEM

At present we have input accountability and front-end controls, and therefore little risk-taking and innovation by managers. The current budget process consists of fictional requests and promises, focuses on inputs rather than results, and lacks priorities. The process is labor-intensive, full of incentives to request as much as possible and to spend all that is appropriated. The current process focuses primarily on marginal changes in the budget rather than on decisions within the current base; on appropriated funds, rather than the entitlement funding that is really driving the deficit; and on budgeting by organization, rather than by cross-cutting missions to meet broader Administration goals.

The budget process is also marked by a culture of distrust and poor communication, with very limited input by stakeholders and customers. Distrust leads to micro-management -- by Congress, OMB and agency budget offices -- which adds more and more expensive controls, but little value to products. Managers have limited flexibility to effectively use resources to achieve results and they are not usually held accountable for results anyway.

MAJOR THEMES AND RECOMMENDATIONS

We have structured our recommendations around three major themes to achieve a more mission-driven, results-oriented budget and government: 1) strengthen performance planning and measurement; 2) make the budget process more efficient, meaningful and rational; and 3) empower managers to achieve results. Throughout these three themes, we have interwoven recommendations to transform the current budget culture.

[INSERT GRAPHIC OF PYRAMID WITH THREE THEMES HERE]

Under the three broad themes, we have categorized our __ recommendations under nine issues. Each of these nine issues appears as a separate issue paper in this report. Each recommendation has been categorized by locus of implementation, as follows:

Category 1: Secretary or Agency Head can implement

Category 2: President or OMB can implement

Category 3: Legislation required

Category 4: Longer term idea; specific implementation strategy unclear

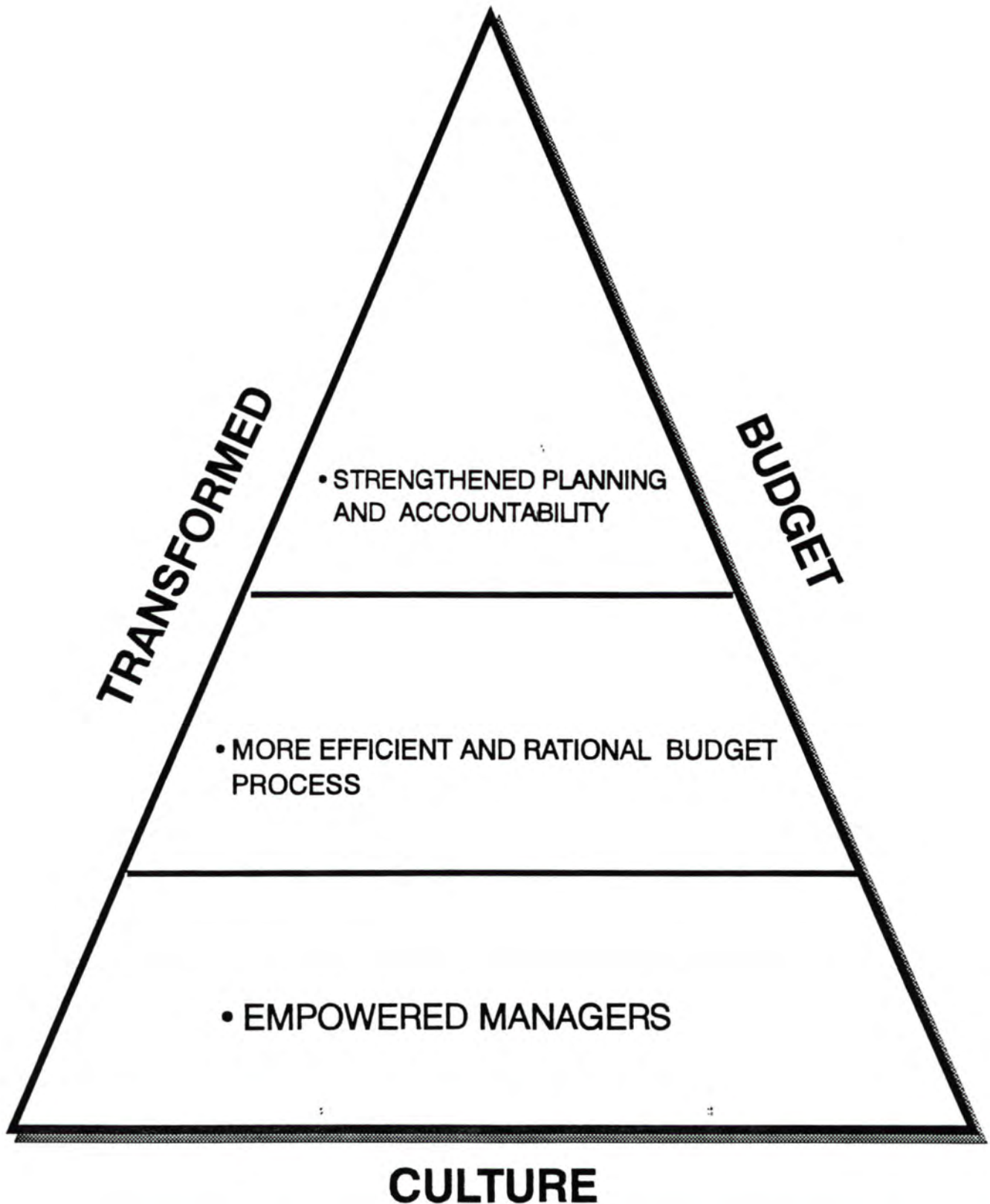
Our major recommendations are summarized below:

Note to Reviewers: The following summary of recommendations will be refined once the order, structure, and precise wording of the recommendations becomes clear.

I. Strengthen performance planning and measurement

- o The White House should lead the development of a "National Framework for Action" to provide a clear vision and reference point for performance planning, budgeting and management for programs, agencies, and government-wide.
- o The Federal government should make broad use of performance agreements between the President and Agency heads, between Agency heads and other senior officials and with other managers to focus on organizational results, reinforce teams and support them with orientation, training and ongoing assistance.

Mission-driven, Results-oriented Budgeting



- o Each Cabinet Officer and Agency Head should articulate a clear strategic framework as called for under the Government Performance and Results Act and establish performance agreements broadly to clarify expectations and hold senior management accountable for managing for results.
- o The Director of OMB should designate OMB as a performance planning and measurement "pilot" to lead by example in the improvement of government performance.
- o OMB should promote early initiation of performance planning and measurement in all agencies, whether or not they are designated as the Government Performance and Results (GPRA) pilots, by incorporating performance objectives and results as key elements in budget and management reviews.
- o Agencies should identify appropriate internal review teams, led by line managers to coordinate performance information systems and to independently review performance information quality and validity.
- o OMB should fully integrate program performance requirements and reporting under the GPRA, CFO Act, Total Quality Management and other initiatives.
- o OMB should establish a competitive "innovation fund" for performance measurement pilots.

II. Make the budget process more efficient, meaningful, and rational.

The new vision of the budget process has policy and overall budget guidance driving the development of estimates. We recommend that:

- o The White House should develop an Executive Budget Resolution to create a mechanism for communicating the overall fiscal limits and the allocation of resources within those limits and set multi-year targets within the caps for discretionary spending. The Executive Budget Resolution should focus on the broad missions of government rather than individual agencies.
- o The March through September time frame should be used by the Administration to define and refine the significant policy issues to be reflected in the budget (and elsewhere, such as in legislative proposals). The old process of bottom-up budget development will be replaced with a rolling 5-year budget system with less detail and a substantial savings of management and staff effort.
- o Agency budget submissions should not be due to OMB until late October and should reflect preliminary past year figures and Congressional action on the current year. Because of the front-end guidance on policy issues and tentative budget allocations, the review will be focused on final adjustments and refinements to the requests and should be simpler, less controversial, and more open.
- o More analysis should be focused on fewer issues earlier in the formulation of the President's budget (May through September), with full participation of agency management and staff.
- o Agencies should focus more time on how to use funds already appropriated wisely, effectively, and efficiently to achieve performance goals and standards for outputs.
- o The President should propose a biennial budget starting with FY 1996-97. The biennial budget will have separate pieces for FY 1996 and FY 1997. Congress should adopt biennial budget resolutions and appropriations.

- o Statutory outlay limits should be eliminated or de-emphasized.

III. Empower managers to achieve results.

- o There needs to be a substantial decrease in the number of itemized front-end limitations over time that free managers to apply resources effectively and efficiently to obtain outputs. These include overly detailed appropriation accounts, report language, apportionment restrictions, and allotments. Use of across-the-board FTE ceilings as a control tool should be eliminated.
- o Managers need to make use of tools and mechanisms available to work more comfortably within remaining front-end limitations to achieve results. The Unified Budget Plan should be implemented in the Department of Defense and other agencies. Agencies need to work with the Congress toward greater flexibility to transfer between appropriations and to reprogram funds within appropriation accounts. The Executive Branch needs to examine the timeliness of its processes for handling reapportionments, reprogramming, and reallocation.
- o Where control systems need to be maintained and authority cannot be delegated, there needs to be an effective system of waivers to address impediments to efficiency or unintended side effects of controls.

These recommendations result from intensive discussions with and the insights provided by many participants in planning and budget processes inside and outside of government. They are inter-dependent with other recommendations by the National Performance Review, especially those relating to Leadership and Management, Financial Management, Organizational Structures, Personnel and Customer Service. If adopted, they will contribute to a radical shift in the budget process and the culture of budgeting, as portrayed below.

TRANSFORMING THE CURRENT BUDGET PROCESS AND CULTURE

CURRENT	TRANSFORMED
Rule-driven	Mission-Driven
Rowing (fast and hard)	Steering
Micro-management	Macro-management
Top-down controlling	Empowering
Government monopoly	Competition
Inputs	Outputs
Bureaucratic	Customer-driven
Risk averse	Entrepreneurial
After-the-fact management controls	Prevention
Hierarchical and secretive	Participatory teamwork
Control, accountability for inputs	Leadership, leverage, and influence

INTRODUCTION

The federal budget process is the most visible means by which the government decides how much money to spend, what to spend it on, and how to raise the money it has decided to spend. Once these decisions are made, the budget and financial management systems ensure that the decisions are carried out. The budget process is controlled by laws, including appropriations laws, Congressional report language, OMB circulars and apportionment documents, agency allotment and financial procedures, and a control-oriented culture focused on ensuring that detailed front-end limitations are met. Major laws and circulars related to the budget process are listed in Appendix A.

Federal spending is currently about \$1.5 trillion per year, and revenues are approximately \$1.2 trillion per year. This \$300 billion annual deficit is met by borrowing -- thereby adding to the national debt.

- o In Fiscal Year 1994, only \$550 billion, less than half of the \$1.5 trillion of annual federal spending is subject to the appropriations process (i.e., categorized as discretionary spending). In Fiscal Year 1994, the discretionary budget is 36 percent and is projected to drop to 32 percent of the budget by fiscal year 1998.

[INSERT GRAPHIC ON BUDGET ALLOCATIONS]

- o About 50 percent of annual Federal spending is for entitlements--direct spending provisions in numerous laws. It is estimated to grow to 53 percent by Fiscal Year 1998.

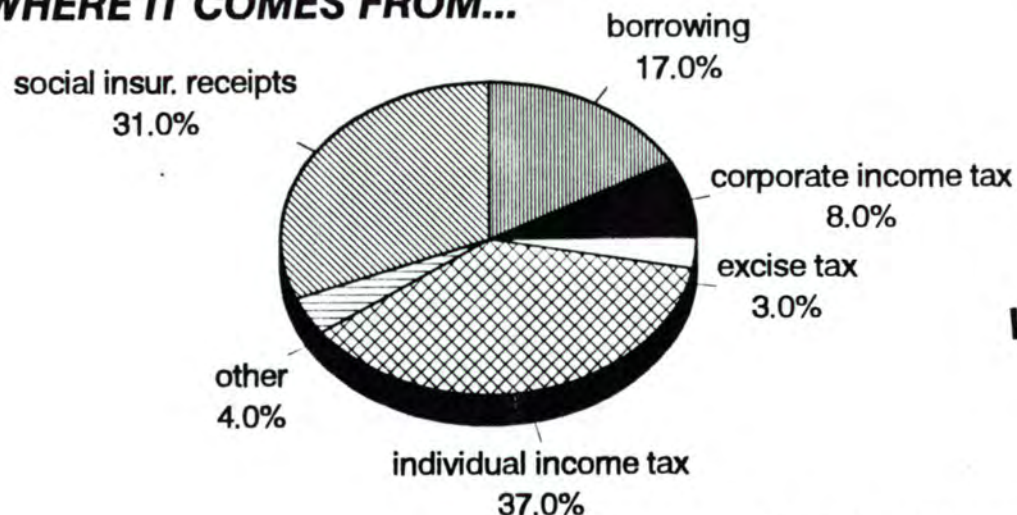
INTRODUCTION

THE FEDERAL GOVERNMENT DOLLAR

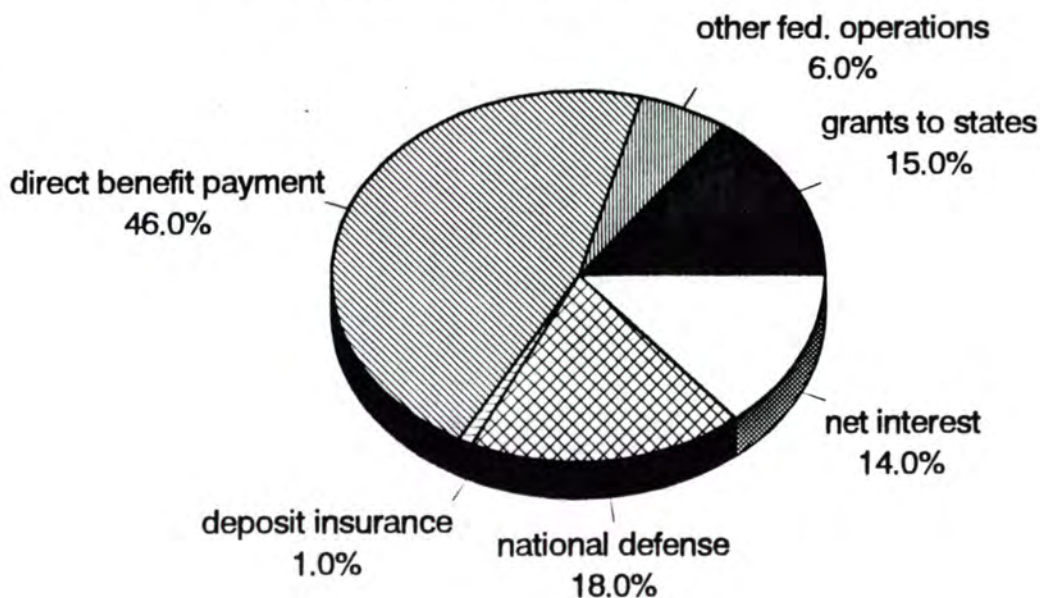
FISCAL YEAR 1994

ESTIMATE

WHERE IT COMES FROM...



WHERE IT GOES...



SOURCE: Budget of the United States Government, FY 1994

- o About 14 percent of annual spending is to pay net interests costs, including interest on the national debt.
- o The massive size of the total federal budget means small changes in interest rates, inflation, employment levels, or the size of beneficiary populations can add billions to federal spending (e.g., a one percent increase in unemployment increases Food Stamp participation by about 1 million persons at an annual cost of about \$1 billion).

[NEED TRANSITION HERE]

PERFORMANCE MEASURES AND BUDGETING

Interest in measuring government performance, and tying those measures to the budget, is not new. Recently, however, there has been a renewed effort to legislate the measurement of performance in State and Federal governments, and to tie these results to budgeting. Several things contributing to this effort are as follows.

- An era of scarce public resources causes a need to reconsider priorities.
- Several States recently passed laws requiring performance reporting by State agencies.
- The National Academy of Public Administration (in 1991) and the American Society for Public Administration (in 1992) both passed resolutions on performance measurement.
- Accreditation, regulation and oversight organizations have been taking actions to increase performance measurement and accountability of schools, colleges and hospitals.

- The Governmental Accounting Standards Board (GASB), the standards-setting body for State and local governments' external financial reports, recently researched performance measurement (Service Efforts and Accomplishments) in 12 State and local services: elementary and secondary education, wastewater treatment, mass transit, sanitation collection and disposal, fire department programs, public health, higher education, economic development, hospitals, police, public assistance, and road maintenance.
- The Chief Financial Officers' Act of 1990 requires development of systematic performance measures and financial statements that reflect the results of operations. Some agencies such as the IRS are moving aggressively to introduce and out to use performance measures under the CFO Act.
- The Federal Accounting Standards Advisory Board, an interagency group charged with developing common accounting standards for the Federal government, is currently looking at the use of performance measures for financial reporting purposes.
- The Government Performance and Results Act of 1993 (S. 20), currently pending, would require strategic planning, annual performance planning and reporting, and managerial flexibility for Federal agencies. It would also require several pilot projects in agencies linking performance measures to managerial flexibility and the budget process.

[NEED TRANSITION HERE]

THE CURRENT BUDGET PROCESS

The budget process involves the simultaneous consideration of policy priorities; the

resource needs of individual programs; the appropriate allocation of resources among the varying functions of government; the effect of government outlays or revenue collections on the current and perspective condition of the national economy; and the statutory or regulatory constraints governing federal expenditures or income. Also, with the massive increase in the national debt, attempts have been made to use the budget process to force reductions in annual deficits.

The existing budget process is a five-year plus process with four main phases.

Phase 1: Formulation of the President's budget.

Phase 2: Presentation of the President's budget to Congress and the public.

Phase 3: Congressional review and action on the federal budget.

Phase 4: Budget execution (management of resources, including actual spending or revenue collection)

[INSERT GRAPHIC ON BUDGET TIMELINE]

Phase 1: Formulation of the President's Budget

Getting a head start - without knowing where the finish line is. Depending on the agency, the formulation of the President's Budget begins around February each year - 12 months before the budget is to be released and 20 months before the beginning of the fiscal year to be covered by the budget. This means the budget formulation process starts before the current fiscal year is half over and before the appropriation for the upcoming fiscal year has yet been determined. For some agencies, it begins before their current operating year budget is in place. As an example, some agencies began preparing the fiscal year (FY) 1995 President's Budget around February 1993-- less than half way through FY 1993 and months before macro fiscal and policy are made, let alone Congressional action on FY 1994 appropriation levels.

Besides lacking definitive fiscal data at the beginning of the process, budget formulation often begins without any specific guidance on total budget levels or on Presidential priorities. In many cases, at this stage there has been little guidance about

internal priorities from the Agency head.

A bottom-up process: The budget formulation process begins when program managers at the bureau level and other sub-components below the Agency level start to consider budget options for the activities within their jurisdiction. Bureaus begin considering budget options on the basis of spending and performance data gathered from a period nearly three years behind the period for which the budget is being formulated. In other words, budget options for the Fiscal Year 1995 Budget will be based on program activity data for Fiscal Year 1992, which is the only actual spending data available at the beginning of the process. Development of budget options embodies a significant amount of managerial and staff resources at the bureau level.

Agency level personnel are usually not involved in discussions related to the development of budget options at the bureau level. As noted by one bureau budget director, however, the bureau options are usually based on "flashes of information" regarding administration policy priorities.¹ Also, bureau budget options must be consistent with statutes, regulations, and other policy guidance on on-going activities occurring within the bureau's jurisdiction. Finally, and perhaps most importantly, bureaus have operational or performance experience to guide them in their budget development.

For the most part, bureaus put together budgets that discuss needs for additional resources and what could be done with those resources. Very little time and attention is put on how existing resources -- which total \$1.5 trillion less the approximately \$300 billion required to pay interest on the National debt -- could be used more efficiently or effectively. During our interviews with agency budget directors, one director said that bureaus come in for as much as 90% over what they would eventually receive. In other words, bureau budget proposals in the current process tend to assume the availability of new resources rather than recognizing that, under current statutory budget controls, any increase in Federal funding for an activity must be offset with a decrease in another activity (or, in the case of mandatory spending, an increase in revenue). The reality of current statutory constraints on the federal budget call for a redesign of the current budget process to enforce the budget discipline needed to meet statutory spending limits while

assuring that federal resources are shifted to administration priorities.

Beginning the Formal Process at the Agency Level: At the Agency level the formal budget formulation process ordinarily begins in March or April of each year with the issuance of a "call memo" from the Agency-level budget office to agency sub-components (called "bureaus" for purposes of this discussion). In a typical process, Agency Call Memos for the FY 1995 Budget would be released in March or April of 1993. Usually, the call memo asks bureaus to develop a series of budget options for each account within their jurisdiction. For example, the call memo may ask for two or three levels of budgetary resources for each account. The call memo may ask for: the bureau's proposed level, a current services level (i.e., last year's level plus inflation), and a level five or more per cent below the estimated current services level or below the level in the most recent President's budget (which is the only known level at the time the process begins). In recent years, the President's budget request was required to appear as the middle column of the budget materials prepared by Agencies. In other words, the materials being prepared for each account in the FY 1995 Budget show FY 1993 spending levels, the President's FY 1994 Budget Request level which had not yet been acted upon by Congress, and the FY 1995 request level. Note that none of these numbers are actuals; they are all estimates at this point.

Providing Guidance from the President, OMB Circular A-11: The only Presidential-level guidance normally issued to Agencies at the beginning of the process (i.e. April or May) is an updated version of OMB Circular A-11, which "provides detailed instructions and guidance on the preparation and submission of agency budget requests and related materials".² A general OMB letter may accompany the issuance of the updated OMB Circular A-11; but, no specific guidance is given on policy priorities, total budget levels or Agency allocations at this time.

Internal Agency Review: Normally, Bureaus are asked in the Agency call memo to submit their budget requests to the Agency Head by a specified date in late June or early July. Most Agencies conduct a "hearings" process on the Bureau budget requests during June, July or August each year. The "hearings" process allows Bureaus to make a

presentation of their request before Agency level policy and/or budget personnel. The hearings process is often the first time bureau personnel are informed about Agency level policy priorities and there still has not been specific Presidential guidance.

Internal Agency Decision Sessions: Upon completion of the Bureau budget hearings, Agency Heads consult with staff offices to decide funding requests for each of the accounts within the Agency's jurisdiction. Since the Agency's total funding request usually must be kept within a general target figure, the Agency's policy priorities are ultimately revealed through the process of determining the requested funding level for each account within the Agency's jurisdiction. However, since the policy choice must be made among programs solely within the Agency's jurisdiction, the choices are often made between very diverse and unrelated activities, such as between the farm support and food stamp programs of the Department of Agriculture. At this point in the budget formulation process, however, there is no mechanism for making policy priority decisions across Agency lines. In other words, there is no opportunity to consider best practices for accomplishing like goals among programs within different Agency jurisdictions.

Further, with the exception of the unique process for the Department of Defense (DOD), bureau officials and/or OMB budget personnel may not be a part of the decision sessions held to determine Agency request levels. In some cases, the bureau level involvement may only be through an appeals process once Agency level decisions are made. The most striking difference between the DOD budget formulation process and the process in other Agencies, is the participation of OMB personnel in the internal DOD Agency budget formulation process.³

Submitting Estimates to OMB: Historically, Agency budget estimates have been submitted to OMB on September 1 each year. Between September and late November, OMB personnel -- and sometimes other Executive Office of the President personnel-- review the Agency estimates. Agency staff are asked to supply data on various and sundry topics in answer to questions posed by OMB examiners who are in the process of drafting OMB option papers. If OMB examiners had been more involved in the Agency budget formulation process, they would have already identified major issues need policy attention,

many of their questions may have been answered during the formulation process or Agencies may have been better able to anticipate the data which would be needed.

Matching Presidential Policy with Budget Estimates, OMB Director's Review:

After receiving budget estimates from each of the Agencies in the Federal Budget, OMB has traditionally held a series of **Director's Review** meetings, in part based on the option papers drafted by OMB examiners. This is the first point in the current process formally designed for discussions of Administration policy priorities across Agency lines. This is also the point in the process when decision are made on total budget levels including revenue estimates and deficit reduction goals.

Unfortunately, Agency Heads or their designees are usually not involved in any of the boundary spanning issue discussions which may be held and/or in the discussions concerning total budget levels. Moreover, Agency personnel usually have not seen or been told anything about the OMB option papers used in the Director's Review process. And Agencies are already "locked in" by their submission to OMB.

Communicating the President's Guidance, Passback from OMB to the

Agencies: The OMB review of Agency estimates ordinarily finishes in late November or early December. At that point, Agency Heads are called to a "passback" session to receive the decision's arrived at through the OMB review process. The passback session with Agency Heads is often the first time Agency Heads are formally advised of the President's specific policy priorities and the funding level within which the Agency budget must be developed. Also, it may be the first time they are given information on issues which have been raised by OMB examiners, issues which cross Agency lines, and/or issues related to total budget levels.

Decision-making by default, The Appeals Process: Traditionally, the Agency Head is given 72 hours to file an appeal to an OMB passback recommendation. Given the short turn around, program manager involvement in the appeals process may be severely limited or non-existent. As a result, the appeals made by Agencies often lack staff analysis and issues of importance to program management are not taken into consideration. This is the root of much frustration expressed with regard to the current

appeal process which seems to foster decision by default, rather decision based on analysis.

Appeals are to be filed with the OMB Director. In some cases, though, the issue may be raised to the President for decision. The appeal process may last several weeks as negotiations take place between Agency personnel, OMB personnel, and other Presidential policy personnel. In fact, the appeal process is usually stopped only at the point where no time is left to enter figures into the budget system data base prior to the printing of the President's budget.

Phase 2: Presentation of the President's Budget

The President is required by law⁴ to submit the FY 1995 Budget to Congress no later than the first Monday in February 1994. Traditionally, the President's Budget is released shortly after the State of the Union address to the Congress. Besides the physical submission of the budget documents to the Congress, each department or agency usually holds a press conference, briefs Congressional staff, and issues materials to explain the department or agency's portions of the budget to the public and to justify estimates to the Congress.

Phase 3: Congressional Action on the President's Budget

Reaching Agreement in the Congress, The Concurrent Budget Resolution: The Congress begins its budget cycle after submission of the President's budget. the first step--to be completed by May 15th each year--is the drafting of a concurrent budget resolution by the House and Senate Budget Committees on the basis of estimates submitted from each authorizing committee and in consideration of the proposals in the President's budget submission. The concurrent budget resolution was created in the Congressional Budget and Impoundment Control Act of 1974 to give the Congress the ability to consider and set the broad outlines of fiscal policy vis-a-vis national needs, including both spending and taxation. It sets targets for total receipts and for budget authority and outlays, in total and by functional category, without regard to agency or Congressional committee jurisdiction.

Once adopted, the concurrent budget resolution reflects agreed-upon aggregate

funding levels by defined functional categories in the federal budget (Appendix B lists the functions and subfunctions used in the federal budget). A report accompanying the budget resolution provides guidance on the assumptions made to arrive at the functional totals, but neither the report language nor the functional totals are binding on other committees. Only the total discretionary spending caps and the PAYGO provisions are binding limitations. The concurrent budget resolution is not enacted as a law and does not require Presidential approval.

Appropriating and Authorizing Spending: After passage of the concurrent budget resolution, authorizing and appropriations committees begin drafting legislation to meet the budget resolution targets for the upcoming fiscal year. Authorizing committees work on legislation that will increase or decrease spending from entitlement programs or increase or decrease receipts from user fees. For example, a change in eligibility criteria for the Food Stamp or Medicaid programs will increase or decrease the spending for these programs. Likewise, a change in the requirements concerning meat and poultry inspection could increase or decrease user fee receipts. The revenue committees of the House and Senate (Ways and Means and Finance) handle legislation to increase or decrease taxes and other forms of revenue. The authorizing committees must propose offsetting increases or decreases to comply with pay-as-you-go (PAYGO) rules. The offsetting changes do not have to be within the jurisdiction of one committee. The only exception to these constraints is a Presidential determination that emergency spending is needed.

In some years, Congress enacts an omnibus budget reconciliation act (OBRA). Through OBRA, the Congress provides net spending targets to authorizing committees. The authorizing committees are responsible for proposing legislation to meet their net spending targets. Changes in eligibility standards, benefit levels, or cost-of-living formulas may be made to achieve the target funding level. OBRA may also set revenue targets, requiring changes in tax laws or other methods of raising federal revenues. User fees are usually considered spending reductions rather than taxes because they are enacted as part of a program's authorizing legislation rather than in a revenue package.

The appropriations committees must keep discretionary spending with the Budget

Enforcement Act (BEA) discretionary spending cap. Spending targets for the various appropriations subcommittees are devolved under an allocation process. Appropriations committee action is not included in an OBRA.⁵ Appropriation bills must be signed by the President by October 1 for most federal agencies to have funds to continue operations. When appropriation action cannot be completed by October 1, a continuing resolution is passed, permitting a continuation of agencies' operations at some stipulated rate.

A sequestration process is triggered if discretionary spending caps are exceeded or mandatory spending is not offset by spending reductions or revenue increases. Sequestration is the mandatory reduction of appropriation levels and direct spending in non-exempt accounts. OMB is the final scorekeeper and arbiter if sequestration is to be invoked.

Phase 4: Budget Execution Process (Management of Resources)

Budget execution - the actual managing and spending of resources occurs throughout the fiscal year and--especially with multi-year appropriations--beyond. It may involve budget amendments, rescissions, deferrals, or supplementals, if necessary, to reflect changing priorities and requirements. It includes close-out of appropriations, including contracts and other obligations. For FY 1995, the bulk of budget execution will occur between October 1, 1994 and September 30, 1995. Outlays from obligational authority made available with FY 1995 appropriations will take place over several subsequent years.

Most funds made available to federal departments are subject to the apportionment process established by the Anti-Deficiency Act and delegated by the President to OMB. The primary purpose of the apportionment process is to ensure that resources are available throughout the fiscal year so as to avoid deficiencies--overspending of an appropriation--that would force Congress to pass a supplemental appropriation. OMB sometimes apportions by time periods (e.g., quarter of the fiscal year) and sometimes by activities or object classes. Agencies may request that an account be reapportioned during the year to accommodate changing circumstances.

Most agencies develop a financial operating plan as soon as appropriation levels are

known. The financial operating plan sets the various appropriations committee and OMB apportionment funding limitations into the financial management control system of the agency and includes allotments for the agency's organizational elements, and programs, projects, and activities, as defined by Congressional action.

Government officials cannot impound (i.e., not spend) appropriated funds. If funds are not needed, the President may propose rescissions (in essence, negative appropriations) or deferrals (postponed spending) within certain guidelines established by the Congress. Funds must be spent on the programs, projects, and activities for which they were appropriated unless a transfer of funds has been approved or Congress is notified of a reprogramming (and, in fact, consents to the reprogramming). Supplemental funding requests, may be submitted to Congress at any time during the year, but under the Budget Enforcement Act must be offset as necessary to ensure that spending is under the BEA caps unless the President declares an emergency.

Most agencies do periodic reviews of year-to-date progress against their financial operating plans, make adjustments within reprogramming thresholds, and identify issues requiring reprogramming or supplemental action. These reviews usually occur more frequently late in the fiscal year when management decisions are needed to ensure that spending targets are met (e.g., whether contracts can be awarded by the end of the fiscal year, whether grants will be awarded, etc.). Close-out of appropriations is also required after the end of the fiscal year to ensure that obligations are liquidated.

PROBLEMS WITH THE CURRENT PRACTICE

The above Introduction to the budget process is cursory and more detail follows throughout this report. However, the reader should realize that the budget process is failing in several critical ways. First, it takes a great deal of time and energy, yet budget formulation is void of actual data until late in the process. Second, from a macro level, the process encourages Agencies to request additional revenues, even though there are large deficits. Third, there is no organized discussion about results.

Anyone reading the above description will agree that this is a process that is long, complex and filled with arcane processes and terms. Charles Peters described the federal budget from the private sector's perspective,

Gradually a hierarchy of administrative officers, executive officers, budget officers, congressional liaison officers, and public information officers grows up, almost the sole purpose of which is fund-wheedling. Since there is a certain logic to the proposition that without money an agency can't function, the bureaucrat ... finds nothing wrong with spending more and more of his time and attention aiding the quest for more money, much of which is now needed to support the large money-raising apparatus that has grown up in the agency ...

Because his performance will not be evaluated, at least in any serious way, the civil servant knows that the only way he can lose his job is through a budget cut that affects his program. Therefore, since his survival depends on avoiding such cuts, it is in his interest to hide unhappy truths about his agency's performance from potential troublemakers such as the Office of Management and Budget, which determines the president's budget recommendations to Congress; the General Accounting Office, which can audit the agency's performance and say it doesn't deserve what it is getting; and Congress itself, which has the final word on how much money the agency will get.⁶

Moreover, the process involves more than the direct cost of wasted efforts on fictional budgets and arcane processes that only budgetary experts understand. This is a process that does not result in clear consensus about the missions and objectives for which funds are being requested and appropriated. It does not define expectations for performance or results. It does superbly at generating claims for resources, but poorly at imposing rational fiscal constraints or framing hard choices and realistic alternatives to achieve given outcomes for decision-makers. Although budgets give the illusion of being bottom-up, it is paperwork not ideas that flow from the bottom. The process of developing

the budget and making decisions largely excludes the agencies and managers who will be responsible for carrying them out. Policy often comes as a result of the budget process rather than guiding it at the front end.

Managers begin the budget process of spending government resources without defined missions and objectives or performance measures. They have learned that they are accountable not for results but for compliance with a system of excessive, expensive controls and processes, a system built on mistrust. They operate within an environment that values compliance, controls, and conservatism, not customers, efficiency, cooperation, innovation or even results..

Although many of the contemporary problems faced by the country cut across agency lines, the process is "stove-piped." Policies, budgets and programs are usually planned, budgeted and executed within agencies. There is little cooperation and communication among agencies on crosscutting missions and issues. Finally, the entire process is burdened by outdated, inadequate tools, information and technology.

A VISION FOR A NEW BUDGET PROCESS

We envision a new budget process that:

- o is driven by missions and results - - not by rules and controls that add little value;
- o is dominated by line managers with clear objectives applying their innovative skills to improve services;
- o replaces an illusory bottom-up, hierarchical and secretive development of the budget with a team approach to meet the dual challenge of improving government performance and meeting the constraints on discretionary spending that will be with us for the rest of this decade;
- o encourages managing the resources that are appropriated, not continually seeking more resources;
- o finds resources for effective programs from decreases in less effective ones;
- o focuses on outcomes and results, not control of inputs;

- o measures accountability by results, by setting, meeting or exceeding standards and goals;
- o achieves efficiencies and better quality services in results not managerial compliance with detailed and sometimes conflicting input limitations and processes; and
- o replaces distrust of agencies, managers and employees from the outset with an attitude of "trust but verify."

Our recommendations attempt to apply the use of performance measures in various ways to achieve results-oriented budgeting, as follows:

- to improve management within a given level of resources;
- to hold managers accountable for performance within a given level of resources;
- to improve financial reporting in order to link program results and costs and to report on accomplishments;
- to assist in long-term strategic planning and budgeting; and
- to assist in informed decision making on resource allocation within and among programs.

ENDNOTES

1. Itteilag, Tony, Director, (title/office), Public Health Service, Department of Health and Human Services
2. Darman, Richard, Director, Office of Management and Budget, Transmittal Memorandum No. 63, CIRCULAR NO. A-11 Revised, July 2, 1992
3. Flinn, John, Director, Office of the Comptroller, Department of Defense, July 7, 1992
4. The Budget Enforcement Act of 1990.
5. This allocation process is known as the 602(b) allocation totals. They are set by _____.
6. Charles Peters, *How Washington Really Works* (Reading, MA: Addison-Wesley Publishing Co., 1993), pp. 44-45.

PART 1

**STRENGTHEN PERFORMANCE PLANNING
AND MEASUREMENT THROUGHOUT THE
GOVERNMENT**

**STRENGTHEN PERFORMANCE PLANNING AND MEASUREMENT
THROUGHOUT THE GOVERNMENT**

To manage Federal programs more effectively--to "do the right things better"--managers need to know what the "right things" are and how much of them they are expected to achieve. Yet, while some innovative Federal agencies have begun articulating results-oriented objectives and measuring program performance, few are obtaining the performance information needed to manage and budget for results. Indeed, recent surveys by the General Accounting Office and Congressional Budget Office suggest that strategic planning and performance measurement in most agencies remains a thin veneer that has had little effect on program operations.¹

The National Performance Review is only the latest in a series of presidential mandated efforts--dating at least to President Taft's 1912 Commission on Economy and Efficiency, through the 1937 Brownlow Committee, the 1947 Hoover Commission, and the Grace Commission of 1983--to improve the effectiveness of the federal government.. Many of these initiatives yielded substantial performance improvements; none resulted in revolutionary changes.²

The National Performance Review represents a more radical departure--an effort to replace the centralized bureaucratic relics of the industrial era with a more flexible and entrepreneurial government for the post-industrial age. While this "reinvention" charts a substantially new direction for the federal government, it follows a course that has been pioneered in private industry, state and local government, and overseas for more than a decade.

Since the late 1970's, American industry has been actively reshaping itself to meet renewed international competition through decentralization, delayering, a reorientation towards customer service, and an overall emphasis on quality. This "new management," which "empowers managers" to make "continuous improvements" in process and products, is built on a solid foundation of performance measurement. In the federal government, on

the other hand, we know only too well how much we're spending, but much less about what results we're buying.

A similar emphasis on "managing for results" is also permeating state and local government. As early as 1973, Sunnyvale California began adopting comprehensive performance planning, measurement, and budgeting as part of a new approach to city management. During the 1980's, Sunnyvale's success has been replicated in Oregon, Phoenix, Florida, and other states and cities throughout the country ³ Foreign applications--in the United Kingdom, Australia, New Zealand, Canada, Sweden, and elsewhere--also emerged by the middle of the last decade ⁴

In the 1990's, federal agencies have also joined the bandwagon, and some are making substantial progress. The Internal Revenue Service, for example, has developed a comprehensive strategic plan articulating a well-defined mission, explicit performance objectives, a clear strategy for achieving those objectives, and specific measures for assessing performance. Actual performance data are already being collected, related to financial measures, and used for operational decision-making. Full fledged performance management and budgeting is just over the horizon. Similarly, despite a lack of top-down strategic planning, the Agency for International Development (A.I.D.) has also been implementing a bottom-up strategic planning and performance measurement system. Over the past two years, more than 60 of A.I.D.'s country field missions have begun getting and using performance information in program decision-making. Some of A.I.D.'s more results-oriented programs, such as child survival and family planning, have already made substantial investments in the development of indicators and data collection and widely use performance information in strategic planning, operational decision-making and external reporting.

The Government Performance and Results Act of 1993 (the GPRA) encompasses some very critical components--strategic plans, annual performance plans, program performance measurement, and managerial flexibility and accountability--that are crucial to mission-driven, results-oriented budgeting and management. Our findings and recommendations are consistent with the GPRA, and in some cases go beyond certain provisions of the legislation to seize the momentum and opportunities as federal employees

in departments and agencies across the country realize how they can make an important contribution toward reinventing the federal government.

Our recommendations to strengthen performance planning and measurement throughout the government are included in three issue areas:

BUD. 1 Provide Strong Team Leadership with National Frameworks

BUD. 2. Develop Performance Agreements with Senior Leadership Reflecting Organizational and Policy Goals

BUD. 3. Optimize Implementation of the Government Performance and Results Act

ENDNOTES

1. Tessauro, 1992, Joyce 1993

2. Brookings 1993

3. Osbourne & Gabler 1992, Kamensky 1991, Epstein 1992, Texas Performance Review.

4. Kamensky 1991, Tessauro 1992.

Strengthen Performance and Planning Measurement

BUD 1. PROVIDE STRONG TEAM LEADERSHIP WITH NATIONAL FRAMEWORKS

Background

Many have described the Federal government as a "stovepipe" organization. Departments and agencies and bureaus within departments are organized vertically with strong managerial hierarchies and few incentives or opportunities for reaching across organizations. Certainly the federal budget follows this model. Only 29 of its more than 1000 pages are devoted to a description of the budget by functions such as environment, health and the administration of justice. The remainder details the budget organization-by-organization, unit-by-unit, a kind of stovepipe budget, a financial organization chart for the federal government. One needs to search to find the 17 government agencies that are all funding education programs, from the Commerce to the Interior Departments.

Policy development is also frequently stovepiped. According to a 1992 National Academy of Public Administration study, a critical factor in the distrust between the Congress and the Executive branch is the lack of capacity for broad planning and policy development. The study notes that policy focus is "fragmented, episodic, and often too narrow. Jurisdictionally limited channels of policy making are used without coordination or regard for clearly related policies and programs developed in other such channels. Few incentives or structures exist to facilitate policy planning and development with a wider view."¹

With the mounting deficit, policy makers find themselves captive to the budget and its processes. Without a ready capacity to make **smart** budget cuts across the federal budget and across agencies, policy makers find that they are almost bystanders as the discretionary portion of the Federal budget is simply being whittled away year by year, without a plan for the shape of the object being whittled.

Indeed, the current Federal policy and budget planning process was developed in a

time when resources were increasing and emphasizes bottom-up justification for the use of new resources. Although there are pockets of innovation across the federal government, in general, the budget and planning process is poorly designed for a time of belt-tightening and difficult choices. It is difficult to make informed choices and garner the necessary political consensus when there are few effective mechanisms for: establishing substantive priorities that cross agency lines; identifying potential consolidations or terminations of activities; making comparisons of different approaches to achieve the same mission; or monitoring broad policy outcomes to provide the basis for effective decision-making in the future.

The Clinton administration is laying the ground work for broad, mission-driven policy initiatives in a number of cross-cutting areas, e.g. healthcare reform, eco-system management, workforce development and job creation, community lending and welfare reform. The administration is reaching out to the public in unprecedented ways to seek ideas, formulate policies and attempt to broaden political consensus. Such debate and policy development are essential steps in providing the type of broad framework that agencies need to do effective strategic planning and to develop mission-driven, results-oriented budgets over the long term.

Need for Change

There are powerful reasons to think more strategically on the national level about the way that the federal government plans for the use of federal resources and to exercise effective team leadership to set cross-cutting missions and goals.

The size of the federal debt and deficit have brought the need for hard decisions about priorities for the use of government resources into high relief. Clearly, we cannot continue to try to do and pay for everything. However, formula-driven incremental cuts or cuts simply along organizational lines can be mindless exercises, cutting the essential along with the trivial, undermining both performance and morale. In the face of overwhelming budget pressures and cutbacks, one still needs to find ways to achieve essential missions and mobilize resources for important priorities, to identify which roles the federal

government should play and which it should not. It is important for both sound management and budgetary reasons to be clear about mission and objectives - - for every federal entity and the government as a whole to work hard to clarify what it is seeking to achieve, what is essential, what does and does not work well and what is unnecessary or simply duplicative. Achieving cuts of the magnitude that are needed - - e.g. \$5.4 billion in discretionary spending outlays from FY 1994 spending proposals and at least \$13 billion in FY 1995 spending proposals - will be extremely difficult and painful.

This budget crisis also represents a major opportunity to move to a leaner, more effective government. Clearly the time has come to structure a process by which priorities can be identified and funded and non-priority programs and duplication are eliminated. As Vice-President Gore has said, "We can choose to die 1,000 deaths from 1,000 across-the-board formula cuts, or we can rethink our priorities . . ." ² Strong leadership is needed throughout the government to reach consensus and develop clear guidance about priorities for the use of government resources. There needs to be more involvement of agencies and other stakeholders in setting priorities, better coordination across agencies to avoid duplication of effort, and good information about the results of alternate approaches to achieve key policy objectives so that informed budget reductions can be made when necessary.

In the current budget formulation process, little policy analysis (relative to the fiscal impact) is expended on ways to control mandatory costs or to analyze the appropriateness of tax expenditures. Moreover, it is rare that an analysis is made to compare the effectiveness of tax expenditures versus mandatory or discretionary spending. Presently, the time spent during the budget formulation on mandatory programs is usually devoted to legislative initiatives or to debates over Office of Management and Budget, Congressional Budget Office or Agency models for determining current estimate levels. Admittedly, there is some effort expended during the current budget formulation process on recommended legislative proposals for mandatory programs. The effort expended on these proposals, however, pales in comparison to the efforts expended to justify and support changes in discretionary programs and the weakness of the effort is often reflected in the quality of the recommendations.

Finally, the challenges that the United States faces today do not fit in neat organizational structures, particularly organizational structures put in place fifty years ago in many cases. Reorganization is not the answer. Reorganization is expensive, time-consuming and demoralizing and usually outdated by the time it is in place. Instead, facing contemporary problems such as homelessness, the environment, healthcare and workforce development requires working across Federal organizational lines as well as with diverse groups at the state and local level. Virtually no federal agency has a mission that is not impacted in some way by other federal agencies.³ While coordination and collaboration across borders can be time-consuming, there is no realistic alternative. And, working together with other federal agencies can enhance the potential for impact. Leveraging state, local and private resources by exercising leadership, defining goals and testing and sharing effective approaches enhances the potential still more.

Attention to a more coherent, cross-cutting approach to policy development on the federal level is long overdue. States and local governments across the country have been leading the way. Oregon, Florida, Minnesota and Colorado are among the states that have found ways to articulate statewide missions, establish benchmarks and put greater emphasis on defining what has been called "the bottom-line of government."⁴

By and large, parliamentary governments have effective mechanisms for debating policy alternatives and, for a number of reasons, enjoy a much higher degree of consensus about the proper roles of government and of the broad missions and goals of individual government programs.

A long-time goal is to have a planning and budget process that not only succeeds in driving down the deficit but also supports the essential missions of the federal government, one that frames and links policy and budget decisions and permits informed analysis of alternative approaches to achieve desired policy outcomes, and a planning and performance measurement process that ensures that government programs can be held accountable for results.

Recommendations

1. **Develop a National Framework for Presidential Priorities (Category 2)**

Provide clear leadership and vision by developing a National Framework for Presidential Priorities that highlights areas of national need and articulates the administration's key objectives and priorities across the entire government. The Framework would be formulated by the President in consultation with Agency heads and others and build, for example, on A Vision of Change for America,⁵ the President's comprehensive economic plan that accompanied his address to the Joint Session of the Congress on February 17, 1993.

The development of a National Framework for Presidential Priorities would have a number of positive benefits. It would help to:

- Clarify priorities and frame choices;
- Empower change across the Federal government;
- Strengthen policy guidance for the preparation of the President's budget, especially for the FY 1996-7 biennial budget;
- Involve key stakeholders;
- Guide strategic planning by Agencies; and
- Facilitate improved coordination across Agency lines.

The need to develop such broad policy guidance has been endorsed by many. NAPA, reviewing the bases for distrust between the executive branch and the Congress, calls for a presidential agenda of national needs and goals to "define the overriding, long-term issues and problems around which the policy planning process should be structured." NAPA cautions, ". . . if processes drive policies - if machinery and procedure are substituted for content and policy goals - then many of the most critical issues are neither debated nor even addressed before crisis overtakes contemplation."⁴ Many corporations have begun their planning with some sort of strategic planning process; we are talking about the step that precedes this, what James Belasco calls vision, "Vision is the difference between short-term "hits" like asset sales and cutting R&D budgets, and long-term change. . . Vision empowers people to change."⁵

An essential element is the involvement of Agency heads in the formulation

of the National Framework. If this is done, the process will strengthen the effective implementation of the Agency-specific strategic planning called for in PL - XX, the Government Performance and Results Act by defining the administration's overall vision and priorities in cooperation with those who will be primary leaders in implementation.

A framework to guide Agency-specific strategic planning is especially important for those with common or related missions and to help agencies to avoid atomized or "stovepipe" planning. The need for overall vision from the top is illustrated by one agency that initiated a strategic planning process in its field offices with little policy direction from the top or consensus about the mission of the agency. This bottom-up-only process yielded nearly 1,000 different objectives, well beyond the capacity of any organization to manage or assess.⁶

Top-level policy guidance is needed for agencies as well as for field offices to plan sensibly and strategically in support of administration priorities and the principles of "reinventing government."

The actual process could take various forms, but should include the following elements: articulation of overall vision, goals and objectives, endorsement of broad principles on reinvention, consideration of benchmarks, and involvement of agency heads and other key stakeholders.

2. Empower Cross-cutting Issue Coordinators (Category 2)

The President should empower coordinators for policy development to coordinate within broad cross-cutting issues. Their roles should include: identifying priority cross-cutting issues; assuring that adequate in-depth analysis and consultation are obtained on cross-cutting issues; facilitating multi-agency discussions on policy; assuring effective policy input in the budget process; identify areas of duplication and potential waste as well as programmatic gaps; assure that adequate analysis and consultation are obtained on cross-cutting issues; and establish and monitor benchmarks on priority areas. Where coordinators already exist, it should be determined that the above functions are fully addressed, particularly those

related to agency participation in policy discussion and the mechanisms and relationships for having timely input into the budget process.

We considered several alternatives for the location of coordinators and believe that there should be flexibility in determining the best location and individual. Australia has assigned a lead secretary to coordinate policy development and, in addition, make actual resource allocation decisions. The Intelligence Community in the U.S. follows a similar approach with the Central Intelligence Agency in the lead role.⁷ In general, the locus of such policy coordination is and should be in the Office of Policy Development in the White House as the Clinton administration is doing. One approach would be to identify issues coordinators who correspond to each of the Program Associate Directors in the Office of Management and Budget (OMB); this would facilitate close linkages between policy and budget decisions. In any event, strong links will be needed with OMB to assure that the benefit of OMB staff expertise in specific areas contribute to the policy development process and that staff can support needed policy analysis. The proposed Office of Strategic and Quality Leadership might also be involved in the strategic planning and measurement aspects of the proposed approach.

An early activity of the coordinators would be to participate in the process to develop the National Framework and the cross-cutting strategic frameworks (BUD1.3) and the Executive Budget Resolution (BUD XX) described below.

4. Develop cross-cutting strategic frameworks and link them to budget (Category 2)

In areas of administration priority that affect multiple agencies, the Office of Policy Development in the White House should take the lead in developing cross-cutting frameworks to achieve the following:

- 1) Provide a framework that articulates overall mission and objectives and provides broad policy guidance for agency-specific strategic planning and budgeting;
- 2) Link budget guidance and review processes to policy priorities and the

- capacity to walk back and forth between budget and policy decisions;
- 3) Provide a plan that is supportive of implementation of the Government Performance and Results Act to monitor policy and program level outcomes over time in a cooperative way that reduces the costs of data collection and facilitates comparative analysis of alternative ways to achieve desired outcomes;
 - 4) Address the need for clear coordination and a forum where agencies and other stakeholders can contribute to and participate in the development of the above policy framework, budget guidance and monitoring plan as well as implementation;
 - 5) Involve appropriate stakeholders in the development of the above.

Such cross-cutting guidance to agencies is particularly important because most contemporary problems and virtually all of the administration's policy initiatives involve more than one agency as well as more than one level of government. A cross-cutting framework of policy priorities and budget guidance is needed to guide agencies planning and budgeting processes if a coherent, effective federal program is to be result. Formalizing the results of the ongoing policy development in cross-cutting strategic plans would take full advantage of the analytic work being carried out, benefit from the consultative and consensus-building process and broaden the impact and accelerate the implementation of administration priorities.

How might such an approach work?

The administration is beginning such an approach in its approach to the management of eco-systems like the Everglades. The programs of a number of federal agencies directly touch our nation's eco-systems, in addition to state and local agencies, businesses and many organizations. The federal departments of Interior, Defense, Transportation, Commerce, the Environmental Protection Agency and the Corps of Engineers and many state and local governments are involved in activities that have a direct impact on these environments. With the leadership and

coordination of the White House's Office of Environmental Policy leadership, the Federal agencies involved are developing a coordinated policy and laying plans to preserve specific ecg-systems in different regions of the country. The Office of Management and Budget is working with the group of agencies to coordinate budget issues related to ecg-system management and recently issued an ad hoc call for data about planned federal programs for FY 1995. The Federal agencies are also jointly looking at ways to use the Biological Survey to establish baseline data and monitor progress in the regions and are developing approaches to coordinate the activities of the concerned agencies on the local level with state and local programs and agencies.

There is evidence for the success of an approach that works collaboratively to reach consensus on goals and outcomes among a diverse group of organizations and decentralizes implementation, especially when the generation of new resources is involved and collaboration is seen as a win-win situation. The coordinated response to the Mississippi flood is a recent example of effective cross-governmental response; on Sunday, July 18, 1993, the President chaired a meeting with nine cabinet secretaries and the governors and other local officials to craft a coordinated response and ensure complementarity of federal and state resources and programs at the ground level. Some may say that this can be done in an emergency situation but not on more routine issues. However, the Federal Coordinating Committee for Science, Engineering and Technology (FCCSET), chaired by the White House Office of Science and Technology Policy, shows that this model can also be applied to longer-term issues such as climate change and biomedical research.

A real value of such a strategic approach is that the federal government can exercise leadership in areas where there is shared responsibility for outcomes. This is what took place in the Mississippi response. A similar approach has worked to leverage resources from a wide variety of resources across agencies and even across international boundaries in support of global immunization. Since the mid 1980's, the Agency for International Development and the Centers for Disease Control have participated in an extremely successful "virtual organization" committed to global immunization. More than 100 countries and many more organizations were joined

in a loose network by a common goal: achieving 80 percent immunization of the world's infants by 1990. U.S. experts helped develop performance measures and collect performance data for the global program and provided assistance to countries in Africa, Latin America, Asia and the Middle East. UNICEF provided nearly half of the required vaccine with European support. Rotary International led on polio immunization, raising more than \$200 million in private donations. The countries themselves provided the manpower and, except in the poorest countries, most of the resources. A small secretariat held meetings of global stakeholders; others led coordination on the country level. Political leaders provided the goal, the impetus and the leadership to achieve the goal in more than 100 countries.

A coordinated planning process may be more difficult when the issue is budget reductions rather than budget increases. However, it may be even more important to identify and develop strategies for we can do **less** of in this period of fiscal constraint. A similar approach may be appropriate to review policies across funding mechanisms, for example on the effectiveness of using loan guarantees, direct loans or grants to fund particular policy objectives.

Policy and budget decisions need to consider funding levels for mandatory and discretionary activities as well as cost levels for tax expenditures. Although the detailed discussions of program policies occurs outside the budget formulation process per se, inclusion of spending levels for mandatory activities and costs for tax expenditures in the Executive Budget Resolution process put a special focus on managing funds in a manner most effective to attain the objectives of the program or activity rather than merely using the budget formulation process to focus on incremental increases.

Also, including mandatory spending and tax expenditure targets in the Executive Budget Resolution should bring the issue discussions during the budget formulation process into a more proportional balance vis-a-vis the dollar levels involved in mandatory and discretionary activities and the cost of tax expenditures. Currently, an inordinate amount of time is spent on deciding funding levels for discretionary activities and the administrative costs of program operations.

4. Link policy priorities with budget categories (Category 2)

To be meaningful, many policy priorities must be linked with budget decisions. It must be possible to cross-walk easily between budget and policy decisions. See BUD.4.

Fiscal Implications:

In and of themselves, these recommendations are budget neutral. They are intended to facilitate the more policy-informed budget decision-making envisioned in the Executive Budget Process (BUD.4). By encouraging active collaboration across government lines, these proposals will also stimulate more effective programs within specified levels.

The cost of actually developing the National Framework and cross-cutting strategic frameworks should be reallocated from existing resources. For example, if the National Framework were included in the President's Budget, reproduction and distribution costs should be absorbed within that budget.

Fiscal Impact

(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:

Related NPR Reports:

Management and Leadership, Organizational Structures and State and
Local Government.

ENDNOTES

1. National Academy of Public Administration. BEYOND DISTRUST: Building Bridges between Congress and the Executive: Washington, January 1992, p. 105.
2. Vice-President Al Gore, Philadelphia Summit on Reinventing Government, June 1993.
3. For example, Isabel Sawhill reviews programs and trade-offs in the area of children and families, "Young Children and Families," in Setting Domestic Priorities: What Can Government Do?, Henry Aaron and Charles Schultze, eds. Washington, 1992.
4. Behn
5. William J. Clinton. A Vision of Change for America, Washington, 1993.
4. NAPA p.108
5. James A. Belasco. Teaching the Elephant to Dance: Empowering Change in Your Organization, New York: 1990, p.98.
- 6.
7. This needs to be confirmed.

Strengthen Performance Planning, Measurement and Accountability

**BUD.2 DEVELOP PERFORMANCE AGREEMENTS WITH SENIOR
LEADERSHIP REFLECTING ORGANIZATIONAL AND POLICY
GOALS**

Background

When then-General Eisenhower was assigned to command the Allied Expeditionary Force during World War II, the mission order he received was clear and measurable:

You will enter the continent of Europe and, in conjunction with the other United Nations, undertake operations aimed at the heart of Germany and the destruction of her armed forces.¹

This simple, direct order spelled out expectations for a vast organization of more than 1,500,000 American men and women, required a working relationship with other services and countries, and empowered one of this century's great generals to change the course of history.

While the military has long recognized the importance of clear goals and written orders to the performance of its leaders - especially in wartime, civilian government has been slow to set the same type of clear expectations for performance for its top leaders. In general, there have not been written agreements or even anything more than limited training and orientation programs for top political appointees.

Faced with severe fiscal constraints and a desire to improve the efficiency and effectiveness of government, a number of countries, states and localities are moving toward performance agreements with senior officials to set mutually agreed-upon objectives for performance. The governments of Australia, Canada, New Zealand and the United Kingdom, for example, have various kinds of written agreements with senior officials that are closely tied with Agency-specific strategic plans (similar to those that are envisioned under the Government Performance and Results Act). The agreements reflect specific

understandings about aspects of performance and identify specific delegations of authority and areas of support. Interviews with senior officials in these countries indicated that no other single aspect of their efforts to reform government has had as large an impact on overall organizational performance as these agreements.²

In the United States, Ohio and a number of other states and localities have developed some type of performance agreement. Governor of Texas Ann Richards conducts quarterly sessions to spell out expectations, obligations and objectives for new political appointees. The governor of Oregon has led the development and publication of statewide benchmarks and assigned leadership on the State's most urgent benchmarks to department heads. In Sunnyvale, California, each non-union manager from the city manager on down has written performance agreements that support the objectives of the city.

On the federal level, there are certainly precedents. In addition to extensive experience at all levels in the military, letters of assignment are customary with ambassadors. In 1991, following a series of management problems, the Directors of the Office of Management and Budget and the Railroad Retirement Board signed a written agreement which spelled out very precisely key expectations and indicators for improvement of that organization. All career federal employees are covered by some form of performance agreement. Title V requires that the compensation, retention and tenure of the Senior Executive Service be based on "individual and organizational performance (including such factors as improvements in efficiency, productivity, quality of work or service, cost efficiency, and timeliness of performance and success in meeting equal opportunity goals)."³

Private sector experience of many major U.S. and overseas corporations has underlined the importance of linking performance agreements and measurement to organizational goals and team performance. Hewlett Packard and others have adopted Hoshin Planning, a management approach first developed in Japan, whereby a very limited number of specific goals are identified through a broad participatory process, adopted by top management and cascaded down through the entire organization. A similar strategy of cascading from the top to the bottom of an organization, described by Xerox Canada as "policy deployment," is being used, for example, at AT&T, Microsoft and Selectron.⁸

Need for Change

There are two critical weaknesses in the chain of command between the president and the performance of federal agencies. One is the lack of a systematic way to establish objectives for and monitor the performance of presidential appointees with respect to their agencies' performance. The second is the imperfect incorporation of organizational and policy goals into the performance appraisal system of senior executives.

Although, the federal performance appraisal system traces its roots to 1842 when the head of each Federal department was required to submit an "annual individual employee service report" to the Congress,⁴ today the presidential appointees who head and occupy key management positions in these agencies belong to the only federal personnel category without written performance agreements or a system of accountability other than to the president. As Charles Peters notes,

The president's interest is in performance: Four years after his election, he must go again to the voters and be able to show that his government has done the job. The departments' interest is not in performance but, of course, survival. Only a handful of appointees at the very top are likely to care about the survival of the administration, or to imagine that, before his term is up, the president will have a clear enough view of what they've actually been doing to tell the difference between cooperation and obstruction.⁵

Surprisingly, there has been, irrespective of political party, no established process by which senior appointees or even Cabinet members of a new administration are oriented to policies and priorities and reach consensus about the administration's goals and objectives for departmental performance. When he became Secretary of the Treasury, Dan Regan expected to hear from the president about what he expected him to accomplish at the Department, as he did when he joined Merrill Lynch¹. Former cabinet officials in the last five administrations report that they were left to figure out what to focus on and how to manage their departments on their own.

In contrast, members of the Senior Executive Service (SES) - both career as well as

¹Don Regan For the Record, inpassim.

non-career - do have performance agreements. However, not all plans emphasize the link between individual performance and organizational results or performance measures. In a General Accounting Organization study of the use of performance measures by federal agencies, nearly half of the agencies reported that the goals, standards or objectives of the organization were reflected "not at all, to a minor or moderate extent" in SES or other senior management performance contracts.⁶

Certainly corporate and other experience suggests that managers at all levels should be held accountable for achieving program outputs that result from activities under their direct control. Direct outputs of program activities should be explicitly reflected in performance agreements for managers of each organization with a distinct mission.⁷ "Managing for results," requires tracking performance against higher level objectives, understanding the reasons for success or failure, and making appropriate changes when desired outcomes are not achieved. This could involve terminating programs, substantially altering them, increasing or decreasing funding, or conducting additional research and evaluation to determine the sources of problems. Managers, in other words, can succeed even when programs fail. They would not be penalized when ambitious objectives are not achieved, so long as they were effectively "managing for results" by tracking outcomes and modifying programs accordingly.

As the federal government reinvents its personnel and other systems and moves increasingly toward managing for results, political appointees as well as senior career executives will need to be incorporated into coherent systems of organizational accountability. It will be essential to develop a more effective link and clearer consensus with career executives about the objectives and goals of the organizations that they are leading.⁸ The need to develop a more systematic approach has become more urgent because of the number and management roles that political appointees are now playing in the federal government. The Volcker Commission, the General Accounting Office and others have expressed various concerns about the growth of appointees in management positions in federal agencies.⁹ Because of the short average tenure of political appointees, many have raised concerns about the impact of political appointees on program stability and continuity. Establishing a more coherent system will help assure greater continuity and stability in

achieving organizational and policy objectives.

Performance agreements at any level should not be one way. They are vehicles for accountability but can also be a vehicles for empowerment. For example, a performance agreement can be a vehicle for delegating authority to agency heads and others to facilitate their achievement of objectives. According to the General Counsel of OMB, limitations on personnel, administration of the Paperwork Reduction Act and a number of other authorities could be delegated from OMB to Agency heads or designees as part of a performance agreement.

Fully empowered Agency heads should also be responsible and accountable for speaking for the administration in their areas of responsibility. As one example where this is not the case, OMB currently is responsible for drafting and signing "Statements of Administration Policy" (SAP's) for appropriations within the jurisdiction of all Federal Agencies. Unfortunately, the statements are often not well coordinated with the Federal Agencies involved in issues covered by the SAP's, may include errors and may even be released without the responsible Agency's involvement or knowledge. Sometimes copies of the Statements are not even sent to the Agencies for information. The result can be a poorly informed spokesperson for Administration policy and a disempowered manager. OMB also reviews all regulations, program announcements, etc. for "policy consistency" even though they have already been cleared by Agency heads.

Finally, there are constraints posed by the very nature of our political system. It is more straightforward to develop performance agreements in a parliamentary system where ministers are drawn from members of parliament, party identity and discipline are often strong, and there is a clear distinction line between political leadership who set policies and civil servants who implement them. Nonetheless, examples of successful processes in the United States in both the public and private sector suggest that it is feasible.

Certainly, senior performance agreements in the American context are more challenging than in a parliamentary system. The independent roles of Congress and the executive, the role of political appointees both in setting policy and managing the agencies that implement it, and the growing involvement of Congress in directing various aspects of program implementation all are factors in a more complex environment. In the United

States, the executive branch can lead, but, ultimately, it will require leadership by both the executive and the Congress "to enhance government administration and bridge the gulf between deficit politics and performance improvement."¹⁰

Recommendations

1. Develop performance agreements with Agency heads and other senior officials.

With support from the Executive Office of the President (EOP), the president should develop performance agreements with Agency heads and other senior officials that reflect a mutual understanding of key objectives and delegations. It is recommended that performance agreements:

- Focus on broad but measurable performance goals that are important enough to be followed by the president or his designee; avoid micro-management and extensive reporting;
- Begin with a focus on a very limited number of mutually agreed-upon objectives, perhaps initially related to government reinvention efforts;
- Be expanded gradually as experience is gained and assessed and Agency strategic plans and measurement systems are put in place;
- Be developed and monitored with the support of EOP and be specific to the organization, supportive of its mission and of the individual's role in that organization;
- Consist of individual objectives that are held private as well as organizational objectives, expectations and delegations that would generally be public;
- Be grounded in legislated mandates and respect due process;
- Include agreed-upon delegations of authorities and managerial flexibilities that are within the power of the Executive and are broadly relevant to areas of performance;
- Be grounded in policy and budgetary commitments and reinforce agreed upon policy initiatives, budget caps and downsizing expectations;
- Be initiated with agreements with the top 100 agency heads and operational

officials to be put in place as of January 15, 1994.

- Be reviewed on a regular basis and updated as appropriate.

The content of performance agreements could be very wide-ranging, including, for example, areas of priority for personal involvement, departmental operations and broader management responsibilities and initiatives such as government reinvention and implementation of National Performance Review recommendations. However, it is important that the agreements be practical; they should be focused on what the person is being asked to be accountable for - ". . . enter the Continent of Europe and . . . undertake operations." At the same time, performance agreements can usefully underline goals and objectives - ". . . aimed at the heart of Germany and the destruction of her armed forces" and identify important factors that are beyond an individual's control - ". . . in conjunction with the other United Nations," but speak to an individual's responsibility for leadership and cooperation across jurisdictional lines.

We are recommending that performance agreements be implemented incrementally by: 1) beginning with the top 100 officials who report to the President or his designee, and 2) beginning with very limited goals or objectives - as few as one perhaps no more than three. As Eisenhower's mission order underlines, the best performance agreements are clear and simple. There are many models for the content of agreements and for the process by which the content is developed. New Zealand's ministerial level agreements, for example, contain elements of personal, organizational and managerial performance. Agreements with heads of "Next Steps Agencies," in the United Kingdom, are grounded in the strategic plans of the agencies. As noted above, the management tool of Hoshin Planning emphasizes the process of developing simple objectives throughout the organization. The Federal Quality Institute could assist the EOP to identify the appropriate approach to use and to assist with the actual drafting of agreements.

Whatever approach and model are adopted, they will need to be flexible to reflect different departmental missions, capacities, approaches and organizational

culture. For example, if performance agreements contain budgetary agreements between the Department head and the president, they will need to be adjusted if appropriated funds are significantly higher or lower than planned. Senior officials in agencies that have developed clear goals and a well-developed capacity to measure their performance might have agreements that include considerable delegation of authority and administrative flexibility to manage to budget.

Although there are compelling reasons to move to performance agreements with senior political officials, there are also strong reasons to proceed cautiously and incrementally. Perhaps the greatest single risk is overloading the system and sowing the seeds of its collapse. This is certainly the tendency of any bureaucracy and is what took place with efforts to establish management by objectives during two previous administrations. Too many objectives diffuse focus. Too much reporting clogs critical communication channels and will tend to be delegated and lose importance.

There should be special consideration of how to respond to consistent poor performance. In the British system, heads of agencies are given term limited appointments and have pay linked to meeting targets.¹¹ In the U.S., each presidential appointee serves at the president's pleasure and the ultimate response is resignation or termination (the then-General Eisenhower had his resignation speech ready when he invaded Europe in the event that he failed). However, the purpose of performance agreements is to enhance and support success, not to develop a system of sanctions. Political appointees who are having difficulty may well need support and assistance as basic as better information about the systems of government. Support - both before and after the fact - for aggressive "reinventers" will be particularly important since there are risks involved in any change.

2. Clarify expectations for the performance of political appointees with a senior level orientation program for political appointees and ongoing assistance.

The White House should conduct an ongoing senior level orientation program that lays out key performance expectations, objectives and constraints in the areas

such as the deficit reduction, budget expectations, reinvention and restructuring, downsizing, ethics, policy, government operations, etc. and provides ongoing support for political appointees. This should build on the Office of Personnel Management's non-career orientation program.

3. Empower Agency Heads to sign Statements of Administration Policy

Agency Heads should be responsible for -- and held accountable for -- presenting the Administration's policy for activities within their jurisdiction. NPR recommends that the process of preparing Statements of Administration Policy (SAP's) on appropriation action, which are related to the presentation of the president's budget be re-engineered so that they are drafted by and signed by the Agency Heads accountable for the policies. The SAP's should be coordinated with White House, Office of Policy Development and OMB personnel; but, the name on the document should be the Agency Head responsible for the activity related to the policy. Such a requirement would involve Agency Heads more in the development of Administration policy and should enable Agency Heads to be better informed and more enthusiastic supporters of the President's priorities. Where more than one Agency Head is involved, a joint statement signed all the Agency Heads involved in the issue should be drafted. OMB and the Office of Policy Development should manage this process by exception.

4. Agency heads should make broad use of performance agreements to set and reinforce expectations for organizational performance and hold senior managers accountable for managing for results

Agency heads and other senior level political appointees can lead both by example as well as by encouraging the development of mission-oriented, empowering performance agreements with political appointees and career executives and managers throughout their departments and agencies. Requirements for performance appraisals in the Senior Executive Service can be one vehicle for this, provided they are tied to organizational goals and performance. The objective is to forge in every federal

agency an effective team committed to the accomplishment of organizational goals and objectives.

Fiscal Impact

The cost of introducing performance agreements includes the cost of printing, completing and maintaining the agreements, the cost of managerial time to develop, negotiate and monitor them and the cost of any independent assistance to develop and/or review. These costs should be reallocated from costs currently incurred by less focused performance, management and budget discussions. They fall easily within current operating expense budgets. The amount necessary for reallocation from existing funds will be minimal (if each agreement involved costs from \$2,500-\$5,000, agreements for the top 100 officials would entail costs ranging from \$250,000 to \$500,000 government-wide). The proposed orientation program would entail the cost of facilitation and planning and any per diem and travel costs, averaging an estimated \$50,000 per year in addition to the cost of the time, security and support of the participants and speakers themselves.

Fiscal Impact
(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:

Related NPR Reports

ENDNOTES

1. ref: waiting from confirmation from National Archives
2. Reference coming.
3. Title V - Subchapter II The Senior Executive Service, Section 3131 (2).
8. U.S. EPA Paper
4. Team Oriented Performance Management. Navy Personnel Research and Development Center, San Diego, CA, Dec. 1990, p. 1.
5. Charles Peters, How Washington Really Works, Reading, Ma: 1993, 148.
6. General Accounting Organization. Program Performance Measures: Federal Agency Collection and Use of Performance Data, May 1992, GAO/GGD-92-65.
7. The issue of establishing accountability and incentives that encourage teamwork rather than individual competition are discussed more fully by the NPR's Personnel Team.
8. NAPA study, Beyond Distrust
9. Paul A. Volcker, Leadership for America: Rebuilding the Public Service," (Washington, D.C., 1989).

U.S. Congress, House Committee on Post Office and Civil Service, "Political Appointees in Federal Agencies," testimony by Bernard L. Ungar, Director, Federal Human Resource Management Issues, General Government Division, GAO, October 26, 1989, GAO/T-GGD-90-4.
10. Kettl et al
11. See reference coming.

Strengthen Performance and Planning Measurement

**BUD.3 EFFECTIVELY IMPLEMENT THE GOVERNMENT
PERFORMANCE AND RESULTS ACT OF 1993**

Background

Many in the public and private sectors alike would agree that federal programs should specify clear, results-oriented objectives; measure progress towards achieving objectives; and use performance information in planning, budgeting and managing program activities. Respondents in a survey of American businesses, for example, overwhelmingly recommended that the federal government make fuller use of performance measures.¹ This is, after all, the way many private firms--and some non-profits, academic institutions, and several state and local governments--go about their business. But "managing for results" has proven much more difficult, historically, at the federal level. This is due, in part, to the following:

- o Many federal programs encompass multiple, contradictory or ambiguously defined objectives as a natural consequence of a political environment. Objectives such as "improve public health" or "strengthen economic growth," are activities that have been grounded in political value rather than direct program service delivery.
- o Federal programs are quite diverse and different kinds of programs (ranging from income transfer to diplomacy to national defense) produce very different outputs, resulting in very different outcomes, requiring very different performance measures. Federal programs differ in the degree to which performance measurement is feasible, useful or practical. For some programs, it is difficult to determine exactly what their bottom line is (for the private sector it is profit), and we lack a consistent and comparable basis for measuring results. Instead, there are a myriad of performance measures many of which have no value at all in measuring results.² The goal of

performance measurement should be to construct a few relatively simple indicators that provide convincing evidence about how programs are performing and that serve to signal potential problems for which more information or attention is needed.

- o The relationship between customers and federal programs is not as clear as in the private sector, thus causing difficulty in measures of customer satisfaction to assess performance. Few federal programs provide direct services to citizens, therefore, relationships with customers are often very distant. Many federal programs are administered by state and local governments or private and non-profit organizations, making for only indirect interaction of federal agencies with the users or recipients of these programs. In many cases public agencies have a monopoly on the services they provide so customers do not have a choice of providers. In other cases, a federal program may have multiple stakeholders (e.g., Congress, advocacy groups) in addition to the customers directly receiving the benefit or service.

Efforts to improve the "performance" of federal programs--from Progressive Era reforms of the 1940's and 50's; and "programming, planning and budgeting" in the 1960's; to "zero-based budgeting" of the 1970's, and "management by objectives" in the 1980's--have had a limited impact.³ The total quality movement of the 1980's, the Chief Financial Officers Act of 1990, and mounting deficits have further spurred federal programs to once again focus on improved performance management. Agencies have begun re-examining their missions, redefining their customers and service delivery, and re-engineering their programs towards achieving more and better results.

The Government Performance and Results Act of 1993 (GPRA), signed by President Clinton on July __, 1993, provides a sound basis for strengthening these ongoing agency efforts and tying them more clearly to performance management and budgeting. This legislation begins with a series of pilot projects, recognizing that while necessary, this is a new and challenging direction for federal agencies. The Act requires that beginning in fiscal year (FY) 1994 there will be at least 10 three-year pilot projects in program performance goal setting, measurement and reporting, and, beginning in FY 1995, at least

five two-year pilot projects in greater managerial flexibility in return for commitments to greater program performance. In 1997, the Office of Management and Budget (OMB) and the General Accounting Office (GAO) must report on the results of the pilot projects. By FY 1998, the requirements for five-year strategic planning, annual program performance plans, and annual program performance reports will apply government wide. Also in FY 1998, at least five two-year pilot projects in performance budgeting will begin.

As OMB Director Leon Panetta has testified, the Government Performance and Results Act:

is a major step toward making the Government accountable to the American people by making it clear what the taxpayers are getting for their money and removing some of the red tape that bedevils all of us. As every other enterprise has learned, government officials must manage for results, not just rules and regulations. This accountability both empowers and rewards those who improve performance. [This Act] provides us with a sound foundation as we go about the task of re-inventing our government.⁴

Need for Change

As stated in the Congressional committee reports accompanying the bills which resulted in passage of the GPRA, public confidence in the institutions of American government is suffering from a perception that those institutions are not working well. Recent opinion polls indicate that this is particularly true with respect to the Federal Government, as both Congress and the Executive Branch are held in low esteem by the American people. Federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance. Congressional policymaking, spending decisions, and program oversight are greatly handicapped by insufficient attention to program performance and results.⁵

Generally speaking, current processes cause federal managers to be much more

concerned about following established rules and procedures than about achieving results. Federal managers spend an enormous amount of their time and energy planning and budgeting for future resources, and few have been able to develop strategic and operational plans that clearly relate legislative mandates or management priorities to the achievement of measurable results. As a 1992 U.S. General Accounting Office (GAO) survey on program performance measures found, nearly two-thirds of the 103 agencies contacted had long term strategic plans in place and more than three-quarters noted that they were collecting a wide variety of program performance data; yet fewer than half of these agencies reported making substantial use of performance information in assessing progress towards strategic goals and objectives. Even fewer were using performance measures in external performance and accountability reporting. The GAO's more detailed look at 14 sample agencies found only a very limited application of performance information in program and policy decision-making.⁶

This is clearly unacceptable. As pointed out in another GAO report:

Whether the goal is defending the nation or immunizing children against disease, government officials and the public need to know how well government is accomplishing its intended objectives. Assessing government accomplishments requires measuring employee and program performance. Though the size and complexity of the government make it difficult, developing effective performance measurement systems is clearly possible.

The work of nearly two-thirds of government employees, for example, can be measured by means of formal productivity measurement systems. For the remaining one-third, substantial time and effort may be required to develop reliable measures of performance. Indeed, there may be some government activities (such as basic research) for which quantitative measures are not feasible. Even in these cases, however, qualitative measures can usually be developed and used.⁷

Agencies that have undertaken comprehensive strategic planning exercises have usually emerged with a much clearer sense both of the objectives they can reasonably

achieve and how these objectives should be pursued. Strategic planning at the Social Security Administration, for example, resulted in specific customer service objectives and a focused set of activities to achieve them. At the National Archives, strategic planning improved employee motivation at the same time it gave managers a more results-oriented basis for decision-making. Strategic planning has long characterized the Department of Defense and its programs, most recently in the widespread application of "business process re-engineering" which reorients agency operations towards priority objectives.⁸

Most importantly, strategic planning contributes to one of the key tasks of leadership--defining organizational goals and objectives. Just as Joint Chiefs of Staff Chairman, Colin L. Powell, Jr., has insisted that no American troops be committed to combat without clear objectives, so too for other public programs. "If a public agency is asked to attack a particular problem, it ought to be given a clear goal; it ought to know what it takes to reach the goal and what intermediate successes can be achieved along the way." If a clear goal does not exist, "the agency's appointed leadership should create--and publicly announce--one ...[and] ... get everyone using the same definition of winning--the same bottom line."⁹

Passage of the GPRA notwithstanding, performance measurement will be difficult in some federal programs. Whatever objectives and indicators are chosen, it is essential that performance information be valid and reliable. The full participation of line managers in selecting performance measures and using performance information in decision-making is critical. Indeed, the single most important element for ensuring the quality of performance information is the effective use of that information in program decision making. If performance information is used by line managers to make operational decisions that improve programs' outcomes, those managers will have a direct interest in ensuring the accuracy and integrity of that information.

One approach that has been pursued successfully in a number of agencies (including the Department of Labor, the Department of Education, and the Department of Health and Human Services) has been the creation of cross-functional performance indicator teams including both line managers, financial managers, strategic planners, and budget analysts.¹⁰ This not only ensures that performance information will be relevant to actual program

activities, but also requires intra-organizational negotiations and discussions that provide natural checks and balances to keep performance information valid and honest.¹¹ While line managers are generally in the best position to choose relevant and useful performance indicators, they also face organizational constraints that may bias their choices, so outside assistance is needed.

OMB has been taking the lead in implementing the GPRA. Our recommendations are intended to complement these efforts, by providing support for OMB's actions to date and guidance where OMB has been silent, as well as some additional recommendations for next steps. Our goal is to optimize implementation of this important new legislation.

Recommendations

Successfully implementing the GPRA will improve federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. This will require strong leadership from the top, active participation from the bottom, expanded use of performance information in management and budgeting decision-making, and effective systems for assuring that performance information is valid and reliable.

Establishing a National Strategic Mission Statement and Senior-Level Performance Agreements (as recommended in BUD.1 and BUD.2) address important aspects of this leadership and complement the GPRA, which does not provide for a vision statement from the President to guide agency efforts or any systematic means to address missions and goals that cross organizational boundaries. So too will the designation of Chief Operating Officers in every agency, the establishment of a Council of Chief Operating Officers, the creation of a new White House Office of Strategic and Quality Leadership (OSQL), and other steps that NPR has recommended for strengthening Leadership and Management Systems. The proposed Office of Strategic and Quality Leadership will also play a lead role in coordinating and facilitating assistance and training to help agencies throughout the federal government develop effective performance planning and measurement systems.¹² To ensure customer input into performance measures and targets, and the ability to measure

agencies' performance in terms of customer satisfaction, the NPR Customer Service report recommends that OMB reinvent its review and approval of survey questionnaires to allow for and encourage greater use of customer surveys for strategic planning and performance measurement. This is essential as the "customer first" focus must begin to draw its strength from full, regular, systematic consultation with the users of services, whose views must be taken into account--and seen to be taken into account--in setting standards.¹³

The NPR Program Design Report also recommends facilitation of waiver approvals to give agencies that are far enough along in performance measurement maximum managerial flexibility to achieve results. [Cite exact recommendation(s) from Customer Service report.]

To further strengthen these ideas contained in other NPR reports, we recommend the following:

1. **The Director of OMB should designate OMB itself as a performance measurement pilot for 1994. (Category 1)**

Under the GPRA, OMB (like other agencies) is required to develop a strategic plan by the end of FY 1997, to complete an operational plan by the end of FY 1998, and to begin measuring program performance during FY 1999. To meet these deadlines, OMB (like other agencies) needs to begin now to clarify its mission, delineate performance objectives, articulate strategies to achieve objectives, identify performance indicators, and collect performance data.

The GPRA also requires the Director of OMB, after consultation with each agency head, to designate ten performance measurement pilots beginning in FY 1994. Designating OMB as one of these first pilots will enable OMB to lead by example, will encourage buy-in from the agencies, and will provide OMB managers with direct experience in strategic planning and performance measurement as a basis for working with other agencies.

2. **OMB and agencies should promote early initiation of performance**

planning and measurement, whether or not agencies are designated as GPRA pilots. (Category 1)²

The purpose of performance measurement pilots is to learn from experience, develop useful models, and publicize best practices. But developing good performance plans and measures is a long-term, iterative and difficult process. Agencies need to get started now to begin management improvements and have performance planning and measurement in place by GPRA deadlines. Even when objectives are clear, selecting the right indicators can involve difficult tradeoffs. Managers must weigh the validity of a measure (how well it reflects desired outcomes) against the practicality of the measure (how costly or difficult measurement will be) and the utility of the measure (how easily performance information can be used in management decision-making).

Through its GPRA implementation plan and guidance, OMB should actively encourage all agencies to begin developing results-oriented objectives and performance indicators now, whether or not they are formally designated as performance measurement pilots. Every agency, for example, could identify prototype sites and formulate implementation milestones for the next three years to cover every major mission area. OMB should also encourage programs to provide explanatory information along with their regular performance reports. This can reduce the fear of program managers that the data on their programs will be misinterpreted.

Agencies should categorize their programs in terms of the feasibility and usefulness of regularly measuring the programs' outcomes and quality. Some programs should not be pushed to expend major effort to develop outcome indicators for regular reporting. For example, research and development programs, (especially basic research) probably are not appropriate for regular performance monitoring. (At best, they might use indicators of being on schedule, within budget, and the number of citations of published findings.) Moreover, because outcomes are not likely to be

observable for many years, such programs are better assessed by ad hoc, special evaluations rather than performance monitoring.

Internal support activities (such as data processing, motor pool, building maintenance, etc.) are probably of less interest to Congress and the public. However, such agencies should probably participate. In fact, regularly assessing the quality of their work in terms of helpfulness to their internal federal agency clients, is likely to be considerably more feasible than for federal programs with external customers.

3. **Every agency should identify an appropriate internal unit or team--with outside help--to coordinate performance information systems and independently review performance information quality and validity.**

(Category 1)

Line managers, not staff or central agencies, should be in charge of their performance measurement efforts. Staff and central agencies should be reporting, verifying, and consolidating information, but not managing agency efforts. Line managers should take the lead in establishing networks and teams to build upon the cross-cutting technical assistance and experiences developing performance measurement systems. These teams would articulate program objectives, identify performance indicators and targets, and collect and use performance data.

One promising approach is the use of cross-functional teams to promote collaboration, negotiation and discussion about objectives and indicators across organizational levels and functions, and to provide natural checks and balances to keep performance information appropriate, valid and honest. The working group should contain the program manager and some (if not all) program staff. Outside persons should be included, such as persons from other programs in the department; from other departments that are functionally related; from planning, evaluation, budget and finance offices; and from some central agency analytical group--to provide a broader

perspective. The working group should identify characteristics of importance to customers/interest groups of the program. The group might invite staff of legislative committees with oversight over their programs--to review performance indicators before they are finalized. To obtain customer input the agency could, for example: include customer representatives on the working group; use focus groups, each covering a major category of customers to identify their concerns; and/or have the working group role-play as customers and public interest groups. This working group procedure worked well with the State of Minnesota's Department of Trade and Economic Development and the State of Maryland's Department of Economic and Employment Development. Both departments convened working groups and held focus groups of customers to help identify performance indicators for selected programs in their departments.

Agencies should also consider clustering like service delivery programs (e.g. direct service delivery to citizens, intergovernmental programs, credit or subsidy programs, regulatory programs, etc.) to develop model performance measurement systems.

But technical assistance will still be needed to coordinate efforts and systems, report information, and assure quality across programs. The proposed Office of Strategic Quality and Leadership (OSQL) should facilitate the development and use of government-wide electronic bulletin boards, so that agencies can search for information and share experiences and ideas. Lessons learned, practices established, and handbooks developed by more experienced agencies (such as the Department of Defense Comptroller's booklet on "Key Criteria for Performance Measurement"), should be widely distributed.¹⁴ OMB, the Office of Personnel Management (OPM), or the proposed OSQL should also develop a semi-interactive software package that can be used by individual program managers and their staffs to help walk them through a process of identifying appropriate performance indicators and associated data collection procedures. The federal government has thousands

of programs and managers. Such a tool could be quite helpful in the selection of performance indicators at a reasonable level of quality.

Before finalizing the set of performance indicators, the set should be reviewed by persons outside the program working group. These efforts would typically be led by a central planning and evaluation office, or a budget or finance office--or a team of representatives from these disciplines--depending on the agency. Agency Inspector Generals might also be expected to play a role in reviewing the overall integrity of these performance information systems. In addition, staff of relevant legislative committees might be invited to review the set of performance indicators. OMB or GAO could also identify selected organizations that are qualified to independently review performance information systems and findings. Agencies could turn to such organizations for a second opinion or to help resolve differences.¹⁵

4. **OMB should establish a competitive "innovation fund" for agency strategic planning and performance measurement.** (Category 3)

Performance measurement implemented under the GPRA should represent innovative efforts to try new performance planning and measurement ideas and to learn from experience. To encourage this experimentation, and to enhance its documentation and dissemination, OMB should establish a \$5-\$10 million dollar innovation fund that would be administered by the proposed OSQL. Agencies could compete for up to \$1 million (plus a designated agency match) to test innovative approaches to improving performance.

OMB should include a request for these funds, to be appropriated to the Executive Office of the President, in the President's FY 1995 Budget.

5. **OMB should incorporate performance objectives and results as key elements in budget and management reviews.** (Category 2)

The importance of using performance information in management and

budget reviews should be clearly reflected in OMB's own strategic and operational plans, OMB's performance indicators, and in revised job descriptions for OMB's budget examiners. OMB should request agencies to improve on sets of indicators that are clearly inadequate. The tone that OMB sets on indicators will likely have major impact on the agencies. If OMB, for example, does not discourage the use of work activity indicators masquerading as outcome indicators, this will badly hurt the effort. A problem here is that there can be a great deal of disagreement, even among "experts," over what is an outcome indicator and what is not. One office in OMB should probably exercise overall oversight over the selection of outcome indicators to avoid uneven implementation across OMB divisions.

OMB must keep in mind, particularly in the early years, that when new indicators are used the managers will often not be able to set reasonable targets because of lack of experience with the new indicators. Even with indicators on which a program has been collecting data for many years, the program is likely to have quite limited information on the relationship between outcomes and the program's staffing and budget. Users of the information that compares annual goals to actual achievement, need to understand these inherent difficulties. The numerical goals will likely be much less useful than the data on actually achieved outcomes. The process by which the program attempts to link resources to outcomes, however, itself may be quite helpful to agencies in their annual planning. It should also be remembered that performance measurement is not meant to replace research or evaluation, but rather to signal potential problems for which more information or attention is needed.

As part of their budget review, OMB analysts should assure that agencies reallocate sufficient resources for performance planning and measurement for the long term. Planning for and measuring results is an "inherently governmental function" (as noted in the GPRA) and a fundamental responsibility of good management. The reallocation of human

and financial resources to performance planning and measurement should occur as part of the normal budget development and review process. While some funds may need to be reallocated explicitly to performance data collection and analysis contracts, the primary issue is ensuring that managers devote sufficient time and attention to planning for results and to applying performance information in decision-making.

Other action steps to insure more results-oriented program and budget reviews by OMB could involve formal training programs for OMB staff, internal consulting arrangements, and joint management/budget review teams. Training is needed, for example, to counter the frequent misconception that outcome data indicates that the government program alone produced (caused) those outcomes. This leads to blame-setting on federal employees that is not warranted. This is also a major cause for program manager resistance to outcome measurement. In most, if not all, programs, the outcomes are produced only in part by the government program. An explicit educational effort is needed on this point.

6. **OMB should make compatible and facilitate integration of diverse performance measurement requirements and reporting.** (Category 2)

A number of federal agencies have already begun identifying performance indicators and reporting on program performance in conjunction with the Chief Financial Officers Act of 1990. The GPRA requires this reporting to be fully integrated with the more comprehensive reporting required under the new act. Integration is also needed with the performance measurement needs of Total Quality Management and the forthcoming push by the Federal Accounting Standards Advisory Board on Performance Measurement. If not, the federal government will end up driving the agencies crazy.

While OMB should build on initiatives begun under the Chief Financial Officers (CFO) Act, strategic planning and performance

measurement under the GPRA represent far broader efforts to achieve a "mission-driven, results-oriented" government. Existing financial categories should not drive performance objectives, but rather financial management reporting should be clearly linked to the objectives and results reported under the GPRA. Over time, this will require changes in financial categories so that financial indicators can be consistently tracked against program objectives and outcomes to determine the full costs of those outcomes.

OMB currently has two separate offices working on performance measurement: one under the auspices of the GPRA and the other more related to financial indicators under the auspices of the CFO Act. To assist integration of the GPRA and CFO requirements, OMB's leadership responsibilities for strategic planning and performance measurement should be combined within a single organization.

FISCAL IMPACT

(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					
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1 to 3 Years: Innovation funds for performance measurement pilots will be approximately \$5 million/year. Immediate benefits, small to moderate.

3 to 6 Years: Resources should be reallocated from current, control-oriented or extraneous management activities and no new funding should be required. Long term benefits--in improved program efficiency and effectiveness should be substantial. (A 1% increase in effectiveness in the use of discretionary funds would represent \$5-10 billion per year.)

Cross References to Other NPR Recommendations

ENDNOTES

1. Financial Management Service, Department of Treasury, *Performance Measurement: Report on a Survey of Private Sector Performance Measures*, (Washington, D.C.: Project USA, Financial Management Service, January 1993), p. 12.
2. Unpublished comments on NPR Budget Team Tollgate 3 papers, Justine Rodriguez, Office of Management and Budget, July 1993.
3. Schick, Allen, *Performance-based Budgeting System for the Agency for International Development*, Program and Operations Assessment Report #4 (Washington, D.C.: Agency for International Development, 1993).
4. Testimony by OMB Director Leon Panetta at hearing before the Senate Committee on Governmental Affairs, March 11, 1993.
5. Committee reports accompanying the Government Performance and Results Act of 1993, House Report 103-106, May 25, 1993, pp. 1-2 and Senate Report 103- , _____, 1993, p. 2.
6. U.S. General Account Office, *Program Performance Measures: Federal Agency Collection and Use of Performance Data*, (Washington, D.C.: General Accounting Office, May 1992), GAO/GGD-92-65)
7. U.S. General Accounting Office, "Managing the Cost of Government--Building An Effective Financial Management Structure", GAO/AFMD-85-35.
8. As, for example, in the "enterprise model" and other business process engineering approaches being implemented by the Center for Information Management of the Defense Systems Agency.
9. Behn, Robert D., *Bottom-Line Government*, (Durham, North Carolina: Institute for Public Policy, Duke University, 1993), p. 7,12
10. Letter from Harry P. Hatry , Director, State and Local Government Research Program, The Urban Institute, to David Osborne, Senior Advisor, National Performance Review, July 8, 1993.
11. See, for example the discussion of management "controls in the NPR's report on Leadership and Management Systems.
12. See NPR Accompanying Report No. XXX, on *Leadership and Management Systems*.

13. Diana Goldsworthy, Deputy Director, Citizens Charter, United Kingdom, conversation, July 1993.

14. The Business Management Directorate of the Dad Comptroller's Office has published a book entitled, "Key Criteria for Performance Measurement". The booklet was prepared as a direct response to congressional and OMB mandates. It: 1) defines performance measures by type and application; 2) describes the legislative and management requirements for the objectives of performance measurement in resource management; 3) establishes criteria for developing and integrating efficiency and effectiveness performance output indicators into the financial management process; 4) describes the relationship between work process indicators and output objectives; and 5) outlines actions that will be undertaken by the Dad Comptroller, in concert with functional and military service staffs, to develop and apply performance budgeting processes to meet congressional mandates and other goals.

15. The need for this kind of independent, outside review was particularly emphasized by Chris Wye and Barbara Dyer of the National Academy of Public Administration (group interview, July 7, 1993).

PART 2

**MAKE THE BUDGET PROCESS MORE EFFICIENT AND
MEANINGFUL**

Budget Process

MAKING THE BUDGET PROCESS MORE EFFICIENT AND MEANINGFUL

Ideally, the formulation of the United States Budget should be driven by national goals and priorities and the results that are desired within the resources that are available. The content, not the process should be of primary importance to every Federal manager at every level.

Decisions in formulating the budget should involve those who will be responsible for executing it, from the program manager to the Agency head. The process should be highly interactive, information-rich and inclusive. It should lead to the best possible alternatives through collaborative discussions based on desired and feasible results. The budget process should be a tool and budget analysis a service to support both policy decision-making and managers making decisions on best to achieve results.

The current budget formulation diverges from this ideal in significant ways. The process is slow, hierarchical, laborious and largely non-substantive. It produces budget estimates that are frequently artificially derived and disconnected from fiscal reality and Presidential policies and priorities. The review of budget options is process, not policy, driven. Review of similar or related programs across agencies is rare and the short time frames at the end of the process preclude meaningful dialogue about decisions. The budget is formulated around organizational structures rather than around categories of national need or desired results. Involvement of the program managers who will have to live with the decisions, is the exception. The process has proven itself better at generating claims for new resources than making informed choices and reductions.

The Departments of Defense, Interior and others have shown that it is within the power of the executive to improve this process by streamlining, cutting out meaningless steps and focusing more on meaningful ones. The Department of Defense and twenty-one states have shown the benefits of moving to a biennial budget. The Congressional budget

process has several features, such as the Concurrent Budget Resolution which could strengthen the budget formulation process in the executive branch.

Our recommendations fall in three categories:

- o Streamline the budget process to focus on results
- o Move to biennial budgets
- o Focus on long term spending reduction not short term goals

Budget Process

**BUD.4 STREAMLINE BUDGET DEVELOPMENT AND ELIMINATE
PROCEDURES THAT ADD LITTLE VALUE TO THE PROCESS**

Background

As described in detail in the summary and introduction to this report,¹ the preparation of the budget is on a fixed cycle circumscribed by a number of laws: the President is required to submit his budget to the Congress by the first Monday in February, Congress is required to prepare a Concurrent Budget Resolution by May 15 and to complete authorization and appropriation in time to make funds available on October 1, the start of a new fiscal year. Within these laws, a process has developed that includes agency development of requests from February to June, Departmental reviews in June to August, and OMB review during the September to November time frame to meet the Congressional deadline in February.

Over time, this process has become one that appears to add little value to the end result. While there is a reliable timeframe, it lacks clear policy and fiscal direction to be efficient. Although intended to control the growth of federal spending, the process has proven more effective at generating paperwork and claims for resources than curbing the growth of the deficit.

Need for Change

No change in the Federal budget process will solve our nation's debt dilemma. Deficit reduction is a policy decision, not the result of a process. As the Director of the Congressional Budget Office, Dr. Robert D. Reischauer, testified the Joint Committee on the Organization of Congress, March 4, 1993, ". . . procedures are no substitute for substantive policy agreement and action."²

However, there are a number of changes to the process that would link it more

closely to the nature of the decisions to be made and help create an environment that facilitates making difficult decisions wisely. Dr. Reischauer testified that it is hard to imagine our current deficit reduction effort prior to the 1974 Congressional Budget Resolution; ". . . under the pre-1974 system when Congress had no capacity to focus comprehensively on budget totals and never had to vote on overall spending or overall revenues. . . Because [today] it has to vote on the whole and on the deficit, the Congress has been forced to make trade-offs among conflicting priorities." ³ As Allen Schick has noted, "the heart of the [Congressional] budget process is the budget resolution setting forth budget totals and functional allocations."⁴

Unfortunately, the Executive Branch budget process is still in the pre-1974 stage. There is no formal process for determining total budget levels or functional allocations **prior** to the development of Agency budget requests. There are mid-session reviews of the current year and out year projections in each budget; but, there is no formal decision making on the President's policy regarding total budget levels or functional allocations for the upcoming budget year prior to the start of the budget formulation process at the Agency, let alone, at lower levels.

The lack of funding ceilings helps explain why budget requests at each successive point in the process tend to exceed by a large measure total resource availability. Further, the lack of such a requirement for the development of policies on total budget level prior to the development of Agency budget requests, may help explain why the President's budget for 11 of the last 12 years exceeded final appropriation levels. Setting total budget ceilings at the beginning of the budget formulation process seems an effective way to constrain funding to levels which fit within the pre-determined ceilings. While the Budget Enforcement Act, as amended, has set discretionary spending limits through FY 1999, there is still a need for the Executive Branch to decide on its spending policies within the discretionary limits and its policies related to mandatory spending, revenues and tax expenditures.

Furthermore, rather than having "team-like" discussions on the issues related to total budget levels and related policy issues -- such as the mark-up sessions held by the Congressional Budget Committees -- the current Executive Branch budget formulation

process is overly hierarchial. Although the President, OMB, or the National Economic Council may have total spending, revenue and deficit targets in mind early in the budget formulation process, those targets are not developed in consultation with, and may not even be revealed to, Agency Heads prior to development of Agency estimates. Likewise, Agency Heads often do not formally discuss their policy priorities or budget target levels with program managers at the Bureau level or OMB prior to development of the budget requests for the programs and activities of the Agency. [This situation is being modified in the Fiscal Year 1995 budget formulation process. Although not announced prior to the beginning of Bureau level budget development, OMB has been holding meetings with Agency heads over the summer to discuss FY 1995 budget totals and Presidential and Agency priorities.]

The Executive Branch also lacks a funding allocation process similar to that stipulated in the Congressional Budget Act of 1974, as amended which requires that the report accompanying the Congressional Budget Resolution specify funding allocation ceilings among the Congressional committees.⁵ In contrast to Congressional Committee Chairs, Agency Heads are asked to develop budgets for the programs in their jurisdiction without knowing the constraints on the total budget and/or the budget allocation for the programs in their jurisdiction. Essentially, Agency Heads and program managers are asked to play "pin the tail on the Donkey" - - asked to hit an unknown target number while blindfolded!

As a result, budget requests submitted up the line and ultimately to the Office of Management and Budget (OMB) are often far above realistic levels and are of little value to the Presidential decision-making process on the trade-offs among conflicting priorities. Further, having been "blindfolded" during the debate over the budgetary totals, the current process often leaves Agency Heads and program managers greatly disappointed -- if not disgruntled -- by the final totals for their programs. Often excluded from the process, Agency Heads may be ill-prepared to explain, let alone support with enthusiasm, the final decisions made in the President's budget.

Personnel involved at all levels of the Executive branch budget formulation process expressed to NPR a number of specific additional problems associated with it. The

process unfolds over such a long time span and the results are compiled in such an manner as to make much of the work irrelevant to the final product. Submissions to Departmental offices for FY 95 are based upon FY 92 actual data, FY 93 enacted and the FY 94 Presidents request. Making decisions on three year old data made estimating questionable. The current process seems laden with exercises of little value to decision-makers.. Nor does it provide specific and timely guidance from the top or provides very general guidance (e.g., government outlays need to be reduced by about 10 per cent) without making specific agency decisions. With better guidance, program managers felt that they could concentrate on analysis and presentation of options related to guidance rather than creating materials which may or may not be related to the Administration's policy priorities or be within realistic funding levels.

Many expressed concern that the current process concentrates a disproportionate amount of effort on low-cost decisions related to discretionary programs or administrative funding activities with relatively little time spent on policies related to larger ticket mandatory programs and tax expenditures. Few issues of substance are looked at on a comprehensive basis across agency lines.

In fact, even the functional categories in the budget have fallen into disuse in the Executive branch, although they continue to be used in the Congressional Budget Resolution.⁶ The nineteen budget functions are presented in the President's Budget, but they are rarely used for analysis across programs and/or agency lines. Also, little consideration is often given to the relative effectiveness of various approaches to the achievement of similar ends and little effort is often made to array programs in a way which would facilitate identification of potential duplication and strategic gaps. Although budget categories should evolve over time, and NPR understands that OMB is currently reviewing the existing categories it is still possible to make far better use of using existing classifications in the decision making process. Functional allocations could be used to undertake cross-cutting analysis.

In other words, the current budget formulation process tends to focus on marginal incremental increases or decreases, which may or may not ultimately occur. While this contributes to programmatic stability over time, it does little to facilitate more difficult

choices. Furthermore, the talent of high level policy personnel in an Administration often contribute ineffectively to the budget formulation process. Clearly, it is time to strengthen the ties between policy development and the budget formulation process and to provide a mechanism for policy development and budget formulation which makes effective use of the high level policy officials throughout the Administration.

Recommendations

The following recommendations complement and are inter-dependent with recommendations on the National Framework (BUD.1) and on biennial budgeting (BUD.3).

1. The budget formulation process should begin with an Executive Budget Resolution process which makes functional funding allocations by Agency

To streamline the current budget process and make it more meaningful, NPR recommends an Executive Budget Resolution developed collaboratively with full Agency participation which makes functional funding allocations by Agency. This turns the current process upside down in two ways. The process will begin not end with policy guidance, with the added feature that Agencies will participate in formulating that guidance. In other words, the first step in the budget formulation process should be the collaborative development of total budget levels and policy-related funding allocations which have been translated into total funding allocations for each Agency in the Executive Branch. The last steps in the process would be the development of detailed budget estimates at the Bureau levels throughout the Executive Branch.

According to OMB Budget examiners, it is not until the end of the current process (i.e., during the passback appeals process) that Agency Heads present realistic spending alternatives.⁷ The quality of Agency budget estimates, therefore, may be considerably improved if Agencies were given specific funding levels prior to the development of their budget requests. Clearly, budget games would still be

played and Agencies will, and perhaps should, continue to submit requests above the specified funding level. The intent is to reduce and clarify the areas of disagreement.

If an Executive Budget Resolution process were instituted, the first step in the budget formulation process should be **June or July** leadership meetings to develop aggregate budget totals. Discussions during the leadership meetings should include consideration of anticipated spending levels for discretionary and mandatory activities, the costs of tax expenditures, revenue estimates, deficit/surplus levels, economic indicators, statutory budget limitations, and other factors related to the aggregate totals in the Federal Budget. Also, mission-related funding allocations could be determined.

The aggregate and missions related budget totals could be arrived at through a process similar to the Congressional Budget Resolution process. In other words, meetings, like Congressional Budget Committee meetings -- or even a budget summit-like retreat -- could be called to discuss total budget levels. The meetings should be coordinated by OMB but should involve high level political appointees from all Federal Agencies (e.g., Secretaries or Administrators and/or Assistant Secretaries or Bureau Administrators). Also, it may be useful to involve high level career staff in the meetings as support staff (e.g. Agency Budget Directors). In addition, the meetings should involve personnel from the National Economic Council, the Domestic Policy Council and any other appropriate group from the Office of Federal Policy Development. The meetings could, but would not have to, involve the President and/or the Vice-President.

The product of the leadership sessions could be known as an Executive Budget Resolution. As in the Congressional Budget Resolution, the aggregate funding levels and subtotals for various policy missions could be specified in the Executive Budget Resolution. If, as NPR recommends, the policy priorities of an Administration are set forth in a National Framework, the Executive Budget Resolution should allocate funding in a manner consistent with it. However, if the Executive Budget Resolution allocates funding along policy mission lines, it must be

constructed so that the funding allocations for the policy missions can be reconfigured into Agency allocations for purposes of accountability and actual creation of the President's Budget document. In other words, the structure of the budget must make possible crosswalks between the National Framework and the functional categories defined in the budget process. A mission allocation process would be similar to the Congressional Budget Resolution process which allocates funding according the 19 functional categories currently used in the budget process and reconfigures those functional allocations into congressional committee funding allocations.

Essentially, allocating funding along mission lines could lead to a more flexible Federal government. Decisions would be made on a boundary spanning basis with the potential for creating "virtual organizations" to accomplish specific objectives. In fact, inter-Agency teams could be formed to develop "mission estimates" for submission to OMB rather than Agency estimates as is done in the current process. This would allow for trade-offs between conflicting priorities among activities within a mission rather than forcing trade-offs between activities in diverse missions as is now done because of the Agency-oriented structure of the budget process.

The Executive Budget Resolution would be the mechanism through which funding allocations would be developed in consultation with Agency Heads and would be a mechanism for providing funding ceilings to Agencies, **prior** to the development of their budget requests. The Executive Budget Resolution would not have to be a document available for public release; in fact, it may be nothing more a set of materials similar to passback materials in the current process. Further, the final funding allocations would not be subject to a "vote", as is true in the Congressional process. Instead, the final allocations would be more like a "Chairman's mark" in the Congressional Budget Resolution process; the final allocations would be the "President's mark". Staff work to support the conducting of the meetings related to the Executive Budget Resolution process and to prepare the materials could be provided by the Office of Management and Budget and other

offices in the Executive Office of the President. Staff support, however, should also include Agency budget directors and/or other staff associates selected by Agency Heads to be involved in the Executive Budget Resolution process.

Finally, it should be noted that the Budget Enforcement Act of 1990, as amended, sets discretionary spending limits for a five year period ending 1998 and retains the "pay-as-you-go requirement for mandatory spending. The budget total agreed to in the Executive Budget Resolution should not exceed the discretionary limits set by statute and should honor the statutory PAYGO requirements. Moreover, with total discretionary spending limits set in advance, it may be possible to institute a "rolling five-year budget information system along the lines currently used in the Department of Defense. This entails laying out estimates for five out-years and periodically updating and refining the estimates as required by changed circumstances and the updated spending information. Such an approach could be designed to substantially reduce current Agency work related to annual budget development.

Some may argue that the top-down approach envisioned in the Executive Budget Resolution process would stifle creative bottom-up suggestions for funding options. This approach, however, is not unlike the Congressional Budget Resolution process which has hardly stifled the development of creative suggestions for funding options. In fact, such a process seems to appropriately make top policy officials responsible for overall budget totals while requiring considerable bottom-up creativity from program management staff to develop funding options within realistic funding totals and in recognition of Presidential policy priorities. It also allows top policy makers to focus on broad policy decisions and leaves the lower level detail to those closer to the program or activity operations.

Others will say the process will be too cumbersome because too many persons would be involved in the Executive Branch budget process. It should be noted, though, not all Agencies have equal involvement in the Federal Budget. In other words, funding levels and the priority level of Agencies and activities within Agencies varies considerably throughout the government. The key point is not that

each Agency has a vote on the budget totals developed; but, that the process for developing budget totals involve Agency Heads and that Agency Heads be informed of the specific budget totals agreed to prior to being asked to develop their budget request. The Congressional Budget Resolution process makes Congressional Committee Chairs aware of their spending limitations before they are asked to develop legislation or appropriations. Greater involvement by Agency Heads in the development of budget totals should result in greater commitment to the totals. During zero-based budgeting efforts at the Environmental Protection Agency during the Carter Administration it was found that program managers submitted budget requests within the limits set when they had involvement in the development of the limits.⁸

2. **Hold meetings at the Agency level to provide Bureaus with guidance on Agency Head priorities within the National Framework of Presidential Priorities and in accordance with the fiscal guidance developed through the Executive Budget Resolution process.**

Upon receipt of the fiscal guidance provided to an Agency through the Executive Budget Resolution process and in conjunction with the policy guidance available in the National Framework for Presidential Priorities, Agency level personnel throughout the Executive Branch should hold meetings with Bureau level personnel to provide the Bureaus with information on the President's and Agency Head's priorities. The meetings should also provide an opportunity for discussion on how those priorities might be attained within the constraints of the policy guidance in the National Framework and the fiscal guidance in the Executive Budget Resolution.

The meetings should be held in the **August/September** time period and should involve Agency and OMB personnel. This would provide an opportunity for a forum for an interchange of ideas between Agency personnel and OMB personnel and may develop a more "team-like" spirit into the budget process than the adversarial spirit often felt in the current process. Further, since the meeting would

be located in the Agency offices and Agency Heads would be in charge of the meetings, such a process may rectify the real or perceived imbalance in the current process which results in Agency personnel feeling like they are subordinates to OMB staff rather than their own Agency Head. On the other side, such meetings would give more visibility to Agencies' roles in the decision process and lessen the use of OMB as a scapegoat for unpopular decisions.

3. Replace hierarchial budget development and review with team approach that is open, participatory and leads to consensus within Agencies and with OMB.

The discussions leading to decisions on the Administration's policy priorities and the related fiscal guidance should be participatory meetings which engage all levels of the bureaucracy and involve representatives from different organizations. The process, however, would continue to be an internal decision making process not subject to review outside the Executive Branch until such time as the Administration chooses to release information on the options being discussed.

The process should be designed to improve decisions, to save time and to give persons involved a greater sense of commitment to the final decisions than is true in the current process. In the current process, suggestions seem to go up the bureaucratic chain of command and decisions come down without interaction between command levels or across Agency or issue lines.

To be more specific, the sessions held for the purpose of developing budget totals and mission funding allocations should involve Agency Heads and, as appropriate, other officials throughout the Executive Branch, not just members of OMB and/or the National Economic Council.

4. Treat items that are not involved in specific policy initiatives (i.e., investments or terminations) uniformly for purposes of general review at macro level; but, specify that Agency Heads have discretion regarding funding allocations within the aggregate total.

As envisioned by NPR, the Executive Budget Resolution will provide

relevant fiscal guidance to support the policy guidance set forth in the National Framework of Presidential Priorities. In some cases, though, the fiscal guidance may merely be general instructions for the treatment of a number of activities.

For example, general instructions may say, total funding available for activities not provided a specific decrease or increase shall be equal to the total funding available for such activities during the previous fiscal year or the previous fiscal year's level less one percent. Different formulas could be used for program and administrative accounts. The precise formulas (i.e., percent decreases or increases across the board) would depend on how much policymakers had decided to spend in total on priority areas compared to the agreed upon total budget levels. These are the types of formulas used in the Congressional Budget Resolution process for activities which are not related to specific funding recommendations.

In the current budget process, general instructions are usually made applicable on an across-the-board basis to all activities for which no specific policy guidance is provided. NPR recommends the materials developed through the Executive Budget Resolution process make it clear that Agency Heads have discretion to allocate the aggregate funding made available for activities not receiving an increase, decrease or other specific policy guidance on a basis determined appropriate by the Agency. Allocations made by the Agency, however, must support Administration policy objectives and must not exceed the total funding made available for the activities not subject to specific policy guidance.

5. Review current budget functions and character classification codes in consultation with Congress for consistency with Administration policies.

The current account structure of the federal budget is divided into 19 functional accounts which were developed around 1975 in response to requirements in the Budget and Impoundment Act of 1974. Most of the functional categories are related to missions which cut across federal agencies. Only the Department of Veteran's Affairs has a separate function. Currently, though, the budget functions are underutilized in the formulation of the President's Budget perhaps because the

19 categories are not reflective of mission concerns.

The budget is divided by functions and presented as a table in the President's Budget but nowhere is there a clear statement of what the federal government is attempting to achieve through the funds appropriated under given budget functions. This was done in Part V of budgets prior to 1981. A review should be conducted to assure that the budget functional categories facilitate analysis of cross-cutting issues and define budget functions in terms of mission.

6. Transform budget culture and focus the talents of budget analyst towards better policy analysis on fewer issues.

The Executive Budget Resolution and the Biennial Budget process will change the nature and use of staff resource needs for formulation of the President's Budget in OMB, in Agencies and in Bureaus. Fewer staff resources than are currently consumed in the budget formulation process will be needed to prepare detailed budget justification materials related to budget options within several potential funding levels that never materialize.

On the other hand, staff resources will be needed to prepare Bureau Chiefs, Agency Heads, and others for the Executive Budget Resolution decision sessions. Under an Executive Budget Resolution process, briefing materials on various broad policy and fiscal issues would have to be prepared between **April and May** for the leadership sessions and in June or July. Detailed budget justification material, however, would not need to be prepared until **September** for submission to OMB by **November**.

The shift towards a mission-oriented budget, as envisioned by the merger of the budget process with the process for developing a National Framework of Presidential Priorities will also change the nature of the staff resources used in the budget formulation process. If policy and fiscal guidance are to be brought into better balance, the debates during budget formulation should be more focussed on substantive issues than technical budget scoring or structure. Some of the time currently devoted to internal budget development processes could be reallocated to

greater involvement in policy development coordination across agency lines.

7. Eliminate detailed internal Agency and OMB budget justification materials now prepared by Bureaus.

Since the Executive Budget Resolution would provide macro policy guidance to Agencies and Bureaus prior to the development of budget options for each account in the Federal Budget, much of the line-by-line detailed budget justifications now produced on every activity and every issue should be eliminated. Currently, detailed justifications for every line item in the budget are prepared at least three times during the budget formulation process: first by Bureau staffs for Agency decisions; second, following Agency decisions (in some of the larger agencies, additional internal submissions and reviews may be held) for submission to OMB along with the Agency Estimates materials; and third, after final budget decisions are made at the Presidential level, they are prepared for submission to Congress as budget justification material.

In the proposed Executive Budget Resolution, the line-by-line justifications would be done only after agency decisions for submission to OMB. NPR recommends they be done in the form of draft justifications to Congress. In other words, at least two of the three or more sets of line-by-line justifications should be eliminated. Moreover, systems should be developed to allow for "paperless" transmissions of the line-by-line justification material. This would facilitate modifications to the materials if updates or other changes are required. Congress would continue to receive the amount of detail they request to facilitate their review of the President's budget and subsequent decisions on authorizing and appropriations actions.

Further, if the line-by-line justifications are not prepared until the end of the process, (i.e., in **November/December**), the quality of the materials should be considerably improved. This timing allows information on past year program operational and spending data and/or appropriations levels to be for periods much closer to the budget period than is possible in the first drafts of the line-by-line

justifications done in the current process.

8. Negotiate a reduction in the detailed budget justification provided to the Congressional committees.

The presentation process for the President's budget only begins with its public release. It continues throughout the Congressional budget process during which, the Executive Branch is continually called upon to explain, justify and reconsider the proposals in the President's budget. In light of the time and effort required, it is worth negotiating with Congress on more effective ways to produce and coordinate the submission of budget and other materials congressional justification materials. It may be worthwhile seeking Congressional agreement to focus testimonies and materials presented to Congress more on missions than organizations. The Executive Branch may want to ask Congress to consider arranging more joint presentations by Agencies with related missions possibly in hearings held jointly by Committee with related missions.

In the area of mandatory accounts, the Executive Branch may want to seek ways to coordinate information sought by both authorizing and appropriating committees. This could reduce significantly the amount of duplicative information produced and provided, sometimes in a slightly different configuration, to both authorizing and appropriations committees.

Further, the focus of materials submitted to Congress should be on areas of priority and changes in major accounts. Information on other accounts could be briefly summarized or provided only upon request. In addition, the focus of the material provided should emphasize results, not nuts and bolts of program operations which is clearly a function of the Executive Branch (i.e., execution of policy).

Fiscal Impact

At least two sets of the line-by-line justification materials now prepared in the budget formulation process can be eliminated. Also, an Executive Budget Resolution

process may make more obvious the futility of the efforts now spent by Bureau personnel to devise, often irrelevant, alternative funding levels for each account in the Federal budget.

No new resources are needed to support the recommended changes in the budget formulation process . The efforts necessary to support the recommendations are already done, in some form, within most Agencies. Current efforts may need to be refocused, restructured, or redesigned; but, a net increase in resources should not be needed. To the contrary, the elimination of the low-priority and make work efforts in the current budget formulation process should result in **a net savings in the cost of the budget formulation process.**

(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:

Related NPR Reports

ENDNOTES

1. "Agency" is defined in this section as the Secretarial or Administrator level of a Federal Department or Agency (i.e. the person who reports directly to the President). "Bureau" is defined as the unit of a Federal Department or Agency which is below the Secretarial or Administrator level.

2. Reischauer, Robert, Director, Congressional Budget Office, Testimony before Joint Committee on the Organization of Congress of the United States, March 4, 1993

3. Ibid.

4. Schick, Allen, "Five Reforms in Search of Budget Control: Congress Versus the Federal Budget", CONGRESSIONAL RESEARCH SERVICE Report for Congress (92-443 E), Congressional Research Service, The Library of Congress, January 1992

5. Section 602, Committee Allocations and Enforcement, Title VI, Budget Agreement Enforcement Provisions, Public Law 93-344, as amended.

6.

7. Focus Group Meeting with OMB Examiners, July 2, 1992

8. JoEllen Murphy notes

Budget Process

BUD.5 INSTITUTE BIENNIAL BUDGETS AND APPROPRIATIONS

Background

The President currently submits an annual budget request to Congress. Congress adopts annual budget resolutions and enacts appropriation bills covering all discretionary budget accounts each year. An annual process is not the only available choice.

The idea of biennial budgeting has been around for some time. The first biennial budgeting bill was introduced by then-Congressman Leon Panetta in 1977, and many dozens have been introduced since.¹ Although none have passed, increasing deficits and the pressure to reduce that deficit has made budget decisions more and more difficult and the budget process more and more time consuming. The time is ripe for biennial budgeting.

There has been some experience with two-year or longer budget plans. In 1987, for example, Congress and the President agreed to a two-year budget plan for fiscal years 1988 and 1989. The November 1987 legislative-executive branch budget summit agreement set two-year spending levels for major programs, demonstrating the success possible from this kind of budgeting. This accord streamlined the budget process significantly and allowed Congress, for the first time since 1977, to enact all 13 appropriations bills without using continuing resolutions.²

The Budget Enforcement Act, enacted in 1990, is a budget agreement which set five-year spending limits for discretionary programs and set pay-as-you-go (PAYGO) requirements for mandatory programs. With these multi-year agreements with caps in place, neither the President or Congress have to decide on the macro level of discretionary spending each year. The fact that these caps are now set in advance provides even more reason to move to biennial budget and appropriation cycles.

In another test of the concept of biennial budgeting, the Congress directed the

Department of Defense (DoD) to submit a biennial budget for fiscal years 1988 and 1989. It was anticipated that a biennial budget would help Congress move away from detailed annual budget reviews and provide more time for broad policy oversight. The conferees expressed their belief that a biennial budget would "substantially improve DoD management and congressional oversight," and that while it was preferable to subject all Federal spending to a two-year budget, "beginning with the DoD budget is important".³ The Administration continued to submit biennial budgets for DoD, as well as for the Coast Guard.

Thus far, however, Congress has been dissuaded from biennial appropriations for DoD or the Coast Guard, or, more generally, from passing a general biennial budget measure. This is due, in part, to unanswered questions as to what aspects of the process should be included -- the budget resolution, authorizations, appropriations, or some combination of the three. Equally vital are questions about whether the reduced workload that is envisioned would actually be achieved, or if the need for mid-cycle revisions would make this impossible, as well as what implications such a change might have for the balance of power between the President and Congress.⁴

At the State level, twenty-one States adopt biennial budgets. The General Accounting Office has reported that in States with biennial budgeting, off-year budget adjustments did not consume as much time as regular budgeting, leaving more time for other legislative activities.⁵

Need For Change

As described earlier, formulation of the President's Budget is an incredibly time consuming, staff intensive, and expensive process. The Congressional budget process is also extremely time consuming -- on Congress and the agencies -- and can result in delays in funding.

One of the chief congressional complaints about the budget process in recent years has been the amount of time it requires.⁶ Some sixty percent of all congressional roll call votes now involve budget related issues.⁷ Consideration of budget questions in the form of

concurrent resolutions on the budget, authorization measures, continuing resolutions, and reconciliation bills has been criticized as being repetitive as well. Since the Department of Defense is under annual authorizations, for example, there are at least eighteen votes for DoD alone each year for the subcommittee, full committee, and floor votes for an annual budget resolution, authorization, and appropriation. This was done even when Defense had its own spending cap in law, so all of these votes were on the same total number.

Sometimes all or some of the 13 appropriation bills are not passed by the required October 1 deadline, thus requiring (sometimes multiple) continuing resolutions. The Government Accounting Office (GAO) found that continuing resolutions covered ten of the last thirteen appropriations bills during at least part of the 26 years reviewed. (1960-1985)⁸ Based on a calculation of the total number of days an appropriation operated under continuing resolutions each year, Foreign Assistance, Labor -HHS-Education, and Commerce, Justice, State, Judiciary appropriations ranked above the rest, operating under a continuing resolution almost one-third to one-half of the time over 26 years.⁹ This results in uncertainty among agencies of funding levels and resultant delays in program operations. For example, [insert example of where continuing resolution caused delays in apportionment, allotments, and resultant funding to program and what the programmatic effects were.]

On the agency side, agencies spend an incredible amount of time preparing for appropriation hearings which usually occur between March and May each year. This includes preparing material for witnesses on over every line item since the issues the appropriation committee has chosen to focus on is often not known to the executive branch. In the HHS Office of the Secretary Budget Office, for example, a briefing book which usually exceeds ___ pages is prepared for use at the approximately ___ appropriation hearings. The major organizational operating components (i.e., Social Security Administration, Health Care Financing Administration, Public Health Service, Administration for Children and Families, Administration on Aging) also prepare their own briefing books for their Assistant Secretaries or Commissioners who must testify. [GET DATA FROM HHS]

In our review of numerous studies and interviews throughout the government, many

people favor some form of biennial budgeting. Appropriations committees are a notable exception citing, for the most part, the advantages of annual Congressional oversight. Many others working for the legislative branch cite the advantages of more time for Congressional decision-making, reduction in repetitive actions by Congress, and an opportunity for better budget analysis by allowing time for more detailed analysis on individual issues and more attention to long-term rather than short-term, cursory reviews. One survey of the 100th Congress found that over 85 percent of the 26 Senators and 86 Members of the House sampled responded favorable when asked about two-year appropriations.¹⁰

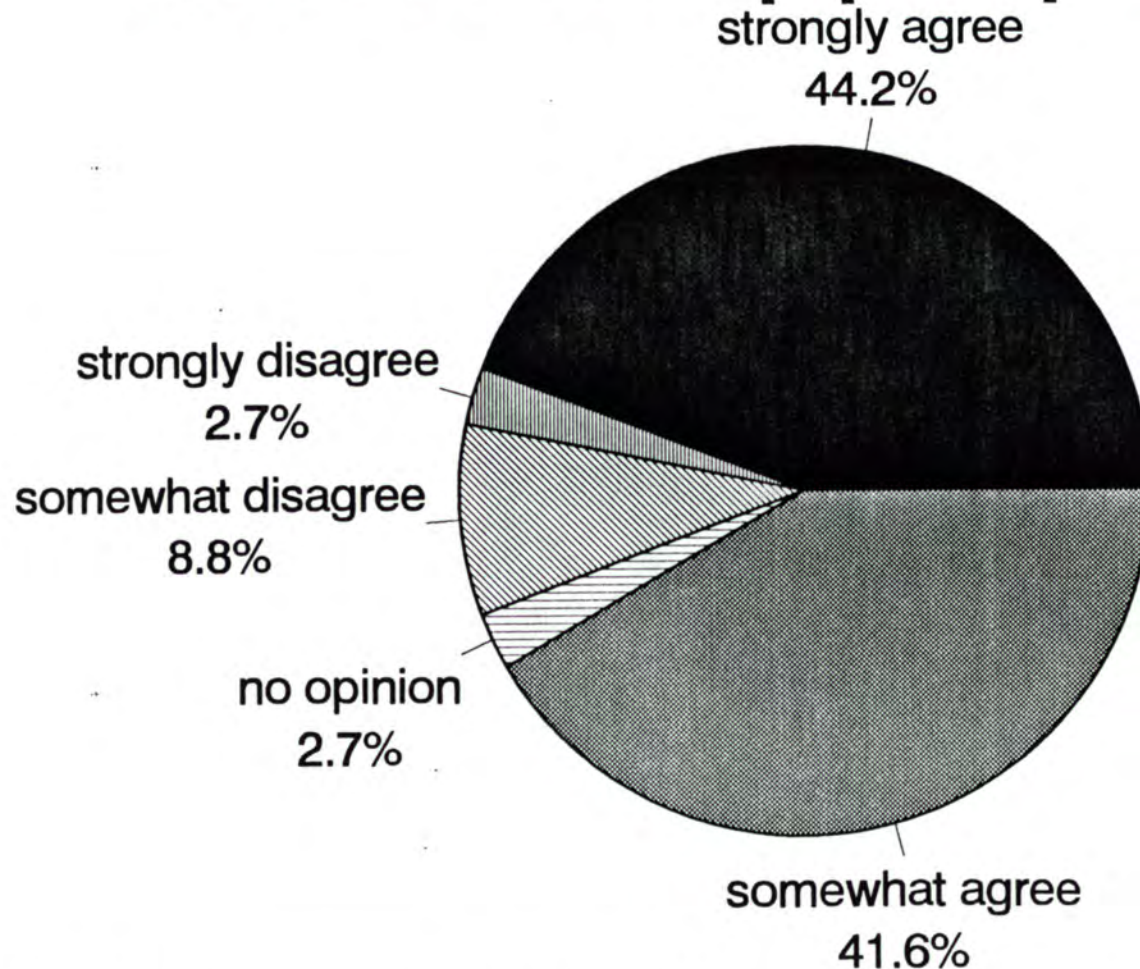
[INSERT GRAPHIC HERE ON CONGRESSIONAL SUPPORT FOR TWO-YEAR APPROPRIATIONS]

[May be able to update the previous paragraph Cite Joint Committee on Congressional Oversight quantified sentiment from recent hearings in favor of biennial budgeting.]

Executive branch staff mention the benefits of biennial budgeting as the increase in predictability of budget actions, more time for better budget analysis, program planning, budget execution and program evaluation. Executive branch also staff mention that even though the appropriations committees may not review every line item of the budget every year but may set some priorities up front (and let other programs go at maintenance level or take across-the-board cuts), the agencies do not know what these priority issues will be and spend months justifying every line item every year.

Considerable time could be saved -- and used more effectively -- in both the executive and legislative branches of government by the reduction in the amount of time consumed by budgeting if budgets and appropriations were moved to a biennial cycle. The chief benefits include: 1) more time for program evaluation, 2) more time for budget planning within Congress, and 3) better long-range planning by Federal agencies and by State and local governments. Since our goal is to streamline the budget process in order to achieve a net reduction in the resources used to produce the budget, and to free up more

Congressional Support for Two-Year Appropriations



SOURCE: Congress Speaks--A Survey of the 100th Congress
Washington, Center for Responsive Politics, 1988. p.34.

time for program evaluation activities to strengthen management for results and ensure an orderly delivery of government services, we recommend the following.

Recommendations

1. The President should request two years of funding for all appropriated accounts, which would identify separate amounts for each year. (Category 3)

The first biennium should begin October 1, 1995 to cover fiscal years 1996 and 1997. Subsequent biennium would begin October 1 of any odd-numbered year. This timing permit budgets to be adopted during the first year of a President's term and at the start of a new Congress, thus giving a new President and Congress the ability to more quickly enact their programs rather than having to operate for two years under an earlier approved budget. This would also allow difficult budget votes to come in non-election years.¹¹ [We need to review the proposed timing in light of our proposal on an Executive Budget Resolution]

The President can submit a two-year request without legislative change. However, to avoid having to send such a budget every year, the President should submit a legislative proposal (amending the Congressional Budget Act of 1974 and the Budget Enforcement Act) to move the requirements related to the President's budget submission from an annual to a biennial cycle. This recommendation should be pursued whether or not Congress chooses to switch to biennial budget resolutions and/or appropriations.

Biennial budgeting will not make the budget decisions facing our Nation any easier, but may create an environment which will facilitate the hard decision making process.

Considerable time would be saved -- and used more effectively -- by the reduction in the amount of time consumed by budgeting if budgets were moved to a streamlined biennial cycle.

On the executive side, the time-consuming processes of developing the President's budget (albeit shortened by other NPR recommendations) and of

defending every line item of that budget in Congressional Justifications would occur once every two years rather than every year if Congress enacts the NPR proposal to amend the requirements for an annual budget submission by the President. This would free up time of program managers to manage their programs, and of policy and budget analysts to conduct more in-depth analysis of program structure, effectiveness, results, and results-oriented performance measures. Agencies would not spend less time interacting with Congress, but the time would be better spent. Instead of agencies and Congress spending months in appropriation hearings covering line item detail on inputs in some accounts, more time would likely be spent on longer term budget issues and effective programmatic and evaluation oversight.

2. We recommend Congress establish a biennial budget resolution and a biennial appropriation process. (Category 3)

This will require amendments to the Congressional Budget Act of 1974. Along with this, we recommend Congress move to multi-year authorizations. It does not make sense to have annual authorizations once you have biennial appropriations. This would replace the current annual process of adopting a concurrent resolution on the budget with one that requires congressional action only every other year.

Congress could enact appropriations bills once every two years, which would include annual or multi-year appropriations for all accounts in the federal budget that are subject to appropriations.¹²

Considerable time would be saved -- and used more effectively -- by both the legislative and executive branches by the reduction in the amount of time consumed by budgeting if budgets and appropriations were moved to a biennial cycle.

Congressional budget workload would be reduced, allowing more time for Congressional review and other legislative activities, such as considering authorizations. Most budget related votes would be concentrated in a single year, freeing up time in the off-year for more productive activities. Reducing the number

of spending decisions that have to be made and the resultant level of conflict would leave additional time for Congressional evaluation and oversight of program results.

With biennial appropriations, there would only be half as many potential running-out-of-money crises or continuing resolutions on October 1. Since the stakes are higher with biennial budgets and appropriations (because now making policy and spending decisions for two years), so it may be more difficult to get agreements on the President's budget, the budget resolution, and appropriations within Congress and between the President and the Congress. However, once agreements are reached, Federal, state and local program managers will have relative certainty for two years.

As an alternative to biennial appropriations for all functions, Congress could consider retaining annual appropriations for selected programs where funding levels are relatively unpredictable and biennial appropriations might result in an increase in the likelihood for supplemental appropriations. The National Academy of Public Administration (NAPA) recommended such an approach in 1983.¹³ Because it is possible that a biennial cycle is appropriate for some but not all annually appropriated accounts, argued NAPA, experiments could be first limited to only those cases where there is little fluctuation in resource requirements from year to year. With this in mind, the current Joint Committee on the Organization of Congress asked the Congressional Budget Office (CBO) to identify which programs where annual, rather than multi-year, appropriations might be more desirable based on three criteria: 1) programs whose funding patterns are heavily dependent on economic factors; 2) emergency items; and 3) other programs with unpredictable funding demands. CBO's analysis led to a list of 30 programs which met the Joint Committee's criteria. This list represented a total of \$18.5 billion in fiscal year 1993 budget authority, representing less than four percent of discretionary spending. More than one-third of the programs identified by CBO are in the international affairs area, in large part because uncertainties in the world make needs for security assistance, migration and refugee assistance, international peacekeeping and food aid highly unpredictable from year to year. Other programs susceptible to changes in

needs for funding because of unforeseen emergencies include the fire fighting activities of the Interior and Agriculture departments and the disaster assistance activities of the Small Business Administration and the Federal Emergency Management Agency. Others, such as the administration of unemployment insurance, are tied to economic trends that are difficult to predict. Others, like the renewal of contracts for housing subsidies, have proved difficult to predict for other reasons.¹⁴ In general, the programs listed by CBO represent those that have proved hard to predict, even under an annual appropriations cycle.¹⁵

3. **Both the Executive branch and Congress should use the off-year to evaluate program effectiveness in terms of results achieved, to look at the base of programs rather than only at incremental changes, and to refine performance measures.** (Category 3)

Specific types of programs could be analyzed in depth, and across organizational lines, in the off years. States with biennial budgeting report that long-range planning is enhanced, less time is spent on budgeting and more is spent on other matters.¹⁶ Sunnyvale, California makes use of its biennial budget cycle by not modifying its base budget in the second year except through a budget supplement process to reflect a specific service level change.¹⁷ As Gail Waiters, Assistant to the City Manager of Sunnyvale reports, what routinely happens during the off-year is program managers take a closer look at the established service (performance target) level, by assessing and analyzing specific data, to determine whether the program structure in place (i.e., program objectives, performance indicators, and tasks) still reflect the appropriate level and quality of service established through City Council action. If not, specific changes to these elements are made. Under normal circumstances, however, program managers are using this review period to make various minor improvements in their program structures or are establishing additional customer satisfaction mechanisms to help them measure their success.¹⁸

Fiscal Impact

What we are really talking about here, for the most part, is redirecting behavior and activity as opposed to savings. You need a critical mass of budget and appropriations staff in the year of enactment. However, in the off-years, there may be some savings in other staff because budget and appropriations staff could fill the need.

The Congressional Budget Office (CBO) scored a biennial budget bill reported out of the Senate in 1990, as follows:

"CBO expects the enactment of this bill would result in no significant cost or savings to the federal government, and in no cost to state or local governments. ... Because the bill would restructure the timing of work for both the legislative and executive branches, rather than add or subtract responsibilities, CBO does not expect the bill to affect significantly federal costs associated with the budget process. It is possible that by providing appropriations to agencies for two years rather than one, a biennial budget process might allow agencies to realize some efficiencies or savings. If an agency has the certainty of funds for two years, it might be able to secure better procurement contracts, which likely would result in the government getting more for its dollar. Federal outlays would be affected only if appropriations were correspondingly reduced." ¹⁹

However, CBO does not cost out the effect of procedural changes. In this case, for example, it is not a bill that switches to biennial budgeting that creates savings, but rather subsequent actions that might occur, such as reducing staff on appropriation or budget committees or in executive agencies and OMB.²⁰

[We have a request in to DoD to see if they EVER ESTIMATED SAVINGS FROM BIENNIAL BUDGETS?]

Printing savings should occur -- in OMB, in agencies, and in Congress. [how to

estimate?]

Fiscal Impact

(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:

Related NPR Reports

ENDNOTES

1. Congressional Budget Office, "Biennial Budgeting", February 1988. See also: Congressional Research Service, "Congressional Approaches to Biennial Budgeting", Michael D. Margeson and James Saturno, July 27, 1987.
2. Joseph J. DioGuardi, Unaccountable Congress: It Doesn't Add Up, Regnery Gateway, 1992, page 82.
3. U.S. Congress. Senate. Department of Defense Authorization Act, 1986, Conference Report. S. Rpt. 99-118, 99th Cong., 1st Session. Washington, 1985, p. 484. This was first reported by the Senate Committee on Armed Services as an amendment proposed by Senator Nunn. The House version of the measure contained a similar provision, and it was included in the conference agreement on the bill as Section 1405.
4. Congressional Research Service, "Biennial Budgeting: Background and Congressional Options", James V. Saturno, December 22, 1989, revised May 11, summary page.
5. U.S. General Accounting Office, "Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices", GAO/AFMD-90-1, October 1989, p. 28.
6. Congressional Research Service, "Biennial Budgeting: Background and Congressional Options", summary page.
7. DioGuardi, page 82.
8. U.S. Government Accounting Office, "Appropriations, Continuing Resolutions, and an Assessment of Automatic Funding Approaches, GAO/AFMD-86-16, page 16.
9. Ibid
10. Congressional Research Service, "Biennial Budgeting: Background and Congressional Options", James V. Saturno, December 22, 1989, revised May 11, 1990, page 3.
11. In the second year of our proposal, the President would not submit a new budget, but only amendments to the previously submitted budget for exceptional areas of concern or change, emergencies, or other unforeseen circumstances. Supplementals, rescissions, deferrals and reprogramming could, of course, continue to be considered any time. Updates of estimates for mandatory programs (which are more volatile, and most of which are not subject to annual appropriations) would continue under current practice.
12. Our recommendation does not increase the duration of availability of appropriations from a single, to two, fiscal years. We did not propose this, in part, because it would require amendments to the Budget Enforcement Act spending limits to accommodate roughly double the budget authority which would be available the first year and because of unlikely passage.

13. "Revitalizing Federal Management: Managers and Their Overburdened Systems, National Academy of Public Administration, Chapter Three: The Overburdened Budget Process, 1988; and "Deregulation of Government Management", Staff Paper on the Federal Budget Process, National Academy of Public Administration, October, 1983.
14. Staff paper prepared by the Congressional Budget Office for the Joint Committee on the Organization of Congress, "Annual and Multi-Year Appropriations and Authorizations", 1993.
15. For further details, see Congressional Budget Office, "Supplemental Appropriations in the 1980s", February 1990.
16. Congressional Research Service, "Biennial Budgeting: Background and Congressional Options", p. 22. See also: U.S. General Accounting Office, "Budget Issues: Current Status and Recent Trends of State and Annual Budgeting, AFMD-87-53FS, July 1987.
17. Sunnyvale Notebook, page III-2. (get exact reference from Gail)
18. Interview with Gail Waiters, Assistant to the City Manager, Sunnyvale, California, July 1993.
19. Biennial Budget Act, Report of the Committee on Governmental Affairs, United States Senate, to Accompany S. 29, Senate Report 101-254, March 21, 1990, pages 21-22.
20. Interviews with Phillip Joyce, (title), Congressional Budget Office, May and July, 1993.

Improve Budget Process

BUD.6 FOCUS ON LONG TERM SPENDING REDUCTIONS NOT SHORT TERM TARGETS

Background

The current Federal budget process includes several different mechanism which are designed to control government spending. The two mechanisms most commonly used in discretionary accounts are the limit on the amount of spending authority provided each year and the limit on the amount of actual spending which may be incurred each year. The limit on spending authority is known as a "budget authority" limit and the limit on actual spending is known as an "outlay" limit. GAO has defined **Budget Authority (BA)** as: authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds. GAO has defined **Outlays (OL)** as: the issuance of checks, disbursements of cash, or electronic transfers of funds made to liquidate a Federal obligation. Outlays during a fiscal year may be for payment of obligations incurred in the same year or in past years (i.e. prior year obligations).¹

Appropriations is the most common means of providing budget authority. Appropriations do not represent cash actually set aside in the United States Treasury; they represent amounts that agencies may obligate during the period of time and for the purposes specified in the appropriations act. Appropriations since FY 1990 have been subject to the Ba and OL limits specified in the Budget Enforcement Act, as amended, which has set specific BA and OL caps on discretionary spending through FY 1998. The intent of the BA and OL limits is to force reductions in government spending on discretionary programs and, to an extent, both limits have been somewhat effective in achieving that goal.

BA limits are an effective way of controlling government spending because as long as appropriations are within agreed upon BA limits, government spending will be limited to the amount of the BA cap. In fact, since the Antideficiency Act provides criminal penalties to an agency budget officer who knowingly obligates more BA than has been appropriated, it would be a rare situation for the BA caps to be violated by the Executive Branch. Moreover, BA limits are clearly tied to policy development. The provision of BA is, in essence, a decision on how much Federal resources will be devoted to a specified purposes.

Outlay caps, on the other hand, have been a less effective way of controlling government spending. As stated above, the controlling factor in government spending is

BA because, as long as obligations are made within BA limits, outlays will never exceed the BA limit. On a year to year basis, however, outlays can and may exceed the BA limit for the same year. In fact, total BA provided for any one year will never, except by coincidence, match the total outlays for that same year. The mismatch between BA and OL totals occurs because outlays are made to pay for obligations which may or may not have been made in the same year as the outlay. For example, if an Agency obligates funds (i.e., expends BA) for the purchase of a computer at the end of a fiscal year, the outlay to pay for such an obligation probably will not occur until the next fiscal year when the computer is delivered.

Outlay caps, therefore, only control government spending indirectly by sometimes forcing reductions in BA limits to accommodate estimated annual outlays for any one fiscal year. In other words, if appropriations for any one fiscal year must taken into consideration a specified outlay caps, a calculation must be made of the potential outlays for that fiscal year related to both the BA provided for that fiscal year and all BA previously provided which may result in outlays during that fiscal year. In some fiscal years, BA may have to be reduced to assure that outlays projected for the fiscal year will be within the OL cap.

In other cases, the effect of the outlay cap has been to make BA available only at the end of a fiscal year, thereby, pushing the outlay into the next fiscal year. Such action does not reduce government spending per se; it only delays when the spending will occur. Ultimately the government will disburse the funding necessary to meet its obligations.

Need For Change

Clearly, outlay estimates cannot be eliminated in the budget process. Since the annual deficit is calculated on the basis of outlays (i.e. the difference between revenues and expenditures for the fiscal year), the timing of outlays will always be significant in the budget process. Consideration, however, should be given to changing the Budget Enforcement Act to delete the specified annual OL caps which are included in the legislation as a means of controlling government spending.

Requiring appropriations to be made in consideration of both BA and OL limits complicates policy development and adds inefficiencies to the budget formulation process. It means simultaneous consideration must not only be given to goals for future spending in relation to past year commitments; but, also to the anticipated timing of the outlays related to past and future spending commitments. In addition, outlay caps tend to divert policy makers attention from substantive decisions. Rather than focussing on the level of

resources which should be committed to a specified purpose, policy makers must take into consideration mathematical calculations of "spend out" rates -- or the anticipated timing of outlays -- for various policy options. Calculations of the spend out rates involves inordinate amount of staff resources and are the source of much disagreement within the Executive Branch and between the Executive and Legislative Branch.

Moreover, the use of outlay limits to achieve annual deficit targets tends, in the short term, to favors slow-spending capital programs versus faster spending operations or personnel-intensive programs. This increasingly favors large increases in capital programs such as Housing construction, Highways and Mass Transit that have low spend out rates. Rep. Carr, Chairman of the Transportation Appropriations Sub-committee has publicly stated that the outlays targets will require his committee to cut Federal Aviation Authority Operations and Coast Guard Operations because spending rates in Operations accounts are high in the first year and produce immediate savings if cut. Rep. Carr gave the example that to achieve \$100 million in outlay savings, the Committee would have reduce transit programs by \$5.2 billion (greater than the entire request), whereas if the Coast Guard were reduced \$125 million it would generate the same amount of savings, \$100 million. Thus the large capital programs remain relatively untouched, because they don't help the committee meet the outlay targets.

On the other hand, outlay targets sometimes work against slow spending activities. For example, if an across-the-board 10 percent outlay reduction is mandated for a certain fiscal year, a much greater than 10 percent reduction would have to be made in the BA levels for slow spending activities. In other words, an activity which only outlays 5 percent of its BA in the first year would have to have its BA reduced by 20 percent in order to make a 10 percent reduction in outlays.

Recommendation

- 1. Propose a legislative amendment to delete annual outlay limits from the Budget Enforcement Act, as amended so that the budget process is only constrained by the amount of Budget Authority (e.g. BA) made available.**

The Balanced Budget Enforcement Act of 1992, which was introduced by Representative Leon Panetta when he was Chair of the House Budget Committee, contained BA caps only. On July 23, 1992, while speaking in support of the proposed legislation, Mr. Panetta, stated the following on the floor of the House of Representatives.

Relying on a single budget authority cap has at least two advantages over the current system where the focus is on constraining outlays. First, it stops the President or Congress from assuming an unrealistic mix of appropriations that relies too heavily on slow-spending programs. Manipulating the mix of programs is not a way to control spending. Although it may reduce outlays in the near term, eventually the funds will be spent. Second, budget authority caps remove any possible advantage to the recent practice of "delayed obligations." The Appropriations Committee will be judged by how much it appropriates, not by how slowly it lets funds be spent.²

The advantages of dropping or reducing the current emphasis on outlay targets will be that it allows the Federal Government to make its budget implications based on programmatic considerations rather than the speed of obligations and outlays. It also frees up significant resources within OMB, CBO, the Congress, and the Agencies and Departments to pursue policy analysis and program evaluation rather than outlay target games.

Dropping the outlay concern strengthens the role of policy decision makers. Senior policy officials would be able to develop budget scenarios based on substantive issues, rather than the detailed outlay estimation process required now before decisions can be made. It would also allow senior policy officials to make real trade-offs of program versus program rather than fast-spending programs versus fast-spending programs and slow-spending versus slow-spending.

Another advantage would be that so-called "gaming" of the process would be reduced because the incentive to come out with outlay saving gimmicks would be significantly reduced. Budget gimmicks such as 1-month pay deferrals, obligation delays, or changing outlay rates, which should not be allowed for scoring purposes even in the current process, would no longer be needed. This would also eliminate famous mismatches such as the "Brooklyn Courthouse" debacle which required a \$1.2 billion sequester in the highway program to cover a \$450 million courthouse construction. CBO had scored this same issue as requiring a \$3 billion sequester.

Finally, the dropping of outlay targets would be an advantage because OMB and CBO rarely disagree about BA scoring, this would increase the credibility of the budget process. Also, the time spent in the current process calculating and recalculating outlay estimates for purposes of juggling policy decisions within the constraints of the OL limit, could be eliminated. Better use could be made of budget analyst time, than debating methods of estimating outlays.

A change to BA caps only as means of controlling spending would be consistent with the philosophical switch made in the Budget Enforcement Act from deficit targets to spending limits. As noted above, annual outlays will always have to be estimated in order to determine the annual deficit. However, to streamline the budget process and to focus the budget process more on policy substances rather than fiscal data, NPR recommends the cessation of the use of OL caps as a mechanism for controlling government spending.

A memorandum drafted for the Clinton Administration transition team, recommended the deletion of OL caps from the Budget Enforcement Act. That memorandum indicated that deletion of outlay caps would remove incentives to make budget decisions based on first year spend-out rates rather than policy merits and would remove incentives to impose obligation delays. Also, it was noted that deletion of OL caps would eliminate most of the need for the Administration and the Congress to "negotiate" spend-out rates and estimates of "prior-year outlays" especially when CBO and OMB have different outlay estimates for the same level of BA. [Negotiations, though, may still occur when the outlay calculation is related to the determination of the annual deficit.] Moreover, the transition memorandum noted the deletion of OL caps would allow OMB and Congress to build budgets without the daily need to check irrelevant outlay estimates. Lastly, the memorandum noted deletion of the outlay cap would remove the need to make excuses when actual outlays breach the cap -- and under the current system triggers a sequestration.³

Fiscal Impact

(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:

Related NPR Reports

ENDNOTES

1.GAO, "A Glossary of Terms Used in the Federal Budget Process, GAO/AFMD-2.1.1, Revised January 1993

2.Remarks of Hon. Leon E. Panetta, Chairman, House Budget Committee, U.S. House of Representatives, July 23,1992

3.Kogan, Richard, Memorandum to Transition Budget Process Section, regarding BBEDCA reform options, November 29, 1992

PART 3

EMPOWER MANAGERS TO ACHIEVE RESULTS

EMPOWER MANAGERS TO ACHIEVE RESULTS

One of the goals of mission-driven, results-oriented budgeting is to ensure that Federal managers have adequate authority and flexibility to utilize resources effectively and efficiently to accomplish their missions and that they be held accountable for results achieved. The hypothesis of this section is that the present use of itemized front-end limitations in the federal government has grown to excessive proportions and has a detrimental effect on results. Other sections make recommendations to build our capacity to set objectives and standards, to measure results, and to hold organizations accountable for achieving them. This section sets forth recommendations to diminish detailed front-end controls as we shift accountability from compliance-oriented to results-oriented management.

Some front-end limitations are essential. If the Federal Government is ever to reduce the deficit and approach a balanced budget, limitations will have to be imposed and enforced to keep spending within limits. The historical need to avoid deficiency supplementals remains appropriately in law. Other limits are necessary to set priorities among incompatible programs and activities.

Front-end limitations focus on the use of inputs, not on the achievement of outputs or results--how many dollars can be spent on computers, for example, rather than what is to be achieved in emergency loans processed faster and more accurately and checks received by applicants, for example.. The unstated objective of many front-end limitation is to hit the dollar target, not a dollar less (which might imply impoundment), not a dollar more (which would be an anti-deficiency violation). These limitations are imposed at the same time as resources for the operating year are made available, hence, "front-end." (Limitations and directions given during the year would be known as management.) They are, in effect, commands to spend a certain amount of money in a particular way; and they

represent the exercise of power and authority.

The net effect of all these input controls is to create an incentive to spend money and a disincentive to save. As one federal manager put it, "...If you as a manager showed at the end of the year that you spent less money than you had been allocated at the beginning of the year, the difference is taken away from you for the upcoming year on the assumption that you don't need it. However, no manager likes to be faced with a shrinking budget i.e. fewer resources since 1) your budget tends to be symbolic of your program's importance and your own sphere of influence and 2) because you never know what new responsibilities may come your way during the next fiscal year that you need resources for. Since new responsibilities often come unfunded and pools of resources are generally not available (OMB and Congress are the first ones to strike any such pool of unallocated reserves) it is currently not in any manager's interest to "admit to" savings. It is much more rewarding to spend all your money and then claim a need for more next year than to show genuine savings..."¹ Many federal managers have made the same observation. It is a severe indictment of our budget culture, with its focus on requests and inputs, its promotion of secrecy and distrust, its failure to fund new mandates, its lack of involvement in budget execution, that we have such strong disincentives to save and be more efficient.

These limitations and the controls to ensure their enforcement have evolved over time, usually in response to specific demands and problems rather than a general design philosophy. Reasons for the limitations range from necessary actions to set priorities to bring the Federal budget into better balance to seemingly arbitrary decisions to cut a particular object class across-the-board in the absence of any better basis for decision-making. Some limitations are essential, such as those to delineate general priorities for spending. Some usurp the capacity of the manager to perform and become micromanagement, such as those that detail how funds are to be spent rather than the results to be achieved.² They range from essential to unnecessary and counterproductive, and placement of front-end limitations along that range is judgmental. The essential criterion in making that judgment is whether the limitations support the objectives to be

achieved.

There are reasons for the use of detailed input limitations. Input limitations are easy to set; they are visible; it is easy to catch employees when they violate them. They can be used as rewards and punishment. While the overhead to control and monitor them may appear expensive and counterproductive to those whose focus is on results and accomplishment, they are easy to explain to the general public and easy to understand. Everyone knows what a federal employee is, what travel is, what a consultant is, what an automobile is. There may be disagreements about outputs and desired outcomes. Unit costs--the cost per Social Security check issued--may leave the general public yawning.

The three sections that follow recommend ways to reduce overly detailed front-end restrictions and limitations, ways to eliminate FTE limitations in favor of more rational means of controlling employment, and actions to foster more effective management within existing limitations. Mission-driven, results-oriented planning and budgeting will succeed only slowly if managers and organizations continue to lavish time and resources on control systems and activities to ensure compliance with detailed input restrictions.

These recommendations state only some of the actions that must be taken to truly empower managers to achieve results. They must have the tools and higher level support as well. Some of the tools are highlighted in other reports. The financial management report stresses the necessary accounting and cost information tools; the _____ report covers the important topic of user fees and incentives to apply them; and the _____ report develops the case for innovation and investment funds. Limitations that make budget operations expensive include personnel rules, covered elsewhere, and the overregulation of procurement and purchasing, particularly of information technology.

The federal managers we spoke with want to save money, want to serve the public better, want to trim the federal deficit, want to take pride in government operations for the people. What stands in the way is a Washington culture that revels in creating managerially nonsensical rules and then takes great joy in catching the managers failing or breaking the rules.

ENDNOTES

1. Letter to Vice President Al Gore dated March 3, 1993 from Helga B. Butler, Executive Officer to the Deputy Administrator, Environmental Protection Agency, Washington, D.C.
2. Substitute quote from Handy, Harvard Business Review article here on next draft.

Empowering Managers

BUD.7 DECREASE ITEMIZED FRONT-END LIMITATIONS

Background

Front-end limitations are restrictions on spending money determined before and imposed at the same time the manager has received any funds. Detailed front-end limitations are imposed on line managers by:

- o Congress through limitations in appropriations accounts, term, language, breakdown of accounts into subaccounts (activities), and detailed instructions and earmarkings included in the committee reports that accompany appropriation bills;
- o the Office of Management and Budget (OMB) through limitations in apportionments, the documents by which the President makes available appropriations to ensure that funds are spent as intended by the Congress in a manner that neither overspends the appropriation nor forces a supplemental appropriation to complete the year;
- o by agencies through limitations in allotments, the system of documents by which agencies both ensure that deficiencies will be prevented (termed the administrative control of funds) and promulgate, allocate, and delegate spending authority down the chain of command to program and field managers (the financial operating plan).

Appropriations

There are roughly 1250 appropriation accounts in the Federal budget. The number varies slightly from year to year. Appropriation accounts are usually divided among activities and sometimes subactivities, for which separate funding totals are provided (i.e., line items). For example, appropriations for military construction are broken among the following three activities: major construction, minor construction, and planning, each with a distinct funding total.

In some cases, the itemization is extensive. For example, the appropriation for health resources and services in the Department of Health and Human Services is broken into 31 separate activities.¹ It's difficult to keep a running total of the total number of activities subject to line item control because it changes significantly from year to year, but a rough estimate would be in the 8,000 to 9,000 range government-wide.

The discretionary accounts acted upon by the Appropriations Committees comprise less than 50% of the total Federal budget and include a number of accounts that are really mandatory and whose spending cannot be controlled by appropriation alone (e.g., unemployment compensation, veterans compensation and pensions). Discretionary spending that can be controlled by the appropriations process comprises 35% of the Federal budget.²

General provisions in each appropriations bill impose additional front-end limitations, a trend which until this year had been growing. For example, the FY 1963 Defense Appropriations Act had 47 general provisions, while the FY 1993 Act had 219.

Report language includes an extensive array of limitations. Although report language is not law, agencies not following report language may be crossexamined closely in future hearings and find the language codified in future appropriations acts. For example, the Department of the Interior found that language in the House, Senate, and Conference Committee Reports accompanying the 1992 Appropriations Act for Interior and Related Agencies contained about 2,500 directives, earmarks, instructions, guidance, and prohibitions. Over 1,000 of these concerned the National Park Service and Fish and Wildlife Service, and about 500 were related to the Bureau of Indian Affairs.³

Any member of Congress may request the insertion of earmarking and report language. If the committee concurs, the earmarking and report language will be inserted in the House, Senate, or Conference Committee reports. The House Appropriations Committee received more requests for such report language in 1993 than in any prior year. This is thought to be in response to the need to cut back to meet the targets set in the Budget Enforcement Act, which in turn places a premium on protecting spending in a member's district. The House Appropriations Committee is moving in the FY 1994

appropriation bills to have many fewer requirements in report language.

For sequestration under the Budget Enforcement Act, a more expansive definition of items subject to uniform reduction in funding kicks in, greatly increasing the number of items potentially subject to control and against which across-the-board reductions must be taken. These items subject to control are termed "programs, projects and activities" and have been defined by each of the appropriations subcommittees in committee reports. For example, the Interior and Related Agencies Subcommittee has used a definition which includes each unit of the national park system, each refuge and hatchery of the Fish and Wildlife Service, each national forest and research unit, and other government-owned or government-operated facility, and other administrative or management units, as well as all items mentioned in the House, Senate, and Conference Committee reports.⁴ The number of activities to which these across-the-board cuts would apply and among which managers from the President on down would have no discretion in reallocating does vary from year to year, but would be in the tens of thousands government-wide.

Apportionments

Under the Anti-Deficiency Act, OMB is required to apportion all appropriation and fund accounts with few exceptions. The purposes of the apportionments are two-fold. First, they provide a mechanism by which the President could prevent the agencies from spending money too quickly. For example, spending funds meant to last the whole fiscal year in the first half of the year would force the Congress to enact supplemental appropriations. Spending in excess of the total amount in the appropriation or fund account would force the Congress to enact deficiency appropriations so that contractors and others who were owed funds could be paid. Second, they provide a mechanism to effect good management practices, such as (a) to achieve savings made possible by changes in requirements or greater efficiency of operations, (b) to provide for contingencies, or (c) as specifically provided by law, such as carrying out sequestrations. Proposed savings for reasons (a) and (b) are required to be reported as deferrals or rescission proposals. To accomplish its purposes, the Antideficiency Act specifies that "Any appropriation subject to apportionment shall be distributed by months, time periods,

or by activities, functions, projects, or objects, or by a combination thereof."⁵

Spending in excess of the amount in an appropriation or fund account has been less of a problem in the last decade. Between 1982 and 1993, there have been 51 violations reported to the President. This time period coincides with the installation of better financial management systems in federal agencies at the urging of GAO, OMB, and the Congress. The Antideficiency Act requires that all such violations be reported by the agency head to the President, and agency heads are required to maintain a fund control system that can identify the persons responsible for the violation. Budget officers and program managers are loathe to approach the agency head to sign reports to the President indicating that agency personnel have violated the law. Also, the threat of administrative and criminal penalties specified by the Antideficiency Act have always been powerful deterrents. No one has ever gone to jail for an Antideficiency Act violation, but at least one agency head has been fired and the careers of civil servants have been adversely affected by violations in the past.⁶

Apportionments made by quarter of the fiscal year (or other time period), by region or other locations, and by object class or activity, as specified under the Antideficiency Act, as needed, accomplish the purposes of the Act. OMB apportionments can be more extensive than appropriations in setting front-end limitations, since, for example, they can break down spending by quarter of the fiscal year or by object class.

Allotments

Allotments subdivide apportionments and incorporate appropriation limitations within Federal agencies. Most Federal agencies develop financial operating plans incorporating appropriation limitations and distributing funds among organizational components as the appropriation process draws to a close in August and September. Financial operating plans are finalized after enactment of appropriations and include the means by which allotments are issued to organizational components.

It is in the carrying out of Congressional, OMB, and agency front-end limitations that problems and costs occur. Each front-end limitation usually involves a system of controls to ensure that the limitations are not exceeded and/or are carried out as set in the

law or report. The control system usually requires some means of breaking down the total amount of money among the managers who will be responsible for spending it and an information system that feeds back both to the managers and to monitors up the chain of command current status compared to the limitation and assurance that the money is properly spent. Depending upon organizational structure, this can affect the whole pyramid of managers and staff. For example, the Forest Service, a bureau in the Department of Agriculture, has managers who receive allotments and suballotments from the Forest Service's 18 appropriations accounts through 9 regional offices, 122 forest supervisor offices, and 633 ranger districts and 69 research locations.⁷

The allotment control systems to manage all the front-end limitations are labor-intensive and entail high overhead. When one line item in an appropriation is broken among ten offices who share those funds, spending by each office must be monitored and controlled so that no one office throws all ten into a deficiency situation.⁸ Then an eleventh office is involved in monitoring to ensure that the limits in each of the ten offices are not exceeded or is involved in working out reallocations among offices when one has good justification for exceeding its limit.

Need for Change

As long as the emphasis for accountability and control is focussed on itemized front-end limitations, it will appear to many managers that the goal of Federal programs is merely to spend money rather than to achieve specified results. As Osborne and Gaebler note, "...Traditional bureaucratic governments act just as Illinois did before its study. They focus on inputs, not outcomes. They fund schools based on how many children enroll; police departments base on police estimates of manpower needed to fight crime. They pay little attention to outcomes--to *results*. It doesn't matter how well the children do in one school versus another, how many poor people get off welfare into stable jobs, how much the crime rate falls or how secure the public feels. In fact, schools, welfare departments, and police departments typically get *more money* when they fail: when children do poorly, welfare rolls swell, or the crime rate rises."⁹

Excessively detailed front-end limitations from the Congress, OMB, and their own agencies force managers to spend large amounts of time in the financial administration of their work, distort work program priorities, encourage spending, and bloat overhead costs through labor-intensive activities to maintain and monitor all of the necessary controls. These front-end limitations cause managers to focus on inputs rather than outputs and results. The net result is that the taxpayer receives more administration and less product for his tax dollar, and justifications for more money roll in because there is never enough to do everything everyone wants to do.

- o Front-end limitations cascade down the organizational structure in smaller and smaller subdivisions and often create unintended incentives and consequences.
- o The focus of these limitations is on inputs, on spending money in a particular way, not utilizing resources to achieve results in the most cost-effective manner.
- o Front-end limitations undercut accountability and draw managerial time and effort to the justification and manipulation of inputs rather than to actions to achieve output results.

As an example, the U.S. Forest Service in the Department of Agriculture has twelve appropriation accounts requiring action by the Appropriations Committees each year and six permanent appropriation accounts, broken among a total of 35 activities. It distributes funds from these 18 appropriations and 35 activities among 156 national forests, 20 national grasslands, and 9 land utilization projects located in 44 states, Puerto Rico, and the Virgin Islands.¹⁰

One of these national forests, the Ochoco National Forest, administers almost a million acres of national forest and grasslands in central Oregon. Of the 35 activities, portions of 19 are carried out in the Ochoco. For financial management, these 19 activities translate into 70 separate accounts, 556 separate management codes, and 1769 accounting lines for the Ochoco National Forest. The budget is split into such small increments that tracking and balancing amounts becomes the major consumer of managers' time.¹¹

Ochoco participated in a Forest Service pilot project to test the results of greater managerial flexibility.¹² The 70 internal accounts were reduced to four or five and the

emphasis was changed to "output targets accomplished" rather than maintaining elaborate cuff records on how the individual pots of money were spent. Productivity jumped 25% in the first year and an additional 35% in the second year. Resource managers who had spent 45-60 days a year in the office "crunching numbers" found they could adequately work out budgets in one day.¹³

Accountability without front-end limitations can be maintained through financial management systems and through reporting systems on accomplishments. Most federal financial systems have more than adequate coding fields to include a breakdown of obligations and spending on any desired basis. Management can intervene and give direction during the operating year, based on spending patterns and results they see emerging through reports and other feedback mechanisms.

Management by work plan is another way to maintain accountability without front-end limitations. Management by work plan involves the development and approval of a work plan, setting performance objectives with an accompanying financial plan, periodically reporting on accomplishments and amount spent, and taking any appropriate management action based on comparisons. Management by work plan also stresses accountability and reporting, but usually with less paperwork and monitoring and more "management by exception" focussed on problems. This is the type of management used in the Ochoco during the pilot test.¹⁴

And there are other effective approaches. The Department of Defense has developed a method of budgeting entitled Unit Cost Resourcing (UCR). This is primarily for organizations that operate within a revolving fund. UCR accounts for expenditures in terms of their impact upon work output(s)--results. A single front-end limitation is cost per output. Budget formulation and execution are based on cost per output and mission oriented measures. Management can evaluate the integration of inputs by operational managers toward the mission.

Apportionments

A number of agency budget officers and program managers commented that OMB sometimes used apportionments as a means to exercise power: to micromanage or to

extract reports or other concessions from agency management. It is alleged that OMB did not act upon apportionments according to the limits set forth in OMB Circular A-34.¹⁵ Interviews indicated a wide disparity in the use of apportionments by OMB, ranging from annual "letter apportionments" making all funds available for the year without further restriction to apportionment of individual accounts by fiscal year quarter, by activity, by object class, or with other restrictions.

Focus group discussions with OMB examiners brought forth similar responses. There are great disparities in the use of apportionments among the divisions, branches, and individual examiners in OMB, with a general consensus that very little time (perhaps 3 to 5 per cent) of examiners' time is spent on budget execution, given that budget formulation, regulation review, and legislation were of much higher priority by their management. The examiners agreed that apportionments were a powerful tool to enforce Presidential priorities, but felt that the tool was used only when higher management in OMB was supportive.

Allotments

In focus groups and interviews with Federal managers, chief complaints about financial operating plans and allotments were:

- o that the allotments tend to be in such small "pots" of money when they reach operating managers actually charged with carrying out the work that an excessive amount of time is required figuring out what work to charge to which account;¹⁶
- o that allotments were late--reaching managers in February for a year that started in October, for example.¹⁷

Intertwined with financial restrictions are delegations of managerial authorities to take action. The Forest Service pilot study included a major initiative to delegate authority for specific actions to lower levels in the organization.¹⁸ A similar pilot program by the Veterans Administration focussed exclusively on these delegations, since no support was found to be forthcoming for relief on the budget/finance side.¹⁹

Recommendations:

- 1. Departments and agencies should take the initiative to reduce overitemization and limitations that are expensive to administer in their appropriation account structures and language, working with their appropriations subcommittees and OMB.**

Implementation should begin with the submission of FY 1995 budget requests to OMB. A longer-term and more extensive restructuring should occur as part of the preparation of the FY 1996-97 biennial budget.

The first would be to consolidate appropriations accounts and activities more closely along the lines of programs providing services to the public. These program accounts would receive appropriations for the full cost of the program, including the usual administrative expenses as well as the accruing cost of retiree benefits and other hidden costs described elsewhere in this document. The appropriation would also cover the purchase of support services from support accounts in or outside the agency or from the private sector (e.g. supplies, equipment, payroll services).

The second would be to organize support accounts in the form of revolving fund accounts, replacing separate line items for administrative activities and services. Support accounts would cover most commercially available items, such as office space, supplies, automobiles, personnel and payroll services, building maintenance, legal, accounting, and auditing services. The Department of Defense has taken this approach in the creation of its Defense Business Operations Fund, a revolving fund established in FY 1992.

It is important that total administrative costs be readily identifiable under any restructuring, so that the administrative management costs of programs can be controlled by incentives, good management, or (all else failing) front-end restrictions and not expand at the expense of the program recipients.²⁰

- 2. Departments and agencies should accelerate their efforts with the appropriations committees to reduce troublesome restrictions and earmarks in**

appropriation and report language.

A number of agencies have been working with their appropriations subcommittee staffs to document concerns with and reduce general language provisions and earmarks and directives in report language that are expensive to administer for the advantage gained. We note that the House Appropriation Committee is reducing limitations in their reports substantially in FY 1994 and hope this would also be adopted by the Senate and continued in the future. NPR recommends that agencies build on the good efforts underway.

3. The apportionment process as managed by OMB should become a "management by exception" system, with simple annual letter apportionments used except where specific circumstances warrant otherwise.²¹

OMB should process apportionments within the timeframes called for in the law (e.g. within calendar 30 days after approval of the appropriations act or September 10, whichever is later²²). OMB is already encouraging automation of apportionment submissions and with Treasury on an automated monthly reporting system, both of which efforts should be encouraged and completed for their assistance in timely action.²³

Any exceptions to the letter apportionment process should be specifically explained to the affected agency. Examples of reasons for exceptions:

- To force discipline on an agency to carry out the purposes of the Antideficiency Act where there is reason to believe the agency is behaving otherwise;
- Where the time phasing of obligations during the fiscal year is of critical interest to government-wide management.
- When proposed rescissions or deferrals are involved that require formal apportionment action.

This change would be implemented by revisions to OMB Circular A-34 and OMB internal instructions to its staff. These changes should be developed in consultation with agency staff.

Related to this recommendation, OMB, Treasury, and federal agencies should proceed as soon as possible with an integrated budgeting/financial management

information system to promote the better and more effective use of financial management information in budget formulation and more effective oversight of budget execution, as recommended in the NPR accompanying report on financial management.²⁴²⁵

4. Departments and agencies should reduce the excessive administrative subdivision of funds in their financial operating plans and allotment systems and structures that impede managers from effectively and efficiently achieving results.

Departments and agencies should also review their procedures for developing financial operating plans at the beginning of the operating year. The standard for developing and implementing financial operating plan development process is that allotments are made to responsible managers within 30 days of enactment of an appropriation or continuing resolution, whichever comes later. Any agencies not able to meet this standard should be held accountable, first by their internal managers at all levels for corrective action and, failing there, by OMB, Treasury, and GAO for corrective action.

Accountability in the use of inputs can amply be provided for through good financial management and other support systems (e.g. personnel/payroll, procurement). In many cases, those systems need to be upgraded to provide real-time on-line information feedback to all managers and on-line read-only summary reports to higher levels of management and external monitors, such as IG's and OMB. Two effective incentives for better accountability are peer pressure (others can see what and how you're doing) and visibility ("no where to hide").

There are no simple answers to problems as they relate to appropriations. Congress has imposed limitations for reasons usually involving the specific circumstances of the appropriation and line item. A general law or rule against such limitations is neither feasible nor desirable; the capacity to establish such limitations is essential to Congressional authorities and responsibilities. However, it may be useful to make Members of Congress and their staffs aware of the managerial costs and ramifications of excessive front-end limitations. What is feasible and desirable is to probe the reasons for the appropriation account structure or line item, to examine the problems caused by it, and

to approach the Congress with a proposal for a better structure, a description of the improvements it will bring, and the necessary assurances to the Congress, supported by proof in performance, that the reasons causing the original structure will not reoccur. Changes in the appropriation structure and in line items will have to be earned, one change at a time.

Some of the changes can be made to reduce front-end limitations within the Executive Branch, saving money and increasing managerial flexibility. The apportionment process, for example, could be "reinvented" quite quickly. Agency allotment systems are another matter. These reflect complicated, self-inflicted problems and aren't likely to go away without some reduction in layering and broader responsibilities to get away from "stovepiping." Here again, corrections need to be sought on a decentralized basis, instigated from the bottom up, focussed on where the problem exists.

Fiscal Impact:

Savings will occur if these recommendations are carried out, but they will be hard to capture. Many managers will simply absorb savings into on-going operations--and with some justification, since they feel they have been hit by years of thoughtless "across-the-board" reductions that need to be offset. Many savings will appear as cost avoidances and may be measured as increases in productivity.²⁶

Fiscal Impact
(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:

Related NPR Reports

ENDNOTES

1. Office of Management and Budget, *Budget of the United States, FY 1994*, Washington, D.C., pp. 602-603.
2. Budget Process: Testimony of Hon. William H. Natcher, Joint Committee on the Organization of the Congress, March 11, 1993.
3. Unpublished report by the Department of the Interior budget staff, July 1993.
4. Budget of the United States, FY 1994, p.
5. Find statutory cite.
6. Betty Ing Bradshaw, Office of Management and Budget.
7. U. S. Senate Committee on Government Affairs, "Organization of the Federal Executive Departments and Agencies as of 1 January 1992," Senate Committee Print 102-107, Part 1. (a wall chart)
8. An official in Defense mentioned that there were 10 potential anti-deficiency violations (e.g. overspending a controlled item) two years ago, the largest of which was \$17.00.
9. David Osborne and Ted Gaebler, *Reinventing Government*, (Reading: Addison-Wesley Publishing Company, 1992, p. 139.
10. Budget of the United States Government, Fiscal Year 1994, April 8, 1993, p.390.
11. "Proposal for Change: Ochoco National Forest," (Pilot Study), undated.
12. A description of the Forest Service pilot program appears in *Overcoming Barriers to Productivity: An Agency Call to Action*, Interagency Barriers Working Group, May 1988, pp. 8-9.
13. Summary of Experience, undated paper. Also interviews with Rod Collins, business manager for the Ochoco National Forest.
14. Discussions with Rod Collins.
15. Interview with Department of Energy, June , 1993. Also cited in interviews with Department of Justice, and Department of Health and Human Services.
16. The Ochoco National Forest example cited earlier in this chapter is a vivid case in point.
17. Interview with Dept. of Justice, June 29, 1993.

18. Proposal for Change, Ochoco National Forest, pages 5 through 8.
19. "Management Efficiency Pilot Program", Department of Veterans Affairs, Deputy Assistant Secretary for Program Coordination and Evaluation, Washington, D.C. 20420, March 1990.
20. Per John Kamensky. Need to discuss this point with him.
21. The National Academy of Public Administration recommended that OMB automatically apportion all accounts that have not created and are not expected to create apportionment problems in 1983. The letter apportionment, in effect, does that.
22. OMB Circular A-34, Section 44.10 Action by OMB.
23. Recommendations concerning the internal handling of apportionments by OMB are in the EOP/OMB Chapter.
24. Financial Systems team recommendation. OMB and Treasury are about to enter into a contract to identify the needs and parameters of such a system.
25. One of the best descriptions of what's needed is in Comptroller General of the United States, Managing the Cost of Government: Building an Effective Financial Structure, Washington, D.C., February 1985, GAO/AFMD-85-35.
26. Brad's notes to himself:

Concerns to follow up on:

- Get footnotes properly formatted here and in Bud.9.
- Ed Delaney quote?
- Check with Bing and Howard one more time.
- Check with words on separating admin with John Kamensky.
- Bing questions impact of FMFIA and CFO Act. Dropped but check.
- No reference to FTE section.
- In reedit, did Justine's stuff come out o.k.?

Did on this redraft:

- Shortened by half, per Kamensky.
- Incorporated comments from Kamensky, Bradshaw, Dendurent, Dame, Groszyk.
- Dropped findings, strengthened need, reorganized paper, per Kamensky.

Empower Managers to Achieve Results

BUD.8 REPLACE ACROSS-THE-BOARD FTE CEILINGS

Background

Employment ceilings were instituted in 1964 by the Bureau of the Budget (currently the Office of Management and Budget) Circular No. A-64 to ensure the most effective use of government resources.¹ At that time, agency heads were charged with observing the employment ceilings and pursuing a position management program that provided a proper balance among mission needs, efficiency of operations and effective employee utilization. This meant "achieving lower employment levels and increasing productivity through tighter management, redeployment of personnel, simplification of procedures and stripping work to essentials."

Since the early 1980's, agencies have been required to use the Full Time Equivalent (FTE) work year as a limitation on the size of their work force. One FTE is equal to one compensable work year, or 2,080 hours. Before that time, the previous method of control -- head counts on the last day of the year (end strength) -- was creating a climate for poor management practices. Most agencies spent the entire last month of the year processing personnel actions to terminate or hire temporaries to make sure that they had the exact number of employees on board on the last day of the year to meet the Office of Management and Budget (OMB) employment ceiling. This was done because agencies were concerned that failure to be at full staff at the end of the year would give the impression that they did not need the assigned staff levels. However, what often resulted was a freeze or slowdown of productivity until later in the year, at which time managers started the cycle again. The objective of the FTE ceiling approach was to provide agencies with greater flexibility in managing the "mix" of their work forces throughout the year.

In July 1983, only the portions of OMB Circular No. A-64 that pertained to position management systems remained in effect, and all the instructions regarding the

derivation, issuance, monitoring and reporting of FTE employment ceilings were contained in OMB Circular No. A-11.²

While the use of employment ceilings have, for the most part, been successful in keeping the number of federal civilian personnel within desired goals, it has been neither the most efficient nor effective means of achieving overall management improvement and economies.

According to OMB Circular No. A-11, all agencies must prepare budget estimates relating to personnel requirements in terms of FTE.³ Subsequent employment ceilings--in theory--reflect budget proposals and assumptions with regard to work load, efficiency, proposed legislation, interagency reimbursable arrangements, and other special financing methods. Maximum allowable personnel resources are determined at the time of the annual budget review for the fiscal year then in progress, and for the succeeding two fiscal years. Agencies are advised of their ceilings formally in allowance letters that are sent shortly after transmittal of the annual budget.

Currently, the process in which FTEs are allocated is as follows:

1. OMB allocates the FTE ceilings as required by the President's Executive Order among departments and agencies, and then notifies them of their ceilings.
2. Department/Agency budget staff receive ceiling numbers and determines the break down by departmental components.
3. Further break downs are determined through the organizational levels to offices, bureaus, divisions, branches, units, etc.
4. The entities outlined in #3 above then respond according to their individual FTE ceiling, having to budget separately for both FTE, general grade levels, and overall dollars.

Need for Change

Federal managers have frequently mentioned FTE ceilings as their most oppressive limitation because:

- o the ceilings are imposed separately from, at a different time from, and usually at

- odds with previous developed and agreed-to allocations of dollars;
- o the FTE ceilings are frequently arbitrary and applied across-the-board as reductions, without adequate assessment as to how they fit with the operations and their priorities;
 - o the FTE ceilings are frequently not synchronized with the imposition of rules, regulations, and demands that cause more work, so that managers are left with mandates and no means of fulfilling them;
 - o the ceilings hurt good managers more than bad, in that good managers are running tighter operations and have less slack to meet reductions;
 - o the personnel system in the federal government makes it difficult to change operations quickly to conform to new FTE targets: people can't simply be fired and people with new skills rehired;
 - o when faced with a ceiling, many managers hire higher graded staff, on the theory that higher graded staff can do lower graded work, but lower graded staff can't do higher graded work;
 - o FTE ceilings force work to be contracted that can be done at lower cost in-house or sometimes force work to be contracted out that more appropriately is done by government employees, such as oversight of other contractors.

Managers generally would prefer to have some up-front decisions about what programs and activities to cut back, with appropriate staff reductions, rather than to have a number of "walking wounded" programs limping along inefficiently.

Central agency FTE requirements as well as special Congressional employment earmarks or constraints, have significant impact on the general management of all government agencies -- creating confusion, increasing work load and detracting from the common sense principles of good management. The practice of FTE ceilings assumes that managers and supervisors are not competent to execute their personnel responsibilities in the interest of the organization. But if this assumption is in fact true, something is fundamentally wrong with the federal government's civil service system as it relates to recruitment, selection and development of its employees.

Some managers have indicated that the system breaks down because both OMB and

department/agency levels do not make priority choices as to where personnel reductions should occur, but instead institute uniform across-the-board percentage reductions in FTE throughout every organization and every level within the organization.

FTE ceilings also prompt managers to hire a higher level of employee to do the job a lower level employee can do. For example, a manager would be more likely to hire one GS 11 to do quality assurance rather than two GS 5s who could produce a quality product on the line. Similar tradeoffs are being made at the GS 14 and 15 levels, resulting in government becoming too top heavy, and providing limited room for promotional/professional development opportunities.

There have been a number of success stories in state and local government that have managed to control personnel numbers while still being able to accomplish the goals and mission of the organization. Since 1978 the City of Sunnyvale, California, for example, has used "full cost accounting" as a way to identify the cost of a service it provides, the level of service that is needed, and later to evaluate the efficiency of that service.⁴ This is possible because the City's accounting system is designed to fully capture the cost of providing a given service, including costs that are often overlooked -- pension, accrued vacation or sick leave, equipment and vehicle expenses, building maintenance costs, insurance, and other overhead charges.⁵ The full cost accounting practiced by Sunnyvale allows its policy makers to understand the true cost of providing a service and to judge whether it is too expensive or if it is possible for the City to provide the service through the private sector by contract.

Sunnyvale pays considerable attention to measuring the City's financial health through year-end financial statements, detailed costs of each service provided, costs that are postponed to future periods, and the accumulation of unfunded pension liabilities. The data provided by its accounting system helps the City monitor the status of finances, budget realistically, search for the most efficient way to deliver services, compare the cost of alternative levels of service, systematically evaluate and update financial conditions, and communicate financial information to creditors, bond rating agencies, other levels of government, auditors and other interested parties.⁷

The ultimate goal of the federal government should also be to institute strategies that

can provide long-term opportunities for cost savings and productivity improvements based on specific objectives that correlate with the overall mission of providing quality public services in the most cost effective manner.

The National Academy of Public Administration (NAPA) found in their study of federal personnel ceilings in 1983, that the root problem of FTE ceilings is an inherent distrust of federal bureaucrats' motivations when it comes to the number of personnel. It proposed that work still needed to be done to resolve the following issues:

- How to estimate position requirements so as to present a convincing case to budget directors, OMB and the Congress.
- How to implement staffing plans within the limits of budget allowances so as to achieve the most cost-effective use of payroll dollars. How to use the flexibility of FTE effectively.
- How to measure the staffing efficiency achieved and articulate the results to Congress and the public in a convincing fashion.

NAPA said that "Until real progress is made in these three respects, some form of 'artificial' restraint on numbers of personnel is likely to continue, accompanied by periodic freezes."⁸ Its assessment of these findings was completed in 1983, yet it remains true today.

Sound work force estimates should be provided during the budget process to manage the size of the overall federal work force and to give management the flexibility to make more efficient and effective staffing decisions within budgetary resources. Even when a manager is not specifically struggling with the FTE restrictions, the decision as to what level of mix or personnel to employ is just as critical.

It is by far a more effective approach to eliminate FTE controls and replace them with budgetary limits on each agency's personnel compensation (salaries and benefits) budget. By reducing the personnel dollars available to agencies, predictable savings can result. FTE reductions will result in fewer employees; however, cost savings are usually well below predictions because the majority of positions normally eliminated by agencies tend to be lower paid positions. In addition to true cost savings, personnel compensation limits provide agencies the flexibility to spend available dollars in a manner that will most

effectively achieve the agency's mission.

Recommendations

According to the 1983 NAPA study, federal managers feel the most preferred way to manage the federal work force is to: 1) establish accountability for efficiency of total program resources; 2) reward and recognize managers who demonstrate tight program resource control; and 3) control personnel funding rather than numbers of positions. All of these preferred approaches have been reiterated and supported through numerous interviews throughout federal agencies by the NPR Budget Team. There should be a process to ensure an appropriate level of federal employees, but not at the sake of providing substandard services or services at inflated costs. The preferred process should be used to empower the federal work force while preserving accountability. People work harder and invest more of their creativity when they control their own work.

1. Allow Budgeting for Personnel Dollars Rather than FTEs

The President should direct OMB to refrain from setting guidance to all agencies on FTE ceilings for the 1995 fiscal year and beyond.

Budgeting for dollars instead of FTE should be a phased-in process, granting agencies that have a sound accounting system already in place to be exempted immediately from FTE ceilings. A sound accounting system includes long-range financial planning, audited financial statements, integration of budget and accounting data and development of cost information. Other agencies would be expected to establish similar accounting systems that incorporate the same components before they are granted an exemption to FTE ceilings. Those agencies that are not up to speed could start by embracing and implementing the provisions of the Chief Financial Officers (CFO) Act of 1990.⁹ Also a few agencies such as the Internal Revenue Service (IRS) have made considerable progress towards integrating cost and program performance information, and they should be looked at as implementation models.¹⁰

Full cost accounting can be applied in the federal government, and could potentially

take away the necessity for having FTE ceilings. However, there are some preliminary steps that must be accomplished first. Currently, the federal government's accounting system does not break out operational costs as a separate expenditure, therefore, many programs cannot be budgeted on costs. This is an important element in instituting full cost accounting. OMB is beginning to formulate processes that will ensure that the measurement of budgetary resources adequately reflects the resources used by federal programs, and several NPR recommendations have suggested that the federal budget be restructured around missions. The main purpose is to shift the emphasis of the budget from the current account structure, to a process that would allow results-oriented decision making.

Before there is a separate distinction between operating costs and administrative/personnel costs, there needs to be some adjustment to agency budgets that attempt to get at full costing. Agencies do not pay the full costs of employee compensation, notably the accruing cost of pensions and retiree health benefits. Charging full costs would add administrative complexity, but would improve overall budget control and efficiency of choice between labor and other inputs and between performing services in-house and contracting out.⁵

OMB suggests that by charging agencies the full costs of operating their programs, there will be: 1) efficiency gains in allocating resources, and improved budget control; 2) more accurate measure of input costs for performance budgeting; and 3) a shift toward methods used in private sector accounting.⁶ This recommendation is referenced in the NPR accompanying report on financial management.

An organization's most valuable asset is its human resources. By adhering to controls such as FTE ceilings, managers often have difficulty exercising the full spectrum of their management prerogatives -- providing rewards, installing incentives, encouraging innovation and restructuring for productivity improvements.

The fact that a manager must hire personnel based on an obsolete and arbitrary process of assigning resources from a blanket work hours formula prevents a manager from assessing or reassessing the most efficient and effective way to manage a program.

The option to allocate personnel dollars instead of FTEs has a direct correlation to a

performance measurement system. What the policy makers view as potentially giving up -- controlling the growth of the federal work force -- they will get back in the way of management accountability to achieve the identified outcomes/outputs.

An example of the need for flexibility on FTE's is the Department of Defense's Defense Business Operations Fund, a revolving fund from which mission activities purchase goods and services. The Defense Business Operations Fund (DBOF) finances many of DoD's support activities as business areas that provide goods and services to mission related activities. These goods and services are budgeted under unit cost resourcing, a methodology of measuring the cost of producing units of output. Imposing an arbitrary ceiling on FTE's would affect costs and also the ability of organizations financed by DBOF to accept and produce goods and services purchased by the armed services.

Where it makes sense, budgeting for personnel dollars instead of FTE would can be done. Virtually all budget requests are accompanied by object class schedules that show the estimated spending for personnel services and benefits. Using budgets rather than FTE's to control overall employment:

- Requires agency reviewers, OMB and the Congress to consider the dollar amount to departments and agencies for salaries and expenses for each area with a distinct mission (which they usually do at present)..
- Results in automatic efficiencies because managers will have more flexibility to be creative in utilizing the most cost effective resources to get the job done.
- Enables managers the flexibility to move dollars among object classes within the confines of the particular mission for which the dollars were appropriated. Ancillary staff costs such as space, equipment, travel and training, for example, would be weighed against a manager's decision to hire a particular level of employee. The manager might find he or she can buy certain services for less than the cost of having on-board staff or, conversely, find that one on-board person is less expensive than a contract for the service.
- Requires managers to report on how they spend the money (usually readily available in agency financial management systems) and any efficiencies resulting from those efforts.

- Enables the President and Congress to say to the American public, "this is the service your government is providing you, this is how much it cost, and this is how well the service was delivered."
- Potentially improves morale, individual performance and program productivity.

2. **Redefine "Federal Employment" to Include Contract Personnel**

The President should issue an Executive Order that requires departments and agencies to include current exempt personnel such as contract personnel, as "total approved level" of FTE. This will require OMB to revise Circular No. A-11.

To take advantage of the Administration's efforts to improve efficiency, each agency could take a total inventory of its personnel use, including both FTE and contract personnel.

The administration's goals to reduce the federal workforce should be applied to this total pool of workers. Agencies should then reduce overall personnel usage within the constraints of their administrative budgets, finding the most efficient combination of federal employees and contract employees needed to provide the agency's services. This would alleviate the game of trading federal workers for contract staff, where cost, quality and efficiency of service are often sacrificed to meet arbitrary FTE ceilings.

Traditionally, and as a direct outgrowth of FTE ceilings, managers have used contracting out and/or contract personnel to substitute for the use of direct employment. This tactic has been more pronounced when in the past there have been similar goals to reduce the federal work force.

OMB Circular No. A-76 establishes policy as it relates to Performance of Commercial Activities. The Circular states that "Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength...Government [should] rely on commercial sources to supply the products and services the Government needs...Competition enhances quality, economy and productivity. Whenever commercial sector performance of a Government operated commercial activity is permissible, in accordance with this Circular and its Supplement, comparison of the cost of contracting and the cost of in-house performance shall be performed to determine who will do the work."⁷

Of course, there is no real competition when FTE ceilings give the agency no choice but to contract out, irrespective of costs.

Using contract personnel helps the agencies to meet the requirements of reducing staff while still getting their tasks done. As a result of this process, a "shadow" government is created where agencies rely on a considerably higher number of personnel than their FTE ceilings would indicate. A case in point is one program that had its budget expanded but gained no expansion in its FTE ceiling. So, the program ended up contracting out its secretarial support and reserved its FTE ceiling for additional senior staff. Now, over 60 percent of the program staff are non-direct hires. While this program was within the applicable regulations of OMB Circular No. A-11, the solution to the FTE limitation was time consuming and inefficient.

Inspectors General have criticized The Department of Energy and the Environmental Protection Agency for their lax oversight of contractors. In both cases, managers have complained that FTE ceilings didn't permit them to have adequate staff to oversee what they were forced to contract.

Fiscal Impact

(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:

Related NPR Reports

ENDNOTES

1. BOB Circular No. A-64, "Control over employment and reporting on related cost reductions;" March 31, 1964.
2. OMB Circular No. A-64 Revised, "Partial Rescission of OMB Circular No. A-64, re: Agency Employment Ceiling Controls"; July 29, 1983.
3. OMB Circular No. A-11 (1992), "Basis for Reporting on Employment and Personnel Compensation;" 13.1-13.4
4. City of Sunnyvale, CA, *Fiscal Sub-Element*; March 15, 1988; (7.1) pg. 23
5. City of Sunnyvale, CA *Fiscal Sub-Element*, March 15, 1988; (7.1) pg. 23
6. City of Sunnyvale, CA, "*Fiscal Sub-Element*," March 15, 1988; (7.1) pg. 16, 17.
7. National Academy of Public Administration, *Deregulation of Government Management*, Staff Paper on Federal Personnel Ceilings, October 1983; pg. 15
8. Chief Financial Officers Act of 1990
9. Internal Revenue Service, Chief Financial Officers Report
10. "Charge agencies for fully accruing costs of employees' benefits," Larry Jacobson, OMB; 7/7/93
11. OMB Circular No. A-76, "Performance of Commercial Activities," August 4, 1983; pg. 1,2.

Empowering Managers

**BUD.9 INCREASE FLEXIBILITY FOR MANAGERS TO ACCOMPLISH
RESULTS WITHIN EXISTING RESOURCE LIMITATIONS**

A previous issue paper (Bud.7) addressed reducing itemized front-end limitations--limitations created before the operating year begins. This paper focuses on working within existing front-end limitations during the operating year to avoid unintended, detrimental side effects and to provide line managers with greater flexibility to achieve results.

Background

There are a number of mechanisms for managerial flexibility within resource limitations, some of which involve going back to the Congress. Examples of the latter are reprogrammings and requests for appropriation transfers. Others can be done within the Executive Branch, either through reapportionments (if required) or reallocations.

Flexibility frequently involves charting a course among several types of front-end limitations. For example, appropriations for the Department of Defense (DOD) fall in the general categories of military personnel, operations and maintenance, procurement, research, development, test and evaluation, military construction, family housing, and management funds. The appropriation specifies how much should be spent on each by military service, as well as some DOD-wide activities. In doing so, however, the appropriation does not specify how much should be spent for each at each military installation. Rather, each service breaks down each appropriation into suballocations for each installation. Each installation commander ends up with a number of small pots of money for specific purposes based on a budget that was prepared two to three years earlier and doesn't reflect current conditions and requirements. Because of the complications related to reprogramming or some other formal transfer mechanism, there is an incentive to spend them even though

they may not reflect current needs and priorities.

Worth noting is that the DOD appropriations structure has almost nothing to do with military missions. In effect, by using categories that relate neither to missions nor installations, the Congress has provided DOD and the military services the incentives to find creative ways to apply their appropriations to meet their needs.¹

The Department of Defense developed a methodology to make wise and flexible use of the appropriation and activity accounts and applied it on a set of pilot installations. This methodology, the Unified Budget Plan, gave installation commanders flexibility to transfer funds among allotments and cost categories. About 7 to 10 percent of the money was in an account different from where it was most needed in the installation commander's view, while 90 to 93 percent was allocated and spent just as budgeted and allotted. The flexibility to move the 7 to 10 percent to other accounts meant that the highest priorities of the installation could be met. At Fort Leonard Wood, for example, money not needed for medical testing could be used to refurbish substandard housing. The pilot test showed overall that more needs were met, funds were used more efficiently, and readiness was enhanced.²

Despite the demonstrated effectiveness of the Unified Budget Plan, DOD did not adopt the concept nor continue the test. The primary reason given for abandoning the Plan was that greater central budgetary control was needed to handle major unbudgeted activities such as medical cost overruns, Desert Storm, and emergency disaster assistance. The Unified Budget Plan required installation commanders to identify excess funds in one allotment to trade for funds in another allotment, thereby optimizing the mix. However, under budgetary stringency, higher authorities took part or all of any excess identified for other contingencies, leaving nothing to trade.

The pilot indicated that Congressional intent limiting spending to specific amounts in appropriation accounts could be met while rationally addressing the managerial needs of field installations.

Appropriation transfer authority

A source of flexibility for agency management is appropriation transfer authority.

Various statutes grant agencies some limited authority to transfer between appropriations accounts when emergencies arise during the operating year.

For example, the Department of the Interior can transfer appropriations, with the approval of the Secretary, for the emergency reconstruction, replacement, or repair of aircraft, buildings, utilities, or other facilities or equipment damaged or destroyed by fire, flood, storm, or other unavoidable causes. The Secretary can also transfer funds from any no-year appropriation to an annual appropriation for the suppression or prevention of forest and range fires.³

The annual Energy and Water Development Appropriations Act gives the Secretaries of departments receiving appropriations the authority to transfer funds for emergency reconstruction, replacement and repair of facilities and equipment damaged by natural disasters or other unavoidable causes and for fire fighting and fire prevention, provided all other emergency funds have been exhausted.⁴

Year-end spending

"Government bleeds funds, workers say. Current system gives agencies incentives to spend money foolishly..." "...The system has never been imaginative to reward savings," said Dennis Sykes, director of finance for the Bureau of Mines. "It provides no incentives to turn money back."⁵

Many managers and much of the public correspondence to the National Performance Review have commented on the problems around wasteful or low priority spending, particularly at year-end.⁶ Much of this spending results from the balkanization of appropriations in small pots of money that can only be spent for certain narrow purposes. The funds are lost to the organization if not obligated by the end of the year, and unobligated balances are returned to the Treasury. Also, there is a likelihood of subsequent year allocations being reduced as a result of any return of funds, since returning funds weakens the credibility of justifications for funding at the same level the following year.

Pressures to spend all funds appropriated come not only from Members of Congress, but also from headquarters middle management, whose performance is

sometimes judged by success in fully obligating prior year funding, and by program and field managers, who often perceive that subsequent year allocations depend upon having spent all that they have been given in the current and prior years. The pressure to spend is particularly acute when the funds come from an annual appropriation; for those funds are either spent or reverted to the Treasury. The perception that funds are spent merely to avoid returning them to Treasury results in the frequent complaints about wasteful end-of-year spending. In fact the concern should be about wasteful spending at any point during the year. The real issue is how to define "wasteful."

On the other side of this issue, some managers do try to maintain a small contingency amount until late in the fiscal year to be able to cover any unanticipated problem without running a deficiency. In other cases, they save nickels and dimes during the year to be able to upgrade office equipment at year-end to improve future productivity. Federal contracting procedures are so complicated that managers have difficulty accurately estimating when contracts will be awarded and do contingency planning. These behaviors are fiscally responsible. That is, the program and field managers are doing the best job they can under the constraints they are placed. This is not wasteful year-end spending.

The Forest Service has solved some of its year-end spending dilemmas by convincing the Appropriations Committees to give it a two-year appropriation. Because Forest Service activities such as construction, maintenance, and fire season continue after September 30th, the two-year appropriation recognizes it made good sense not to have an artificial fiscal break at that point.

The Department of Justice has been given authority to roll unobligated balances from its annual salaries and expenses accounts to its no-year revolving fund account and to use some of those balances for management improvements. Through the use of those funds, for example, it has been upgrading departmental financial management systems.⁷

The Department of Defense is 100 per cent appropriation funded. However, it is able to move about 40 per cent of those funds into no-year accounts. It is doing this by separating support activities from mission activities. Support activities are being centralized and established as a revolving fund. The support activities/business areas

within the revolving fund receive no appropriated funds. Direct funded mission activities purchase goods and services from organizations within the revolving fund, thus converting appropriated funds into no-year funds. There is no artificial "end of year" in these revolving funds to force spending.

Reprogramming

Departmental and agencies propose adjustments requiring Congressional notification or concurrence to current year financial operating plans through the reprogramming process. Reprogramming is the reallocation of funds from one budget activity to another within the same appropriation account. It differs from transfer authority, which moves funds from one appropriation account to another. For construction or land acquisition accounts, this usually means the reallocations of funds from one project to another. Reprogramming limitations are not in statute; they are procedures mutually agreed upon between appropriations subcommittees and agencies. They ensure that the content of appropriations acts and accompanying reports are carried out in detail and also encourage all changes to be included in annual budget justifications. Agencies have been known to seek major changes through supplementals and reprogrammings, on the theory that those were easier to get through the supplemental process rather than the annual budget review.

As noted by a National Academy of Public Administration (NAPA) study in 1985, reprogramming guidelines vary considerably among the Federal agencies.⁸ Some of the expansion of interest in detailing Congressional desires is due to divided government between the Presidency and the Congress. Also contributing has been the budgetary pressure to cut appropriations, which has put a premium on the capacity to preserve particular programs, projects, and activities from Executive Branch as well as Congressional action.

NPR surveyed Federal agencies to determine their current reprogramming guidelines which still vary considerably, in part due to the differences in subcommittee practices, but are more widespread and tighter than at the time of the NAPA survey. Detailed, minimal reprogramming thresholds pose numerous problems for agency and program management. For example, the smaller of the giving or receiving activity lines determines the threshold.

The more detailed the agency's appropriation structure, the more likely that reprogrammings, sometimes involving relatively small amounts of money, will be required. This means in some instances that program changes of as little as \$25,000 in Interior's \$6 billion of appropriated funds can trigger reprogramming actions.⁹ That's no more than the cost of the position of one secretary or a very small contract. Obviously, any serious effort at productivity improvement is going to run into the need for reprogramming action, if there is a reorganization, a change in future program costs, or a change in federal personnel will be involved.

The Department of Energy mentioned 30 days to a month and a half as the average time for their reprogramming requests to be acted upon by the appropriations committees, but noted that it depended considerably on the period when the reprogramming was submitted. Sending reprogrammings during the period when the House was marking up and undertaking floor action was not advised, for example.¹⁰

Some agencies have worked with their appropriations committees to achieve greater flexibility in their ability to reprogram funds. For example, the former Deputy Executive Director of the Consumer Products Safety Commission found that he had a large number of accounts, one for each hazard, with little money attached to each, so that reprogrammings were a constant headache. After negotiations, the appropriations subcommittees agreed to collapse the hazard categories from ten to three and thereby solved the reprogramming problem.¹¹

Reapportionments and Allotment Revisions

Reapportionments can be necessary in response to reprogrammings or when limitations in previous apportionments need to be revised. Several agencies mentioned late reapportionments as having caused problems, mostly because of slow processing within the agency and by OMB.

Allotments are controlled by agencies, but may be the cause of the bulk of inflexibilities perceived by field managers. Procedures for amending financial operating plans and allotments are determined by each agency. The pilot studies of the Department

of Defense, the Forest Service, and the Veterans Administration have all found that 70 to 95% of the actions that needed to be taken to empower managers were within the authorities and available resources of the agencies. Blaming Congress is "passing the buck" in such instances. In some cases, higher level managers didn't know they had the authority to grant waivers, make changes, or delegate. In other cases, financial management systems did not provide timely, understandable information to managers to make decisions about reallocations.

Need for Change

The limitations and practices in our present managerial culture encourage spending, discourage innovation and investment, and puts managers time to poor use. Time delay is an important factor contributing to added costs. A federal manager writes: "...Every manager has saved money, only to have his allocation reduced in the subsequent year. This usually happens only once, then the manager becomes a spender rather than a planner. Managing becomes watching after little pots of money that can't be put where it makes business sense because of reprogramming restrictions. So managers who are monitors of these little pots of money, are rewarded for the ability to maneuver, however limitedly, through the baroque and bizarre world of federal finance and procurement. In a program year that runs in reality from January 1 to June 30, due to typically late allocations and the need to close out (vs. roll over) the current fiscal year, most managers must focus on custodial activities vs. creative management..."¹²

These problems can be categorized as follows:

- o Cases where the specific front-end limitation has unintended consequences as it cascades down the chain of command in ever-smaller suballotments, such that the final recipient-manager has an allocation of restricted funds not matching a priority or need.
- o Incentives against trying to adjust the balance among the various restricted suballotments, including the time delay in getting reprogrammings for the larger reallocations and problems with "stovepipes" and higher level managers taking

away rather than encouraging trading of funds that can be freed up.

- o Late appropriation, apportionment, and/or allotment of funds to the manager, particularly acute for annual appropriations because it squeezes the time available to obligate the funds, particularly when the complexities of federal procurement make it very difficult for the manager to know how long it will take to purchase something.
- o The "use it or lose it" perception with annual appropriations, leading to end-of-year spending. In the management of agency fiscal operating plans what a manager spends this year determines what he or she gets next year.

Late allotment of funds by agencies to their field installations was also cited as causing waste and added effort by delaying the initiation of work or fouling up planned procurements. Some mentioned getting allotments in February for appropriations that occurred in October.

A frequent complaint among budget officers and program managers we interviewed was the length of time and amount of paperwork required to get a reprogramming action from the originating unit to the appropriations subcommittees. Several mentioned three months as not usual, including review by OMB prior to submission to the Congress.¹³

Examples of good practices that would remedy these problems also came to our attention. The Forest Service change from annual appropriations to availability for two years brought as a byproduct an end to the rush for year-end spending. The Department of Justice also moved some accounts to "no year" funding and in other cases can roll end-of-year balances into its revolving fund for management improvements.¹⁴ The unintended consequences of detailed front-end limitations can be avoided if action such as the Department of Defense's unified budget plan are taken. These changes maintain limitations constructively rather than applying them in a senseless, rote fashion.

Recommendations

- 1. The Department of Defense should apply the Unified Budget Plan to all its**

installations, and other agencies should adapt and apply the Unified Budget Plan approach to comparable situations among their appropriation accounts.

DoD should allow field commanders flexibility to transfer funds among allotments and cost categories within statutory constraints, as needed, to improve mission capability, cope with unforeseen contingencies, and take advantage of opportunities that flexibility permits.¹⁵

Notification to central budget and finance offices of transfers of funds is essential to ensure compliance with reprogramming threshold and legislative mandates. Evidence from the pilot test indicates that a very low probability of noncompliance exists even without notification, but accurate and timely notification and monitoring can provide feedback to managers at all levels if transfers are approaching reprogramming thresholds.

Civilian agencies should consider the use of the Unified Budget Plan in their financial operating plans and allotments, where funds can be shifted at the program level, regional or district office, and/or field installation among "stovepiped" allotments may be most useful. NPR recommends agencies arrange a system whereby field offices can move funds and then have the move blessed by higher headquarters.

The problem encountered by DoD--that higher levels will "scoop" any excess funds that a lower level office or installation identifies--is a serious disincentive for the Unified Budget Plan to work properly. The Chief Financial Officer should be the official to ensure the rules of the game and system for moving, but funding priorities will have to be maintained. The Chief Operating Officer should be the official who promotes the Plan and to whom internal complaints of overly restrictive allotments and "scooping" should be appealed.

2. Agencies should identify in their budget requests appropriations which they propose to convert to multi-year or no-year status to alleviate end-of-year problems, particularly when complex procurement or other actions whose timing is difficult to predict are involved or the activities funded continue past the end of the fiscal year.

Ready changes should be included in the FY 1995 President's budget; others may

need to wait for the FY 1996-97 budget. If changes are proposed in the President's budget, the changes will need to be negotiated with the appropriations committees staffs. It should be noted that the Forest Service received support from the General Accounting Office, which helped support its case with the appropriations committees.

3. Agencies should seek language in their general provisions permitting 50% of the unobligated year-end balances in annual appropriations for operations to be rolled over into the next year, with 2% of the carryover to be used for bonuses to be allocated among those who reduced spending.

The strong argument in favor of this is the incentive it creates for field managers and their employees not to indulge in year-end spending, but to look for savings and ways to improve efficiency. It has been successfully applied in Defense and the Forest Service, both of which have offered bonuses to employees of organizations making year-end savings.¹⁶ Alternatively, it can also be a source of funding for productivity-enhancing investments.¹⁷

The Department of Defense created the Defense Business Operations Fund, a revolving fund, starting with FY 1992. This fund incorporates many of DoD's support activities as business areas that provide goods and services to mission related activities/customers. The appropriation-funded, mission-related activities purchase goods and services from organizations/business areas that operate within the fund. The appropriated funds attain no-year status when used to purchase goods and services from organizations within the fund. This allows DoD to budget by mission showing full costs of the mission and to control unit costs by its Unit Cost Resources methodology. Incentives in the form of bonuses are provided to those organizational elements that show savings below their unit cost targets.

4. Agencies should set standards for the expeditious review and action on reprogrammings and work with OMB and appropriations committee staffs to communicate problems and work out mutually beneficial solutions.

As part of this effort, OMB and agency central staff offices should examine their processes to expedite the handling of reprogrammings they review, setting a standard by which they will abide (e.g., automatically approved unless OMB or agency office responds within 5 working days). Organizational performance standards for central offices should involve a timeliness of action component.

5. Mission coordinators and OMB should hold review sessions by mission and function after enactment of appropriation bills to determine ways to implement administration priorities within actual funding levels.

Currently, once agreement is finally reached on the federal budget--that is, after enactment of all appropriations bills--there is no formal discussion for determining how Presidential priorities fared and might be implemented within funds actually available. It would be illogical to put considerable effort into mission and functional planning and budget formulation and then not follow up when appropriations became available to make appropriate updates and adjustments to execute the budget for results.

It is at this point that agencies develop their financial operating plans and internal allocations. It is also at this point that stronger efforts could be made to coordinate the actual implementation of Presidential priorities, particularly those involving several agencies. Empowering managers entails not only removing restrictions, but keeping them informed of the results you want them to achieve.

Issues related to the planned expenditure of funds tend to be raised now on a case-by-case basis. The apportionment and allotment systems are frequently thought of only in the context of the administrative control of funds--compliance with the Antideficiency Act--not the broader issue of managing for results. The missions of the federal government may be more effectively accomplished if some Executive Branch staff and attention were shifted from budget development to policy implementation and review of results achieved.¹⁸

6. Agency chief financial officers should take action to ensure that their financial

operating plans are formulated on a timely basis and allotment/suballotments are made and adjusted on timely basis for line managers.

Financial operating plans with allotments and suballotments should be established by some set target date after appropriations and apportionment action. The process should be reviewed to ensure timely response to program managers; and a standard should be established for that timely response, say, 15 working days for a reallocation action and 30 working days in the department for a reprogramming action.

The best and least costly defense against fraud, waste, and abuse is not a system of front-end limitations, but timely, accurate, accessible financial and program performance information that quickly divulges problems to attentive management. Front end limitations won't work if the financial management system is inadequate, but neither will efforts to develop more flexibility in financial operations, such as through the "unified budget plan." Most agencies have adequate financial management systems; others may need to upgrade their own or contract with another agency for financial services if their own are inadequate.¹⁹

7. The President should issue an Executive Order which makes Department and Agency Heads establish a waiver system regarding internal rules, regulations, policies, procedures, guidelines and reports for which they are responsible or are the proponent.

The Executive Order specifies that approvals require only a signature, but disapprovals must include a simple explanation of the value added or the accountability ensured by the rule, policy, regulation, guideline, or report and than an autonomous activity be available to ensure the validity of the waiver process and/or specific response upon request and it should not be waived in this particular case. Further, the executive order specify that if a response is not provided to the requesting activity within 90 days, the request shall be considered approved.

The positive implications of this approach are:

- (1) It encourages creativity at all levels.

(2) Increased communication between headquarters and field will occur.

(3) The status quo will be challenged.

(4) There will be a decrease in "nuisance" requirements.

(5) Responsibility for the existence of all rules, regulations, guidelines, and reports will be clearly placed.

(6) Headquarters staff will be held responsible to requesting staffs in a timely fashion with a quality product.

(7) Places an activity with autonomy in the negotiator/facilitator role.

(8) Increases employee morale.

(9) Empowers the field operating managers.

The negative implications are:

(1) A new bureaucracy could be established.

(2) Quotas for approval rates could be established. This would have a significant impact on the program, by shifting emphasis from the quality and integrity of the program to the number of approvals/disapprovals.

(3) Officials who disapprove requests may feel it necessary to include "how to get the waiver approved by doing a, b, c and d." This would undermine the overall objective of increased flexibility and accountability for field managers. Rather, it would serve as another vehicle for control. "Do it this way and we'll approve your request."

(4) Perceptions that positions would be abolished as a result of time savings could serve to undermine the program before it begins.²⁰

Fiscal Impact:

Savings will occur if these recommendations are carried out, but they will be hard to capture. Many managers feel that their programs and activities are not fully funded and apply any savings they accrue to improve program performance. Many savings will appear as cost avoidances and may be measured as increases in productivity.²¹

Fiscal Impact

(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:

Related NPR Reports

ENDNOTES

1. Office of Management and Budget, *Budget of the United States, Fiscal Year 1993*, Washington, D.C., pp. 441-509.
2. Deputy Secretary of Defense (Installations), *A Special Report: The Unified Budget Test*, Washington, D.C., March 1988.
3. Office of Management and Budget, *Budget of the United States, Fiscal Year 1994*, Washington, D.C., p. 750.
4. (Need original reference).
5. Rocky Mountain News, June 7, 1993, p.36.
7. Interview with Adrian Curtis, Director, Budget, Office of the Controller, Department of Justice, Washington, D.C., June 29, 1993.
8. Quote study here.
9. The National Academy of Public Administration recommended more flexibility for reprogramming and transfers in their 1983 study, but the reprogramming authority limits appear to have tightened in the past ten years. (National Academy of Public Administration, *Revitalizing Management, Managers, and Their Overburdened Systems*, Washington, D.C., 1983, p. 24.)
10. Interview with Dr. David Stumbaugh, Director, Budget Operations Division, John F. Lopez, Chief, Budget Formulation Branch, and David DeLean, Chief, Budget Execution Branch, Department of Energy, Washington, D.C.
11. Note from Bob Knisely, former Deputy Executive Director, Consumer Products Safety Commission, dated May 31, 1993.
12. Letter from Edwin G. Fleming, Chief, Resources Management Division, Cleveland District, Internal Revenue Service, to Treasury Reinvention Team, dated June 29, 1993.
13. Interviews with David Stumbaugh, Adrian Curtis, and Dennis Williams (others?).
14. Interview with Adrian Curtis, Director, Budget, Department of Justice, June 29, 1993.

15. This recommendation is essential the same as and supports agency recommendation ND-3 in the NPR report.

16. See Inter-Agency Barriers Working Group, *Overcoming Barriers to Productivity: An Agency Call to Action*, Washington, D.C., May 1988, p.9 and Memorandum from the Assistant Secretary of Defense (Comptroller) dtd.....

17. (Paul Epstein's comments on previous draft. Not quite sure whether to include here all his thoughts on performance and investments or whether it belongs in the next section.)

18. Jane's suggestion, new here, need to coordinate with what's in rest of paper. Sources: Itteilag, Flinn, A-11, check with Jane for footnotes.

19. See recommendation on franchising in Chapter...

20. Late pick-up from Carol's document so it wouldn't be lost.

21. Brad's notes to himself:

Done this round:

- constructed need section per Kamensky.
- shortened by half.
- combined recommendations 1 and 2, per Kamensky.
- made recommendations more measurable and tighter, per Kamensky.
- Dropped enhanced rescission section, per Kamensky.

To do:

- Need examples on reapportionments and allotments.
- Concerned about DBOF, since David's section dropped.
- Concerned about user fees, since David's section gone.
- Bothered on "scooping," meeting Osborne concerns.
- Straighten out and format endnotes.

FISCAL IMPACT OF RECOMMENDATIONS

To Be Provided
7/22/93

MISSION-DRIVEN, RESULTS-ORIENTED BUDGET

MAJOR BUDGET LAWS and REGULATIONS

Pertinent Laws

Article 1, section 9, clause 7 of the Constitution of the United States

Requires appropriations in law before money may be spent from the Treasury.

Chapter 11 of title 31, United States Code

Codifies and consolidates laws applicable to the budget process (e.g., procedures for submission of the President's budget and the information contained in it, appropriations, apportionments and accounting including the requirements of the Antideficiency Act.

The Budget and Accounting Act of 1921 (P.L. 67-13)

Created the Bureau of the Budget (now the Office of Management and Budget) and the General Accounting Office; and required the President to present a set of budget recommendations annually to the Congress.

Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344)

Prescribes the congressional budget process and controls certain aspects of budget execution; created the House and Senate Budget Committees; established the Congressional Budget Office; and created the concurrent budget resolution.

Federal Managers' Financial Integrity Act of 1982

Requires ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency.

Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177)

Commonly known as the Gramm-Rudman-Hollings Act, this law prescribes rules and procedures (including sequestration) designed to eliminate excess deficits.

Budget Enforcement Act of 1990 (Title XIII, P.L. 101-508)

Significantly amended the laws pertaining to the budget process, including the

Congressional Budget Act and the Balanced Budget and Emergency Deficit Control Act. Also prescribes the budget treatment for Federal credit programs.

Anti-deficiency Act (codified in Chapters 13 and 15 of Title 31, United States Code)

Prescribes rules and procedures for budget execution, prohibiting obligations or expenditure of funds in excess of amounts appropriated by law.

Chief Financial Officers Act (P.L. 101-576)

Established Chief Financial Officers in OMB and in 23 of the largest federal agencies. Although the primary purpose of the CFO Act is the improvement of financial systems within the Federal government, it includes the beginning of a greater focus on program results. It requires CFO's to develop systematic measures of performance, to prepare and submit to the agency head timely reports, and that financial statements shall reflect results of operations.

Government Performance and Results Act of 1993 (P.L. -)

Provides for the establishment, testing, and evaluation of strategic planning and performance measurement in the Federal Government.

Key OMB Circulars

A-11 Guides preparation and submission of budget estimates, sets forth definitions and processes for budget formulation.

A-19 Governs legislative coordination and clearance.

A-34 Promulgates instructions for budget execution.

A-50 Sets instructions on audit follow-up.

A-70 Sets Federal audit policy.

A-76 Provides guidance on performance of commercial activities.

A-87 Sets cost principles for state and local governments.

A-102 Sets uniform principles for grants and cooperative agreements with state and local governments.

A-109 Provides instructions on acquisitions of major systems.

A-123 Provides instructions regarding management control reviews (Federal Managers Financial Integrity Act).

A-127 Promulgates guidelines on Federal financial systems.

General Accounting Office (GAO)

Principles of Federal Appropriations Law, July 1991.

This reference document organizes the principal rulings of the GAO in the appropriations field.

**BUDGET FUNCTIONS
(AND SUB-FUNCTIONS)
and FY 1994 Proposed Levels**

SOCIAL SECURITY	\$307 Billion
Old-Age and Survivors Insurance	
Disability Insurance	
NATIONAL DEFENSE	\$263 Billion
Department of Defense - Military	
Atomic Energy Defense Activities	
Defense-Related Activities	
INCOME SECURITY	\$218 Billion
General Retirement & Disability Insurance	
Federal Employee Retirement and Disability	
Unemployment Compensation	
Housing Assistance	
Food and Nutrition Assistance	
Other Income Security	
NET INTEREST	\$212 Billion
Interest on the Public Debt	
Interest Received by On-Budget Trust Funds	
Interest Received by Off-Budget Trust Funds	
Other Interest	
MEDICARE	\$147 Billion
HEALTH	\$116 Billion
Health Care Services	
Health Research and Training	
Consumer and Occupational Health Safety	
EDUCATION, TRAINING, EMPLOYMENT & SOCIAL SERVICES	\$57 Billion
Elementary, Secondary & Vocational Education	
Higher Education	
Research and General Education Aids	
Training and Employment	
Other Labor Services	
Social Services	

TRANSPORTATION	\$42 Billion
Ground Transportation	
Air Transportation	
Water Transportation	
Other Transportation	
VETERANS BENEFITS AND SERVICES	\$37 Billion
Income Security for Veterans	
Veterans Education, Training & Rehabilitation	
COMMERCE AND HOUSING CREDIT	\$23 Billion
Mortgage Credit	
Postal Service	
Deposit Insurance	
Other Advancement of Commerce	
NATURAL RESOURCES AND ENVIRONMENT	\$20 Billion
Water Resources	
Conservation and Land Management	
Recreational Resources	
Pollution Control and Abatement	
Other Natural Resources	
INTERNATIONAL AFFAIRS	\$20 Billion
International Development & Humanitarian Assistance	
International Security Assistance	
Conduct of Foreign Affairs	
Foreign Information & Exchange Activities	
International Financial Programs	
GENERAL SCIENCE, SPACE & TECHNOLOGY	\$18 Billion
General Science and Basic Research	
Space Flight, Research and Supporting Activities	
AGRICULTURE	\$17 Billion
Farm Income Stabilization	
Agricultural Research and Services	
ADMINISTRATION OF JUSTICE	\$16 Billion
Federal Law Enforcement Activities	
Federal Litigative & Judicial Activities	
Federal Correctional Activities	
Criminal Justice Assistance	

GENERAL GOVERNMENT

\$14 Billion

- Legislative Functions
- Executive Direction and Management
- Central Fiscal Operations
- General Property & Records Management
- Central Personnel Management
- General Purpose Fiscal Assistance

COMMUNITY AND REGIONAL DEVELOPMENT

\$9 Billion

- Community Development
- Area and Regional Development
- Disaster Relief and Insurance

ENERGY

\$4 Billion

- Energy Supply
- Energy Conservation
- Emergency Energy Preparedness
- Energy Information, Policy & Regulation

Approach to Work and Acknowledgements

(to be provided)

Clinton Presidential Records Digital Records Marker

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OPM

Divider Title: _____

July 29, 1993

DRAFT -- FOR INTERNAL NPR USE ONLY

OFFICE OF PERSONNEL MANAGEMENT

**NPR Accompanying Report Number XX
September 1993**

Contributing to this report: Roberta Peters (Team Leader), DON; Bryce Baker, OPM; Joe Coffee, ATF; Mary Ellen Dix, USDA; Marilyn Donald, NASA; Denise Flanagan, OPM; Roy Tucker, HHS.

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Overview

The Office of Personnel Management (OPM) was created in January 1979, in connection with passage of the Civil Service Reform Act (CSRA), "to strengthen the government's human resource infrastructure by implementing the framework outlined in the law, serving as the government's central personnel leader, and advising the President on personnel issues."¹ Ten years later, a General Accounting Office (GAO) report concluded:

. . . OPM has not provided the leadership necessary to sustain attention to identifying and resolving critical human resource problems affecting federal operations and preparing for the future. This has undermined implementation of the reform act framework for effective human resource management, and has damaged OPM's capability to support agencies' efforts to improve their performance.²

As personnel expert Larry Lane points out in his writings about OPM, CSRA "fragmented the major responsibilities for federal personnel management by creating OPM, the Merit Systems Protection Board, and the Federal Labor Relations Authority out of the Civil Service Commission (Rosenbloom 1986). Even within its own sphere of responsibility, OPM contained a basic contradiction. Its management doctrine was dedicated to control and accountability while its operational methodology was committed to decentralization and delegation. As a management agency, OPM had little that it could directly control. The meaningful action in implementing CSRA was at the agency level."³

While agencies moved out to implement CSRA, OPM struggled to find its identity. It was unable to keep up with, let alone provide leadership and consultation to the agencies. When difficulties with implementation arose and OPM tried to exercise some program control, its efforts were "universally regarded as too late, too inconsistent, and not sufficiently informed."⁴

Two additional policy choices characterized OPM during its formative years and made a lasting imprint on its character and its image. First was the consistent pattern of excluding the federal personnel community from deliberations on policy and program

development.⁵ While this conscious tactic did achieve the objective of breaking with the past civil service practices being reformed in CSRA, the negative impact was the elimination of any viable leadership role in its implementation.⁶

The second policy choice was the decision to rely on a "political control process" in which the main players in policy development were the "assistant secretaries' group."⁷ This reliance on political appointees carried over into the new administration in 1981, and compounded the turbulence caused by an apparent eagerness to undo the CSRA reforms. According to Lane,

The major focus of (former OPM Director Don) Devine's agenda was to replace OPM's traditional management orientation with an unswerving emphasis on responsiveness of the public service solely to political direction from within the executive branch. Devine sought to have OPM assert ideological leadership and to establish a system of "political administration" throughout the federal sector . . . This approach placed OPM in a bitter adversarial relationship with Congress, labor unions, and other representatives of public service interests.⁸

From this time and over the next decade, OPM's budget for direct personnel management activities decreased 45 percent in constant dollars,⁹ while the number of political appointees almost doubled.¹⁰ The career workforce was subjected to frequent reorganizations, forced transfers, and assignments of individuals away from their areas of expertise.¹¹ These events made an indelible mark on the agency and contributed to the generally held view that OPM had been ineffective as a central management agency. This historical account of OPM puts its future into perspective and indicates the extent to which internal changes are needed. In 1989, GAO recommended that:

OPM assume a greater leadership role in working with the agencies to better prepare the government to meet future workforce changes, attack performance improvement efforts with more vigor, and ensure more effective oversight of the government's key personnel areas; and . . . implement an action plan to revitalize its internal workforce and build a capacity commensurate with its needed leadership role.¹²

Constance Berry Newman, the OPM Director appointed shortly after release of the

GAO report, began a serious rebuilding process during her tenure (1989-1992), and was particularly effective in involving all major stakeholders -- unions, the personnel community, managers' associations -- in strategic planning for federal human resources management. Her initiatives and the emphasis placed on the role civil servants play in delivering critical services to the public began to shape a more positive image of the agency.

Although Director Newman's leadership provided the foundation, much work remains to be done. The current OPM Director, James B. King, has clearly signalled his intent to continue the change process and revitalize OPM's leadership role. A paper submitted to the National Performance Review described the current situation:

Its rebirth as the Office of Personnel Management was intended to reshape its identity from rulemaker and enforcer to developer and supporter of management systems to make the Federal agencies more effective in serving the public. Nevertheless, though some progress has been made, the process of change is incomplete. OPM still oversees a regulatory system based on central control, and has failed to enhance its new responsibility as a "management agency."¹³

In an internal memorandum to OPM staff, Director King announced the beginning of an effort to examine OPM's "internal operations and delivery systems for practical ways to reinvent our processes so that real, measurable results are achieved."¹⁴ In a July 1993 interview with *Government Executive*, he stated, "I'm in the front rank of radical change. Why take it in little chunks? Why don't we start right at the beginning and take it through to see how it can work best?"¹⁵

The need for a new, revitalized OPM has never been more critical. The fundamental and far-reaching changes in all management systems envisioned as a result of the National Performance Review (NPR) will demand dynamic new leadership from and within all agencies. The recommendations for reinventing human resource management (NPR Accompanying Report number xxx) are based on a vision in which maximum deregulation and delegation, trust, accountability for results, decentralization and entrepreneurial behavior become the norm. A major culture change will have to take place in the federal

government over the next decade. This new culture, and the administrative changes needed to bring it about, will require OPM, agency human resource management (HRM) professionals, executives, managers, supervisors, employees, and unions to assume new roles and responsibilities.

- Once broad, flexible systems that permit managers to hire, assign, pay and reward, and train their employees effectively are created, OPM and agency HRM offices must take on the primary role of consultant. They will have to provide expert advice and assistance, not act as barriers to work accomplishment. Management at all levels will assume greater responsibility for making decisions on managing their employees. Managers will be trusted to act fairly and responsibly, and they will be held accountable for their actions and for achieving a productive, diverse, multi-skilled, customer-oriented workforce. The emphasis will be on achieving results, not on executing processes. Employees will be involved in decisions which affect them and will take pride in their contributions. Where employees are represented, labor and management should work cooperatively as partners in carrying out the mission of the organization.

OPM must exert a major leadership role in the culture change process. In this effort, OPM should proceed down two concurrent paths. One is a long-term commitment to a new internal culture which emphasizes a results-oriented approach to human resource management and eliminates the "control mentality." The other path is continuing the commitment to involve all stakeholders in redesigning HRM systems.

The following recommendations support both paths and reflect the effect which adoption of the NPR HRM recommendations will have on the agency. How OPM changes its own culture and works with stakeholders will signal its readiness and capability to take on its critical leadership role. This will provide the foundation for Director King's public commitment to making OPM the federal government's "model employer."

End Notes

1. U.S. Comptroller General, *Managing Human Resources - Greater Leadership Needed to Address Critical Challenges*, GAO/GDD-89-19 (Washington, D.C.:General Accounting Office (GAO), January 1989), p.2.

2. Ibid., p. 3.

3. Larry M. Lane, "The Office of Personnel Management: Values, Policies, and Consequences," in Patricia W. Ingraham and David H. Rosenbloom, eds. *The Promise and Paradox of Civil Service Reform*. (Pittsburgh: University of Pittsburgh Press, 1992), pp. 106-7.

4. Ibid., p. 107.

5. Ibid., pp. 107-8.

6. Ibid., p. 108.

7. Ibid., p.107.

8. Ibid., p. 109.

9. GAO, p.6.

10. Lane, p. 110.

11. Ibid., p.110.

12. GAO, p.6

13. Office of Personnel Management, "Human Resources Management for the 21st Century," Washington, D.C., May, 1993, p.4.

14. James B. King, Director, OPM, "National Performance Review Initiatives in OPM." (Washington, D.C., April 30, 1993)(Internal Memorandum)

15. Tom Shoop, Interview with James B. King, "Managing Workers of America, Inc.," *Government Executive*, July 1993, p., 39.

Part 1

Redefining mission and role

OPM. 01: STRENGTHEN OPM'S LEADERSHIP ROLE IN TRANSFORMING FEDERAL HUMAN RESOURCE MANAGEMENT SYSTEMS

Background

OPM has been widely criticized since its creation in 1979 for failing to fulfill its role as the government's central personnel leader. In 1989, a GAO report concluded, "The government is not well-postured to meet future challenges, in part due to a lack of effective OPM leadership."¹ OPM must transform itself into the leader and consultant originally envisioned by CSRA to meet current demands being placed on federal agencies to provide higher quality services at less cost, and the critical reforms needed to make the personnel system more responsive.

In testimony at his confirmation hearing, Director King emphatically stated his commitment to this leadership role:

Our major challenge will be to equip federal workers and managers to meet the President's and the public's expectations for the coming years: to become smaller but more productive. We cannot meet these expectations without the participation of the workers and managers who deliver the service. We must support them by reducing bureaucracy and creating a workplace that combines flexibility in procedure with accountability for results . . . The Office of Personnel Management will play a central role in this government-wide transformation. In matters of management, OPM's orientation should be direction for and support of federal agencies, not micromanagement by rule. But even as we put more decision-making authority into the hands of our workforce, OPM must assume leadership and oversight for policies and programs that the President, Congress and the public expect will be indispensable throughout the government.²

The activities currently performed by OPM fall into three main categories: (1) establishing governmentwide policy and procedures for human resource management; (2) acting as evaluator and regulator of agency behavior; and (3) providing governmentwide

services, such as background investigations, examining, training, and benefits administration. In addition, OPM performs many "operational" functions which place staff members in the decision process of agencies, e.g., Senior Executive Service approval process.

Need for change

OPM's multiple roles and responsibilities have diffused and weakened its ability to provide the leadership necessary to transform human resource management. In its operational role, OPM is frequently placed in the position of second-guessing agency decisions and is perceived as "interfering" in agency operations. These perceptions in turn create a negative view of the agency which inhibits its ability to exert a positive leadership role. This view is further reinforced by OPM's process-based compliance activity which does not provide the kind of feedback or oversight needed for effective leadership.

Recommendations

1. **Clearly define and publicize OPM's policy, service and leadership role in addressing critical human resource problems and transforming human resource management systems. (Category 1)**

OPM should create and publish a document by December 1993 which clearly delineates its role as leader of the public service. Elements of this role should include: advising the President on issues affecting the public service; demonstrating commitment to diversity; planning for development of the workforce of the future, and identifying strategies for providing essential training; providing consulting services and advising agencies on "best practices"; coordinating and sponsoring interagency cooperation on common issues; influencing governmentwide change; and leading by example.

2. **Delegate operational work to the agencies. (Category 1)**

OPM should immediately adopt and aggressively act on those recommendations contained in NPR Accompanying Report Number xxx, Reinventing Human Resource Management, which do not require legislation and which address changes in the hiring system, the classification system, and administration of the Senior Executive Service (SES).

3. Supplement agency accountability for policy and program implementation with a reinvented program of oversight and assessment. (Category 1)

OPM should immediately abolish the existing compliance program by June 30, 1994, and design a new process based on the concept of oversight by exception which is consonant with the principles of deregulation, delegation, and flexibility within the framework of the merit principles. The current program was designed with an orientation towards strong centralized control and adherence to process and procedure as the measure of acceptability and effectiveness. It is incapable of providing the kind of oversight needed for the future in which results, mission accomplishment and customer satisfaction are the primary measures of quality and effectiveness. The transformed HRM system of the future will give much greater authority and responsibility for decisions affecting human resources to agencies and managers, who will be held accountable for and measured by results.

End Notes

1. U.S. Comptroller General, *Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges*, report no. GGD-89-19 (Washington, D.C.: General Accounting Office, January 1989), p. 6.

2. U.S. Congress, Senate Committee on Governmental Affairs, testimony by James B. King, March 30, 1993.

Part 1

Redefining mission and role

OPM. 02: REDEFINE AND RESTRUCTURE OPM'S FUNCTIONAL RESPONSIBILITIES TO FOSTER A CUSTOMER ORIENTATION.

Background

OPM is headed by a Director and Deputy Director appointed by the President and confirmed by the Senate. The agency has approximately 6,100 employees located in the central office in Washington, D.C. and in field offices around the country. There are six major organizational components: Career Entry Group, Personnel Systems and Oversight Group, Retirement and Insurance Group, Human Resources Development Group, Investigations Group, and the Administration Group. Five regional offices carry out programs in the field: Atlanta, Chicago, Dallas, Philadelphia, and San Francisco. The Washington Area Service Center provides similar services to agencies in the Washington, D.C. metropolitan area. In addition, there are service centers in key field locations, federal job information and testing centers, and other field duty stations.

OPM's administrative budget is about \$460 million. It manages a trust fund of about \$22 billion. Through the six organizational components and field units, OPM assumes roles in three broad areas:

- establishing governmentwide policy and procedures for human resource management;
- acting as a regulator and evaluator of agency behavior; and
- providing governmentwide services.

These three roles are often performed within a more or less decentralized, but centrally regulated, federal personnel system.

Need for Change

OVERVIEW--11
MILESTONE

Report Number X: Personnel
DRAFT - FOR EXTERNAL NPR USE ONLY

OPM has had difficulty balancing its multiple roles and goals. OPM's goals often tend to conflict. OPM's internal structure inhibits the agency's ability to deal effectively with these issues. Some critics claim that OPM has lost its "administrative capacity" and doubt that the agency can "reconstitute the nature of the organization and reestablish the validity and usefulness of what it produces."¹ The Clinton/Gore transition team assessed the OPM structure as chaotic and suffering from a lack of integration.² As far back as 1989, GAO recommended that "OPM initiate an internal management improvement and organization development agenda."³

Implementation of the NPR recommendations concerning human resource management will place new demands on OPM. Structural and organizational changes will be needed to ensure the agency's capability to respond to these demands and support the government culture change effort.

Recommendations

- 1. Restructure OPM to enhance its redefined leadership role and the culture change effort needed throughout the federal human resource community.
(Category 1)**

Decentralizing personnel authority and assuming new roles will require OPM to restructure along lines that set a new standard for organizing human resource units throughout the federal government. OPM has an opportunity to reorganize itself in a way that removes current barriers to its own effectiveness and sends a message throughout government that OPM is indeed serious about significant change.

If personnel authorities are decentralized to agencies to make personnel systems more supportive of agency missions, then "the existing functional bias of human resource organization must be dealt with explicitly."⁴ OPM will be unable to influence the rest of the government unless it can reorder its own house and present a model for other agencies to emulate.

OPM's leadership role will require an organization that both integrates functions and allows a great deal of flexibility in meeting a wide range of needs -- both within OPM and throughout federal agencies. There are a number of possible approaches. One approach would restructure OPM around client groups or activities that require integration of a multitude of functions and does away with such current functional organizations involving career entry, pay, classification, and training and organizing around "core points of integration."⁵ For instance, OPM might organize around similar types of client agencies such as law enforcement, regulatory, research, defense, etc. It might also organize around activities that require a combination of skill and knowledge in the personnel field, such as information systems, research and strategic planning.

Another approach involves creating a matrix organization that allows people to move where they are needed for projects, short term research, and details to agencies. Under this structure, OPM would consist of more ad hoc, flexible, problem-solving or issue-based teams and groups supporting a variety of interagency committees, boards, et cetera.

Regardless of how OPM chooses to restructure, it should serve as a model for other agencies to emulate. The restructuring process should be completed for implementation by October 1994.

2. Rightsize OPM to reflect its changed roles and functions. (Category 1)

Implementation of NPR recommendations will require significant changes in the size and structure of OPM. Although OPM will have to decide how to approach this task, key considerations should include:

- downsizing and realigning examining services, possibly retaining some staff on a reimbursable basis;
- helping agencies achieve a more diverse workforce through use of their personnel and management systems;

- working with agencies to institute a more effective nationwide job information system;
- integrating or refocusing OPM research and development offices;
- phasing out most of OPM's classification appeal and standard development functions;
- completely "reinventing" OPM's approaches to compliance and evaluation;
- integrating and changing aspects of OPM's information and data base systems, including the Main Service Center and Central Personnel Data File;
- reducing interagency training functions to reflect and reinforce governmentwide policy and culture change (this will be especially important to reinforce OPM's leadership role);
- reconfiguring the OPM SES staff offices so that they support the SES Board of Directors and become advisors in support of additional agency delegations. The Federal Executive Institute, management development operations, and management development policy staff will have to be realigned to be under the review and direction of the Board.
- changing the Investigations Group from a monopoly to a service organization. This may mean that OPM takes the lead on developing more effective investigation organizations throughout government, giving consideration to franchising such operations (See NPR Financial Management Team Recommendation Number _).
- reexamining the role and size of OPM's Office of the Inspector General giving strong consideration to incorporating a more collaborative problem solving role.

End Notes

1. Larry M. Lane, "The Office of Personnel Management: Values, Policies, and Consequences," in Patricia W. Ingraham and David H. Rosenbloom, ed. *The Promise and Paradox of Civil Service Reform*. (Pittsburgh: University of Pittsburgh Press, 1992), pp. 106-7.

2. Government Operations Cluster, Office of Personnel Management: Presidential Transition Book, December 1992, p. 69. (Draft)
3. GAO Report GAO/GGD-89-19, Managing Human Resources - Greater Leadership Needed to Address Critical Challenges (January, 1989), p. 7
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Part 1

Redefining mission and role

OPM. 03: CHANGE THE CULTURE OF OPM TO EMPOWER STAFF AND INCREASE CUSTOMER ORIENTATION

Background

Congress intended that the Civil Service Reform Act would "provide federal agencies with more flexibility and authority because it recognized that agencies bear primary responsibilities for personnel management."¹ This has clearly not been delegated and OPM is still viewed as holding many of the controls that keep agencies from exercising the personnel authority the CSRA promised. In a sense, it is unfair to blame OPM for all of these controls because much of OPM's role involves administering laws and regulations required by Congress.

A recent assessment views OPM as having "attempted to move out of a role as a control agency and, instead, to reach out to serve the personnel needs of the wide range of federal departments and agencies. While a step forward, this shift in role has been limited. The relationships between OPM and agencies are devised as highly technical conversations between personnel and specialists. Rarely were they linked to substantive policies for change."²

The current policy for change in the Clinton/Gore Administration clearly calls for skills of collaboration and coordination across agency lines and within OPM itself. Changing from roles of technical specialists to facilitators of government change will be difficult for many employees in OPM.

Need for Change

Regardless of whether OPM refocuses its mission, restructures or rightsizes, its real success will occur only to the extent that the OPM staff values the new direction and has

the skills to perform OPM's new roles. Few would argue with the statement that the civil service system is "an administratively moribund system that disallows the exercise of human judgment and discretion."³ Any judgment and discretion that is left often falls to personnel specialists who must attempt to interpret regulations in an extremely technical system. This has created a gulf between cultures -- that is, between line managers and personnel professionals -- that produces adversarial relationships."⁴ Personnel specialists throughout government have become technicians with an expertise in interpreting and applying rules and regulations. OPM, because of the volume of federal personnel regulations, has had to devote considerable resources to being able to provide such technical interpretations to support agencies. This has caused two sets of dependencies. First, agencies have come to see OPM as the "super expert" charged with interpreting the Federal Personnel Manual, laws and regulations. Second, many OPM staff members have come to believe that their careers are dependent on in-depth knowledge of laws and regulations. This is all probably true; however, it will make change at both the agency and OPM staff levels extremely difficult.

GAO found that OPM has serious internal problems and a diminished capacity to implement its own initiatives.⁵ In the same study, GAO identified management and morale problems. The following recommendations provide some suggestions for OPM to consider as it attempts to change its culture and help its staff assume new roles.

Recommendations

- 1. Use OPM's internal culture change effort as a model for the rest of government. (Category 1)**

OPM has already recognized the need for change and that a new vision for OPM should "create a work environment based on trust, commitment, and respect of employees as people, not just workers."⁶ This will not be easy. The changes OPM is embarking on will involve downsizing and most likely some significant

reorganization. OPM leadership will have to create a collaborative approach to this change. Success in OPM's change effort will enable OPM staff to have a more effective leadership role in governmentwide and agency culture change and reinvention initiatives.

The role of OPM, as a leader of the federal public career service, demands that external stakeholders as well as internal staff be involved in the change process. A long-term strategy will be needed. Both understanding and commitment must be allowed to develop. The remaining recommendations include suggestions for incorporating the stakeholders into the change strategy.

2. Use a variety of interagency groups to involve OPM's external stakeholders in changing federal human resource systems. (Category 1)

OPM should consider using the concept of virtual organizations as a primary thrust of its new leadership role. Virtual organizations provide a different way of developing policies and obtaining consensus on new directions where multiple stakeholders are involved. These organizations use different methods for achieving agreement than have normally been employed by OPM.

OPM has already made significant strides in involving the federal personnel community in rethinking human resource systems. The National Academy of Public Administration believes that more must be done to move to a point where managers accept new roles in managing human resources. Specifically, "each major organization in the federal government . . . should have a Council on Federal Resources Management. The councils should (comprise) top leaders, managers, employees, and employee representatives at the appropriate level."⁷ These councils could be involved in developing an agency's organizational and business strategic plan. OPM should consider supporting such efforts as part of its leadership role.

The NPR recommendations provide the Director of OPM with opportunities to take a personal leadership role through leadership or involvement in a number of

interagency groups which could become virtual organizations. These include the President's Management Council, the SES Board of Directors and the National Partnership Council. All of these initiatives put the Director at the forefront of change in the executive branch. They also provide opportunities for modeling OPM's new leadership role for building consensus for change and applying negotiated rulemaking techniques (see next recommendation).

Regardless of the direction OPM takes, it may benefit by placing more decisionmaking authority in the hands of interagency groups and task forces. This could have two benefits -- create more ownership of decisions impacting agencies and diminish the perception of OPM as a "controller and regulator" of agency behavior.

This approach will require OPM to take on more coordinative and collaborative roles. Staff will have to have the ability to broker relationships across agencies and develop advisory or interactive mechanisms for resolving common problems. Developing computerized information networks, facilitating teamwork, providing research findings and sharing best practices will become essential.

3. Improve OPM's policy-making process through selective use of negotiated rulemaking ("reg-neg"). (Category 1)16901T

The typical process for developing governmentwide HRM policies and rules involves a set of sequential steps from initial drafting by OPM staff; distribution for comment by agencies, unions, and other stakeholders; redrafting; publication in *Federal Register* and receipt of public comments; final drafting, often followed by additional distribution for comment prior to publication as a final rule. On a major policy issue, this process is time-consuming and does not guarantee that the interests of all affected parties are represented and taken into consideration.

Negotiated rulemaking uses alternative dispute resolution techniques to improve rulemaking by forming a committee made up of representatives of affected

interests to negotiate a proposed rule with the assistance of a trained facilitator. The objectives of "reg-neg" are to reduce the time and expense of rulemaking and to produce more acceptable and workable rules.

While this process would not be appropriate in all cases, particularly if it is unlikely that the committee can reach consensus on a controversial issue, the potential for improving the customer satisfaction with the HRM system makes experimentation worthwhile.

In connection with implementation of NPR recommendations, OPM should select one or more policy program areas (where legislation is not required) to test the effectiveness of negotiated rulemaking.

4. Develop a rotation program to help OPM and agency personnel specialists broaden their customer focus. (Category 1)

One key method for both changing the OPM culture and supporting collaboration with agencies is through employee rotation programs. The Director of OPM should state as a matter of policy that a certain percentage of OPM professional positions will be filled on a rotational basis by agency, state or local government personnel. These positions would be filled on a three to five year reimbursable rotational basis. In addition, the Director should set as a goal that all OPM staff should have had substantial agency experience. This would have the added value of gaining fresh viewpoints from all agencies and it would provide another method of developing agency staffs. Such a program would also encourage mobility, which provides additional opportunities to create culture change in the federal government.

End Notes

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5. U.S. Comptroller General, *Managing Human Resources*, p. 6
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PART 2
OPM REINVENTION LABS

NPR/Reinvention Labs

This section reports on NPR/Reinvention Labs -- OPM initiatives that directly address the goals of the Vice President's National Performance Review: quantifiable achievements in the areas of cost savings, responsiveness to customer needs for service, and empowerment of employees to identify and implement more improvements in the ways we do business. Also included are quantifiable data, such as the basis for calculating cost savings, numbers of customers served, trend information, and so on.

The three labs reported to NPR in May 1993 are briefly summarized below. Two of these three reinvention labs involve use of improvements in technology and automation to provide staffing (employment) services that save time and money -- greater value at less cost, the taxpayer wins!

Six new OPM initiatives are also reported.

◆ NPR/Reinvention Labs Previously Reported to NPR

- Self-directed Work Teams for Processing Retirement Claims

OPM designated as one of its "internal" reinvention laboratories a retirement claims processing branch that is being recast as a self-directed work team.

The creation of self-directed work teams is a long term investment. The first phase involves intensive training for team members, which has begun.

Ultimately, the team will be strictly accountable for accurate and timely processing of retirement cases. To assess whether improvements are realized in these outcomes, the team's timeliness and error rate will be compared to historical data for the team in its more traditional configuration and also to data for comparable organizations not participating in this reinvention lab.

- Telephone Application Processing

OPM's search for better ways to serve the customer now lets job seekers file a job application directly to OPM's computer data base in Macon, GA, by using a touch-tone telephone and an 800 toll-free number. The innovative system began operations June 14, 1993, and initially covers professional nurses. As the process is evaluated, it may be extended to serve other occupations.

Information about applying for jobs by telephone is provided to those who inquire about nursing jobs through OPM service centers, through the Career America Connection (telephone), and an electronic bulletin board, the Federal Job Opportunities Board.

- Project ABLE

On May 21, 1993, OPM officially began an initiative to help disabled workers who are looking for work to find suitable employment.

The objective of this lab is to link disabled beneficiaries of Social Security programs with employers. Numerous studies show that people with disabilities want to work and can work, yet fewer than 1% of Social Security Disability beneficiaries actually do work.

To give the disabled better opportunities to return to work, interrelated groups of customers function to help the disabled get back into the work force. The "customers" are: Federal and State rehabilitation and job counselling organizations, and Federal agencies who need workers with particular skills.

Research has shown that if the Social Security Administration promotes work incentives, as many as ten percent of participants identified as potential workers will in fact return to work. Based on assumptions of the Social Security Administration, program savings of several millions of dollars could occur by FY 1995, and program savings could reach as high as \$100 million by FY 1999.

Training has been completed for 100 State Vocational Rehabilitation Specialists, and disabled beneficiaries are being enrolled in the program. Beginning in July, Federal agencies will be able to obtain lists by telefax of "job ready" enrollees. An evaluation plan has been developed, and a marketing strategy for extending the program is under development.

◆ Six New Reinvention Labs Are Underway in OPM

- Annuitant Tax Withholding

In the past year, OPM's Retirement and Insurance Group has received more than a quarter million requests from its total 2.3 million annuitants to change the tax withheld from their retirement annuities. To make a request, annuitants must use a four page set of instructions and worksheets, to comply with IRS regulations. Many of the requests are multiple ones, from annuitants who are not happy with the amounts being withheld from their monthly retirement benefits.

Most applicants know the amount of tax they would like to have withheld, but they are required to supply information, make calculations, and transfer the results to an application sheet in their efforts to change the actual amount of tax withheld. OPM staff have created a computer program that allows annuitants to enter the amount of money an annuitant wants to have withheld; the program changes the withholding amount accordingly, then calculates all of the proper withholding information that is required by the IRS.

A test of the new, simpler, easier to use, customer-oriented system is underway. It is expected to cut the average monthly volume of requests considerably. In the first months for which data are available do indicate progress: in June 1992, 32,000 requests were received; in June 1993, the number of requests had fallen to 15,000.

- Health Benefits Enrollment Administration

Federal employee health benefits program administration historically has been decentralized: agencies send premiums to OPM and enrollment information to insurers. Frequent problems arise when insurers try to reconcile enrollment information they get from agencies and the actual premiums they get from OPM.

In response to the errors and the high cost of correcting them, OPM is conducting a pilot that demonstrates how to prevent the errors in the first place. In initial tests of the pilot, OPM has forwarded premiums and enrollment information to insurers at the same time. If the test proves successful, its scope will be expanded.

Two results are expected to continue: (1) carriers will be able to "match" enrollees and the premiums paid; and (2) enrollees will be promptly and accurately recognized as members of the health insurance plan they have selected.

- Training Course Registration (Washington Training and Development Services)

It is essential that OPM know the status of class registration at each stage of the pre-class training course process. Reason: customers need to know whether they are confirmed, assigned to another class, or whether the class has been cancelled. This information is necessary for customers, who use it to schedule work assignments in their organizations, and to make economical travel arrangements. Therefore, when customers call to inquire about their status in a particular class, OPM must be able to reply accurately and promptly.

To keep customers satisfied and informed, OPM has established a uniform participant registration process that clarifies information about each course and sets a standard for mailing acceptance letters to registrants 15 days before classes start. An OPM team is currently studying the process to determine where other economies can be achieved and service to our customers improved.

- 24-Hour Results for Clerical Testing

OPM is looking for ways to streamline and improve the effectiveness of the clerical hiring process. Up until October 1992, OPM examined and referred clerical candidates using methods and processes that required test scores to be mailed to computer facilities in Macon, GA and certificates of scores to agencies who sought to hire clerical employees.

Now, OPM's San Francisco Service Center uses high speed optical scanners for scoring written test answer sheets and qualifications information. The results will be entered onto the inventory of certified eligible candidates for clerical jobs within 24 hours of testing -- in many cases, on the same day the test is administered. Use of existing technology for this purpose will prevent loss of applications or testing documents, and reduce the need for staff to process paper.

Preliminary estimates indicate that reductions in processing costs could drop from \$17 to \$6 per application. Other benefits also include a faster turnaround for agencies as well as for job applicants.

- Job Information Services

The Boston Service Center and Chicago Regional Office are implementing cost-effective improvements by providing customers with the latest Federal employment information.

In Boston, OPM's Service Center provides live operator service during business hours to callers from throughout New England. (Local callers also have the option to switch calls to the National Jobline in Macon, GA, if they want information about jobs nationally and they do not need to speak to an operator.) As appropriate, during non-business hours, local calls in Boston can be switched to the 24 hour Nationwide Jobline.

- Agency-Based Recruitment Strategy

OPM's Agency-Based Recruitment Strategy is a program to delegate to agencies all appropriate recruiting activities and decisions. One significant initiative under OPM's Agency-Based Recruitment Strategy is a project called "Improved Timeliness of Examining Through a Shared Approach with Agencies."

In the examining and referring lists of candidates to agency managers filling jobs, the Washington Area Service Center's Examining Office has reduced processing times by 67% since 1986 -- from an average of 30 work days to an average of 10 work days -- while increasing the quality of candidates referred. This was done by inventing a new approach to examining, sharing the process with agencies as co-producers and replacing the traditional, often ineffective, "register" system. Agency customers (managers) have shown their satisfaction with candidates by a 40% increase in usage of OPM's Washington referral lists. In 1988, managers made selections from only 60% of these lists. Since 1988 usage rates have moved up with managers currently making selections from 89% of the lists.
