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- GSA -

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**THE GENERAL SERVICES ADMINISTRATION
AGENCY TEAM REPORT**

NATIONAL PERFORMANCE REVIEW

INTERNAL WORKING DOCUMENT--NOT FOR DISTRIBUTION

JULY 29, 1993

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Section I

Issue Paper and Recommendations

**GSA01: MAKE THE GENERAL SERVICES ADMINISTRATION A
FULLY COMPETITIVE, FEE BASED ORGANIZATION**

Background

The General Services Administration (GSA) was established in 1949 to be the federal government's central management agency with primary responsibility for acquiring, storing, distributing, and disposing of personal property and supplies, and of acquiring, managing, and disposing of real property. The Department of Defense (DoD) has similar responsibilities for defense-related activities. Over the years, GSA, DoD and other agencies have further divided responsibilities for various supply management functions, and other civilian agencies have also received authority to acquire, manage, and dispose of real property.

GSA is organized into four major services, each of which conducts operations and develops and enforces governmentwide policy within its area of responsibility, and an office of general management and administration (GM&A) comprising: the office of the Administrator; the Inspector General; the Associate Administrator for Acquisition Policy; the Office of FTS2000 (which until recently was part of the Information Resources Management Service); the Board of Contract Appeals; and the normal complement of staff offices. The four services are the:

- Federal Supply Service (FSS), which is responsible for the federal supply management system;
- Public Buildings Service (PBS), which provides general purpose space to house the federal government's operations;
- Federal Property Resources Service (FPRS), which oversees the real property disposal system; and
- Information Resources Management Service (IRMS), which has central oversight

responsibility for federal information processing and provides ADP and telecommunications services.

Geographically, GSA is organized into central offices headquartered in Washington, D.C. and 10 regions, including the National Capital Region (NCR). The regions are responsible for providing services to federal agencies and (in most cases) enforcing policies developed by the central offices. The regional headquarters' offices are in: Washington, D.C.; Boston/New York; Philadelphia; Atlanta; Chicago; Kansas City; Fort Worth; Denver; San Francisco; and Auburn, WA.

In 1993, GSA employment was allocated among the central offices and regions as shown below:

1993 Employment By Region

	FSS	PBS	FPRS	IRMS	FTS2000	GM&A	IG	Other	Total
Central Office	833	465	71	1099	259	870	402	29	4028
NCR	3	2237	0	227	0	127	0	38	2632
Boston New York	366	869	23	0	0	80	0	21	1359
Philadelphia	702	861	0	152	0	73	0	17	1805
Atlanta	575	819	24	199	0	66	0	43	1725
Chicago	194	1096	0	0	0	61	0	0	1351
Kansas City	306	625	0	0	0	455	0	40	1426
Fort Worth	721	831	46	222	0	391	0	71	2252
Denver	0	490	0	0	0	12	0	0	502
San Francisco	856	874	26	178	0	90	0	35	2059
Auburn	0	424	0	0	0	11	0	0	435
Total	4556	9591	159	2077	259	2236	402	294	19574

In Fiscal Year 1994, GSA plans to obligate about \$11 billion, of which only \$210 million is from direct appropriations. The overwhelming majority of GSA's expenses are

paid for by its customers through reimbursable and revolving funds. GSA has set up its financing so that most of its staff functions (the office of the Administrator, the finance and budget offices, the Inspector General, and the General Counsel, for example) are largely reimbursed by the various services; that overhead is, in turn, charged to GSA's customers.

GSA's FY 1994 Budget requested resources that would be allocated as follows:

FY 1994 Budget Submission

	FTE	Total Obligations	Direct Appropriations
Federal Supply Service	4,520	\$ 2,860M	68M
Public Buildings Service	9,435	6,462	7
Federal Property Resources Service	162	21	18
Information Resources Management Service	2,063	911	46
FTS2000	245	503	0
Management & Administration	2243	182	31
Inspector General	418	36	35
Other	295	51	5
Total	19,381	\$11,026M	\$210M

Recently, GSA has taken steps to provide its customers some freedom of choice and authority to make management decisions. GSA has: 1) instituted a building delegation program which transfers management responsibility for single-tenant buildings to the agencies that occupy those buildings; 2) made it much easier for agencies to buy supplies from sources other than the Federal Supply Schedules; 3) established cooperative administrative support units (CASUs) to simplify the use of common administrative support services; 4) implemented the use of a credit card that allows simplified procurement of supplies; and 5) delegated authority to agencies to procure information technology products and services. In managing FTS2000, GSA recognized the value of customer input by establishing an Interagency Management Council, comprising agencies who use FTS2000, to provide advice on management and technical issues.

Reinvention Laboratories

As a central management agency, GSA has a unique part to play in other agencies' reinvention laboratories. GSA took an early leadership role by letting other agencies know who in GSA would waive GSA regulations for reinvention labs. GSA also gave other agencies the authority to waive Federal Acquisition Regulations for the reinvention labs. Both of these actions underscore GSA's active support for the reinvention process not only within GSA, but throughout government.

GSA has established ten reinvention laboratories (which are briefly described in Section 3). The laboratories are:

- Regionwide laboratories in Philadelphia and Denver
- Interagency fleet consolidation
- Telecommuting
- ADP support services
- Commercial products acquisition
- Local telecommunications
- Governmentwide electronic mail
- Office products regional commodity center
- Time and attendance
- Leased space procurement (pending)

Need for change

1. Separate policymaking from service delivery

The General Accounting Office, the Senate Government Affairs Committee, and others have pointed out that the current GSA organization, which places responsibility for development and enforcement of governmentwide policies with its service organization, has led to confusion over which role GSA should emphasize, insecurity over the policymaking and oversight responsibilities, and contributed to GSA's "lackluster performance in both

areas."

As long as policymaking and operational responsibilities are combined within the same organization, there will be a tendency for operational considerations to drive out strategic policy considerations. Requiring service delivery organizations to oversee and enforce agency compliance with policies and regulations interferes with service delivery and the development of good customer relations.

Other countries have found that the most effective way to solve the conflict between policymaking and operations is to separate policymaking functions from day-to-day operations. GAO has also pointed out that in a decentralized environment, it is critical that policies be sensible and flexible, and that they be accompanied by consistent and knowledgeable guidance. This suggests that GSA should not only separate its policymaking functions from its service delivery organizations, but that it should also refocus oversight and enforcement to concentrate on providing advice and results-oriented evaluations. GSA should also serve as a clearinghouse for information on the various service it provides, giving agencies a central contact point for information.

One problem of policy organizations is that they sometimes lose sight of the affect that their policies have on the field organizations that actually perform the work of the government. One way to mitigate this problem is to establish personnel policies that ensure that people serve in the policy organization only have they have served in the field, and that they return to field activities from policy assignments. Another way to reduce the problem would be to ensure that the views of the agencies are fully considered by developing policies and oversight processes in collaboration with the federal agencies who will be affected.

2. Give agencies freedom of choice and rely on competition, rather than monopolies, for service delivery

A fundamental philosophy underlying the National Performance Review is that agency heads and line managers are intelligent, honest people capable of making good decisions on how to allocate resources to best accomplish their mission. Further, that the existing system of overly-complex, detailed laws, rules, regulations, and centralized controls and decisionmaking interferes with a manager's ability to exercise initiative and balance resources to fulfill agency needs. To correct this problem, and to better hold managers accountable for mission accomplishment, full authority and responsibility for all the resources needed and used must be clearly and unambiguously placed with the manager.

The present central management model often requires managers to use a single source (whether in their own agency or in a central management agency such as GSA) to meet their resource needs. When central management policies also allow a third party to control the resources the agency uses, to make resource decisions for the manager, or to control an agency management process, it improperly dilutes the authority and responsibility of the agency head and manager, and spreads accountability for mission accomplishment among people who are not responsible for results. This significantly weakens the ability of oversight agents (including the President and Congress) to properly evaluate program successes and failures, and contributes to the misplaced emphasis on inputs, rather than results.

Examples of the controls GSA exercises over other agencies include: the monopolistic control the Public Buildings Service has over the amount, location, and quality of agency space; mandatory source (and waiver) requirements in the Federal Supply Schedules; controls over disposition of personal and real property exercised by both the Federal Supply Service and the Federal Property Resources Service; the requirement for the Information Resources Management Service to review and approve agency ADP acquisitions; and the mandatory requirements for agencies to use FTS2000 for long distance telecommunications service or IRMS contracts for local phone service.

GSA has made some improvements in its operations. However, it must now

recognize that the system of centralized control and monopolistic provision of services is not adequate to meet today's problems and opportunities, and needs to be revised. It is not enough that GSA try to become a better monopoly; true change will not occur until agencies are free to choose where and how they spend their money. GSA must become a fully competitive source for agency business and further recreate itself along the lines suggested by the principles that serve as a basis for the National Performance Review. NPR principles particularly appropriate to GSA are:

- Empowering employees (and, by extension, customers)
- Delegating authority and responsibility
- Replacing regulations with incentives
- Exposing federal operations to competition

Many of the issue papers in the Reinventing Support Services report contain recommendations (which are summarized in Section III) that directly affect GSA's organization and operations. Those recommendations, when implemented, will help GSA improve service delivery, free GSA's customers, and change GSA into a competitive service organization.

For GSA to have the management freedom it needs to become competitive, OMB should revise its policies and allow GSA --- along with other federal agencies that provide competitive, fully reimbursable services --- to be free from FTE controls. OMB should also revise other budgetary restrictions (such as scoring rules) that interfere with good decisionmaking. This would help GSA optimize its ability to compete, and management success and accountability could be determined by GSA's customers, rather than arbitrary controls.

There may be occasions where the best interests of the government --- in terms of meeting agency mission requirements at reduced overall costs --- may be better served by requiring agencies to work together or use a common service, rather than acting

independently. In those instances where agencies agree that a GSA mandatory service is the preferred course of action, the service should be treated like a public utility, with a board of governors made up of agency representatives who would oversee GSA's policies, rates, operations, and performance in providing the service.

3. Functional Transfers

Over time GSA has become responsible for providing administrative support for a number of activities that have little to do with its central mission of providing supplies and space to the federal government. Most of these activities get their policy and management direction from other organizations. While GSA does most of these activities well, it makes better sense, from a management standpoint, to assign the activities to the organizations that have retained policy control over the activities or to organizations that are better able to carry out the intended activity.

The following table displays the resource transfers that would occur if all of the activities discussed below were transferred from GSA to other agencies (full details are provided in the Fiscal Estimates Summary in Section IV):

Resource Transfers out of GSA (all dollars in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Budget Authority	\$7,279	\$9,348	\$9,574	\$8,897	\$8,853
Outlays/obligations	\$9,564	\$17,173	\$12,323	\$16,780	\$13,155
Total FTE	99	141	134	132	111

Functions that should be transferred are:

- a. Aircraft Management - Although GSA neither buys, maintains, nor operates aircraft, OMB Circular A-126 assigns GSA the responsibility for

coordinating, managing, and reporting to OMB information on aircraft operated by the rest of the government. Most of the substantive work, such as establishing safety standards, training, inspection requirements, and developing management information and accounting systems, is being accomplished by teams led by Federal Aviation Agency personnel. Information gathered by GSA and reported to OMB is acted upon by OMB, not GSA. The function was originally assigned to GSA because of their experience in managing vehicle fleets, but cars are significantly different from aircraft.

- b. Federal Acquisition Institute (FAI) - FAI was established within the Office of Federal Procurement Policy to perform governmentwide acquisition research and develop training programs for acquisition personnel. It was later transferred to GSA, which is now responsible for administrative functions, although FAI still receives its policy direction from OFPP.
- c. Federal Procurement Data Center - This Center maintains the Federal Procurement Data System which collects and disseminates data on contracts issued throughout the government in reports provided annually to Congress and several government agencies.
- d. Regulatory Information Service Center (RISC) - RISC was transferred from the Office of Information and Regulatory Affairs in OMB to GSA in 1991. RISC is responsible for maintaining the Regulatory Information System, coordinating the semi-annual publication of the Unified Agenda of Federal Regulations, and responding to special requests for information on federal regulatory activities.
- e. Indian Trust Accounting Office - This office provides accounting services related to the adjudication of Indian Tribal claims against the government. Its

activities are directed by the Department of Justice (DoJ), which is the exclusive user of the services.

- f. Information Security Oversight Office (ISOO) - This office provides oversight for the information security program established by Executive Order 12356 and reports annually to the President on the status of the program. (E.O. 12356 established a system for all executive agencies to follow when classifying, handling, and declassifying national security information.) ISOO receives all of its program and policy direction from the National Security Council.
- g. Transportation audits - GSA is required to conduct post-payment audits of all transportation bills submitted to the government. Recoveries from overcharges are used to pay audit costs. Any excess receipts are returned to the Treasury, which results in agencies losing the use of funds that would otherwise be available for agency programs. GSA has demonstrated that the technology now exists to audit the transportation bills prior to payment. By reviewing bills before payment, erroneous payments will be avoided and funds will remain available to the agency conducting the audit. Agencies that use the transportation services, rather than GSA, should conduct the pre-payment audits and gain the associated benefits.

Recommendations

1. Separate policymaking from service delivery (1&2)

GSA should create a separate and clear organizational distinction between its governmentwide policy and oversight functions and its service delivery organizations (FSS, PBS, FPRS, IRMS, and FTS2000). This will sharpen GSA's focus on its different roles as a source of governmentwide policy and

as a competitive supplier of goods and services.

While GSA should continue to provide policy guidance, that guidance should be developed in consultation with other federal agencies and be in the form of flexible broad guidelines, rather than rigid rules. GSA's should refocus its oversight and enforcement activities to emphasize leadership and results-oriented evaluations and advice. To ensure that the flexibility and authority being granted by GSA to the agencies is passed on to line managers, GSA should ensure that its evaluations of other agencies include a review of the regulations imposed by those agencies on their line managers.

GSA should consider establishing personnel policies to ensure that employees in the policy organization(s) have prior field experience and serve in policy for at most five years before returning to field assignments.

OMB needs to recognize that GSA has an important policy and oversight role, and must be adequately staffed to fulfill it.

OMB and GSA should work together to ensure that all of GSA's governmentwide policy and oversight functions are funded by direct appropriations, and are not underwritten by charges to GSA customers.

2. Give agencies choice and make service delivery fully reimbursable (1, 2 & 3)

GSA and OMB should seek legislation, revise regulations, and transfer authority so that GSA's customers - whether they use real property, communications services, supplies, computers, or disposal services - have the freedom to choose who they do business with. GSA should remain one of those options by creating a number of competitive enterprises to provide

services to other federal agencies.

In cases where agencies and GSA agree that mandatory operations might both meet agency mission requirements and be more beneficial to the government, the GSA operation providing the service should be subject to a board of directors, comprised of GSA customers using the service, who would oversee GSA operations, rates, and service delivery.

All such GSA services should be fully paid for through customer revenues.

3. Transfer activities not related to GSA's central mission to other agencies (1, 2 & 3)

- a. Aircraft Management - OMB should revise OMB Circular A-126 to give the Department of Transportation, rather than GSA, responsibility for establishing standards for government aircraft. Senator Pressler recently introduced a bill (S. 1092) that would also assign many of those responsibilities to the Secretary of Transportation. After the transfer of functions, the Department of Transportation should pursue any needed resource adjustments through the normal budget process(2)
- b. Federal Acquisition Institute (FAI) - OMB and GSA should seek legislation transferring FAI back to the Office of Federal Procurement Policy (in OMB). (3)
- c. Federal Procurement Data Center - OMB should transfer FPDC to the Office of Federal Procurement Policy (in OMB). (2)
- d. Regulatory Information Service Center (RISC) - OMB should transfer RISC to OMB. (2)

- e. Indian Trust Accounting Office - OMB should transfer this office to the Department of Justice. (2)
- f. Information Security Oversight Office (ISOO) - OMB should transfer this office to the National Security Council. The Senate Appropriations Committee mark-up of GSA's FY 1994 appropriation request also directs the transfer (H.R. 2403). (2)
- g. Transportation audits - GSA should encourage other agencies to conduct prepayment audits by increasing its delegations to the agencies, and OMB and GSA should seek legislation eliminating the requirement for post-payment audits. (1 & 3)

4. Improving effectiveness (4)

As GSA is made a fully reimbursable, competitive organization and the recommendations contained in the Reinventing Support Services and Procurement issue papers (see below) are implemented, the Administrator should consider the following opportunities to improve GSA's effectiveness and customer service:

- a. Implement one-stop-shopping. GSA should consider establishing "account executives" who would provide a single face to the customer and ensure all of their needs are met. This would significantly improve the delivery of services by eliminating the current situation where customers must deal with a number of different GSA offices. --
- b. Reduce overhead. GSA should examine the distribution of personnel between staff offices and line operations and between headquarters and field activities. There may be further opportunities to put more people to work serving customers.

- c. Streamline the organization. GSA should determine whether some functions being performed at headquarters might be moved to one of the regions, whether the number of regions should be reduced, and whether the present organization best serves its customers.
- d. Improve telecommunications management. GSA should consider returning FTS2000 to IRMS as soon practical. FTS2000 was established as an office separate from IRMS to focus greater management attention on this program. However, the relationship between long distance telecommunications services in the Office of FTS2000 and the information technology services in IRMS continues to become more interconnected. Additionally, the upcoming request for proposals for the next FTS2000 contract should ensure that all customers are free to choose where they get their telecommunications services.

End Notes

to be provided

Cross references to other NPR recommendations

- SS01 Authorize the Executive Branch to Establish Printing Policy and Eliminate the Current Printing Monopoly
- SS03 Improve Distribution Systems and Reduce Costly Inventories
- SS04 Streamline and Improve Contracting Strategies for the Federal Supply Schedule Program
- SS05 Expand Authorities and Eliminate Congressional Limitations on Federal Vehicle Fleet Management

- SS06 Eliminate the Monopoly and Devolve Personal Property Management
- SS08 Give Customers Choice and Create Real Property Enterprises that
Promote Sound Real Property Asset Management
- PROC20 Reform Information Resources Management Procurements
- BUD05 Replace Across-the -Board FTE Ceilings
- FM5 Franchise Internal Services
- FM10 Manage Fixed Asset Investments for the Long Term

Section II

Recommendations From Other Issue Papers

Recommendations from Other Issue Papers

The following recommendations from other issue papers would have a significant organizational or resource impact on GSA.

SS01. Authorize the executive branch to establish printing policy and eliminate the current printing monopoly.

The recommendations in this issue would give GSA authority to establish executive branch printing policy and transfer to GSA 3700 FTE that are now assigned to the Government Printing Office.

SS03, Recommendation 2. Compare depot distribution costs with commercial distribution systems.

This recommendation requires that GSA (and other agencies) maintain depots only when there is an overriding national security interest or an economic advantage over commercial alternatives.

SS04. Streamline and improve contracting strategies for the Federal Supply Schedule program.

This issue paper contains a number of recommendations that would, among other things, eliminate mandatory requirements for the Federal Supply Schedule and change synopsis and order limitations for ADP procurements.

SS05, Recommendation 4. Provide incentives and authorize agencies to dispose of agency-owned vehicles.

This recommendation would give agencies the authority to dispose of agency-owned

vehicles.

SS06. Eliminate the monopoly and devolve personal property management authorities.

This issue would allow agencies to dispose of their own excess or surplus property and make use of GSA's disposal services a matter of choice, rather than a mandatory requirement.

SS08. Give customers choice and create real property enterprises that promote sound real property asset management

Among other things, the recommendations in this paper would make major changes in GSA's Public Building Service by giving agencies the authority to choose their sources of real property services, creating competitive real property enterprises and centers of expertise within GSA, and improving GSA's management of the government's real property assets.

PROC20. Reform Information Resource Management Procurements

The recommendations in this issue paper would significantly increase the delegation of ADP procurement authority and largely waive GSA-mandated requirements and alternatives analyses for commercial ADP acquisitions.

Section III

Agency Reinvention Activities

Reinvention Laboratories

1. Regionwide laboratories: Philadelphia and Denver

These reinvention laboratories are designed for regionwide implementation, encompassing all activities within the region. They encourage employees to take a fresh look at the ways they accomplish their work, with an eye toward removing any impediments placed on them. The Regions will be given blanket authority to waive GSA rules or regulations.

2. Interagency fleet consolidation lab

This reinvention laboratory is designed to rapidly consolidate Army, Air Force, Coast Guard, and Department of Energy fleets, consisting of over 4,000 vehicles, into the GSA's Interagency Fleet Management System (IFMS), resulting in savings to taxpayers of over \$1 million annually. In addition, it will avoid repeating lengthy cost/benefit studies that have consistently demonstrated these consolidations are substantially beneficial to everyone.

3. Telecommuting lab

This reinvention laboratory is designed to establish at least one operating telecommuting center by September, 1993. This lab brings together volunteers, communities, environmental and energy concerns, and intergovernmental cooperation to aid Federal employees traveling long distances between home and Washington, D.C.

4. ADP support services lab

This reinvention laboratory is designed to test three new ways of providing Federal customers with ADP support from the private sector. The first will move GSA to a support role, allowing customer agencies to deal more directly with vendors; the second will expand ADP support services to interested State and local governments; the third will give customers greater

choice by making multiple vendors available for the same services.

5. Commercial products acquisition lab

This reinvention laboratory is designed to provide an electronic ordering and billing interface among agencies, GSA and vendors for certain high demand commercial products through a simplified process. It will reduce procurement paperwork for customer agencies, centralize billing for all parties, and enhance inventory control for GSA.

6. Local telecommunications lab

This reinvention laboratory is designed to de-monopolize local telecommunications services in Kansas City, Missouri, and allow for open competition to provide dial tone services, including provisions for expanded optional support, such as cable management and video services.

7. Governmentwide electronic mail lab

This reinvention laboratory is designed to establish Government-wide Electronic Mail between certain Federal agencies, which will provide a common directory and a "Help Desk" to respond to user questions.

8. Office products regional commodity center

This reinvention laboratory is designed to provide a host of new ways in which office supplies, paper, and packaging products are provided to the Federal community. The lab will test fundamental changes to contracting and will implement Statistical Process Control techniques to isolate supplier problems before manufacturing begins. Customer agencies will benefit by greater on-time delivery of high quality, low cost products.

9. Time and attendance lab

This reinvention laboratory is designed to eliminate manual time card procedures

and to provide an efficient and secure electronic input system in its place. This will reduce labor intensive paperwork and save time for Federal employees, who have other missions to pursue.

10. Leased space procurement (pending)

This reinvention laboratory is designed to attempt new techniques to acquire leases in the regions. The goals of this lab include meeting customer needs for space while saving time and money.

Section IV

Fiscal Estimates Summary

Fiscal Estimates Summary

The following table displays the resources that would be transferred from GSA to other agencies if the functional transfers in Recommendation 3 are approved.

Resource Impact of Functional Transfers -- dollars in thousands

	1994	1995	1996	1997	1998
Indian Trust Accounting to DoJ					
Budget Authority	3021	3114	3168	3219	3285
Outlays	3021	3114	3168	3129	3285
FTE	50	50	50	50	50
Federal Acquisition Institute to OMB					
Budget Authority	767	777	788	799	814
Outlays	767	777	788	799	814
FTE	8	8	8	8	8
Regulatory Information Service Center to OMB					
Budget Authority	1123	1139	1152	1165	1181
Outlays	1123	1139	1152	1165	1181
FTE	8	8	8	8	8
Aircraft Management to DoT					
Budget Authority	807	823	840	857	877
Outlays	791	809	824	839	859
FTE	8	8	8	8	8
Information Security Oversight Office to NSC					
Budget Authority	1561	1595	1626	1657	1696
Outlays	1561	1595	1626	1657	1696
FTE	15	15	15	15	15
Transportation Audits to Agencies					
Budget Authority	0	1900	2000	1200	1000
Outlays	0	1900	2000	1200	1000
FTE	0	27	35	13	12
Reimbursable Obligations	0	5100	0	5200	1500
Reimbursable FTE	0	15	0	20	0
Federal Procurement Data Center to OMB					
Revolving Fund Obligations	2301	2739	2765	2791	2820
Revolving Fund FTE	10	10	10	10	10
Total Impact					
Budget Authority	7279	9348	9574	8897	8853
Outlays/Obligations	9564	17173	12323	16780	13155
FTE	99	141	134	132	111

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Customer Service

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Improving Customer Service

NPR Accompanying Report
September 1993

Contributing to this report: Greg Woods; Pamela Johnson, AID; Paul Epstein; Steve Kerchoff, Library of Congress; Jeff Lubbers, ACUS; Romona Powell, SBA; Julie Smith; Lorie Schmidt-Praul, EPA.

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ICS.3 —

Publish And Post Specific Service Performance Standards Established By The Social Security Administration

ICS.4 —

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ICS.5 —

Streamline Procedures For Collecting Customer Satisfaction Information

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Summary

The overall quality of service provided by the government is below what the public expects and has the right to expect — long lines, busy signals, bad information and financial errors are far too common. But there is reason to believe this can all be changed. Significant improvements in government customer service are possible at no cost — programs in the Internal Revenue Service (IRS), Forest Service, Department of Defense and elsewhere have simultaneously boosted both customer satisfaction and productivity.

The National Performance Review is proposing to renew the focus of government on the real customers, the public. The goal for government customer services should be set to *equal the best in business*. Service delivery should be patterned after the best practices in the private sector. Customers should be surveyed on what they want. Employee ideas and actions should be a big part of the solution. Performance standards should be set, published and tracked. Information, services and complaint systems should be easily accessible, with choices provided. Redress should be offered for poor service. And service should be delivered with courtesy in pleasant surroundings.

Three agencies that have the bulk of the government's contacts with the public, IRS, Social Security Administration and Postal Service, have already begun to work with service performance standards. Each of these agencies has a significant customer service program. Their standards address specific dimensions of customer service, such as waiting times and courtesy. Standards for each agency are being published and posted on the walls in offices where that agency is in contact with the public.

To find out what customers want, government agencies need to survey. This means more surveys will need to be reviewed and approved under the Paperwork Reduction Act. The Office of Management and Budget (OMB), responsible for these reviews, is looking at its procedures to streamline them. In addition, for voluntary customer surveys, OMB should delegate its approval authority to departments certifying that they will satisfy the requirements of the act. OMB would provide training, advice, and interagency coordination. OMB should also clarify guidance on the use of public focus groups as a source of input, and streamline survey renewal processes.

Introduction

Many of America's largest corporations have been afflicted by the same problems that ail government: too many layers, internal monopolies, and a lack of customer focus. But business, which grows or dies based on customer satisfaction, has been busy reinventing itself over the past fifteen years. Today's business successes are customer driven.

The government has not kept pace. Unlike business, government agencies rarely get their funding directly from the public that they exist to serve — the real customers. Because they lack this powerful link to their real customers, agencies often focus instead on powerful stakeholders, such as Congress or higher level management. As these stakeholders raise issues, agencies increase specialization, add organizations, and pile on more directives. In the process, the focus moves further and further from the real customers.

There is a growing conviction that the government's efforts focus in the wrong direction. This June, 150 Federal, state and local officials, leaders from the private sector, and academia met in a conference in Richmond, Virginia to consider the government's ability to deliver information and services to the public. The conference report, *We The People*, sees the government's challenge being to focus on the customer *instead of* internal processes — they said, "the ultimate goal would be to reestablish government for the people as promised by the constitution." ¹

Our vision is of a turn around in government like the one taking place in America's best corporations. One where the real customers drive government services. Where government agencies are constantly asking customers what they want and whether they are satisfied with what they are getting. Where agencies measure performance in terms of customer satisfaction and allocate resources to maximize customer satisfaction. And where the brain power and creativity of front-line employees are the primary sources of ideas on how to deliver better services for less.

¹Service to the Citizen Conference Report, "We The People," July 1993

ICS.1. Create Customer-Driven Programs In All Departments And Agencies That Provide Services Directly To The Public

Background

NPR seeks a government where services are customer-driven. If government services are to be customer-driven they must be judged to be of high or low quality based on the public's expectations. These expectations are being set, in large part, by the quality of services delivered each day by America's corporations. Federal Express says, "When it absolutely, positively has to be there overnight." Government can learn from the kind of commitments that America's best corporations make and how they view service.

These corporations view *service* as creating an experience.¹ Generating a check or providing a missing piece of information is not all that matters; courtesy, surroundings, complaint procedures, redress, choices, and accessibility all add up to define a quality service experience. And these corporations seek constant feedback from their customers on how they are doing. Can the government live up to this corporate standard? If we do less the idea will persist that government just doesn't work right.

The government of the United Kingdom believes it can meet this higher standard. Its Citizen's Charter, launched in July 1992², sets the standard for public services to be "up to and beyond the best at present available." The Charter goes on to define key principles of service, including accessibility, choice, courtesy, putting things right, setting standards for performance and others. To carry out these policies, British Rail set on-time standards, publishes actual results, and discounts next month's rail pass if it doesn't meet the standards.

The idea of setting the standard for our federal services to be the equal of those in the private sector may have a huge payoff. It is probably the simplest way to tell the federal work force what kind of service to deliver. Each government employee can immediately draw on his or her own experience to define quality. That is why the Air Force Tactical Air Command adopted its written standard for visiting airmen's quarters to be "a moderately priced hotel, like Ramada." This works much better at no more cost than the thick manual it replaced.

Need for Change

A program to improve government customer service would not start from scratch. Several federal agencies have begun to empower their employees to focus on their real customers with immediate results.

The Ogden Service Center of the Internal Revenue Service processes tax returns. It instituted a total quality program, put its focus on the customer, generated big savings, increased productivity, and won the 1992 Presidential Award for Quality.³

The employees in Ogden really believe in customer service. A taxpayer, recently down on his luck, hitchhiked from out of state to Ogden hoping to pick up his refund check. The Ogden center doesn't issue refund checks, but the IRS employees got on the computer and found that a check had been sent from the disbursing center to his old address and returned. They ordered a new check sent to Ogden, but the process would take ten days, and the hitchhiker had no money. So the employees found him shelter and collected enough food money among themselves to get him through. No wonder they won the quality award.

The customer focus of the Ogden center is not unique. The Postal Service now routinely surveys customer satisfaction and uses the results to judge performance around the country.⁴ The Social Security Administration has developed its new strategic plan built on service delivery goals and objectives that focus on their customers.⁵ There is a Service to the Citizen alliance of information technology leaders from 12 federal agencies collaborating on projects and funding work to sort out how technology can improve service to the government's customers.⁶

These and other initiatives already underway provide the first building blocks for a customer-driven government, but the government lacks an overall policy statement setting out what we are trying to achieve. We also need an initial call to action in order to stimulate broad federal participation. In addition, we need more direct customer input — most current planning is based on what managers or other stakeholders think the public wants.

Similarly, front line employees need to be heard, put at the center of programs to improve quality, and given training where needed. For example, people who handle any kind of inquiry from the public should have the opportunity to learn active listening skills. Everything written about successful reinvention efforts, public and private, says that front line employees are the best source of good ideas on how to improve efficiency, quality and service. Corporate America translates this belief into action. A 1990 Harris Poll of service companies found 92 percent gave employees explicit authority to handle customer problems.⁷

Customer and employee inputs will provide a solid basis for setting performance standards for customer services. And "what gets measured gets done," so these standards must be published, posted and tracked. Continuing measurement of customer satisfaction will fit neatly with the performance measurement requirements of the recently passed Government Performance Results Act of 1993.

Recommendation

1. Establish an overall policy for the quality of federal services delivered to the public, and initiate customer service programs in all agencies that provide services directly to the public.

The President should issue an Executive Order that would establish an overall standard for quality in services to the public: *Customer services equal to the best in business.*

The Executive Order would state that these principles govern the provision of customer services:

- surveying customers to find out what kind and quality of services they want;
- posting standards and results measured against them;
- providing choices in both source of service and delivery means;
- making information, services and complaint systems easily accessible;
- providing redress for poor services;
- handling inquires and delivering services with courtesy;
- providing pleasant surroundings for customers.

The Executive Order would direct all federal agencies that deal with the public to:

- immediately identify who their customers are;
- survey their customers on services desired and customer satisfaction;
- survey front-line employees on barriers to matching the best in business;
- in six months, report results on these three steps to the proposed President's Management Council.

The Executive Order would require all agencies that deal with the public to develop and publish a customer service plan within one year. That plan would include at least an initial set of customer service standards. Improvement in customer satisfaction would be used as a primary criterion in judging the performance of agency management and in making resource allocations. The plan would also address the need for training front line employees, especially those handling inquires, so that they have the customer service skills they need.

These policies and supporting actions represent a major initiative to put government's

focus on people, both the public and front-line employees. Several of the recommended principles of customer service seek to make government agencies accountable to the public for the quality of the service provided.

To begin with, publishing standards and actual performance results creates a general accountability among employees. These results, along with surveys of customer satisfaction, provide a direct basis for judging management and employee performance. In addition, redress, at least an apology and an explanation, can be given when individuals are treated poorly, and in some cases the government will be able to "put things right" by, for example, forgiving penalties or paying interest.

On a broader scale, customer satisfaction can be used as a basis for changing resource allocations. Funding might be shifted among service centers in order to deal with problems or workloads shifted to the best performing locations to improve service within an area. And when the public can actually exercise a choice to obtain a service elsewhere, competition will enter as a powerful stimulus to productivity.

Fiscal Implications

There are many examples of customer-driven federal programs that do not increase cost. Instead, productivity gains have more than offset any cost increases in the program.

The Tactical Air Command more than doubled its available flying hours without cost increases by using a customer focus. Productivity increases at the IRS Ogden Service Center allow them to process 5 percent more of the nation's total tax returns without a proportional increase in cost. The General Services Administration reduced costs while maintaining the quality of the information it provided on its federal information phone lines by developing a more effective training program. Pilot sites in the Forest Service increased output by 15 percent without cost increases. In addition, one of their pilot sites now manages to process in one day permits that used to take 30.

The common lesson is that when the focus is on the customer where it belongs, rework, make work and unnecessary tasks fall away and quality soars.

¹Schneider, Benjamin, "The Perception of Organizational Climate: The Customer's View," Journal of Applied Psychology vol. 57, no.3 (1973), pp. 248-256' and Heskett, James L., W. Earl Sasser, Jr. and Christopher W.L. Hart, *Service Breakthroughs: Changing the rules of the Game*, New York: Free press, 1990

²"Raising the Standard: Britain's Citizen's Charter and Public Service Reforms", November 1992

³"Presidential Award for Quality", Federal Quality Institute, 1992

⁴"Tracking Customer Satisfaction in a competitive Environment", GAO/GGD-93-4, November 1992

⁵"The Social Security Strategic Plan", September 1991

⁶"Customer Service Excellence," Harvard, July 1992

⁷"The State of Quality Customer Service in America", Harris Poll/Consumer Affairs Council, 1990

ICS.2. Service Performance Standards - Internal Revenue Service

Background

The Internal Revenue Service (IRS) faces a host of big issues in the 90's. The Service feels budget deficit pressure to improve the collection percentage. A 1 percent increase in voluntary compliance equals \$7 billion in annual revenue, but IRS believes that the number of people choosing not to file is growing. In addition, the service holds over \$100 billion in gross receivables that must be managed in order to recover even a fraction of it. Besides all this, IRS is awash in paper, handling 1.7 billion pieces annually. Plans are for a major systems modernization to deal with this issue.

Major support for the overall plans of the IRS comes from an established, internal Total Quality Management program that is intended to improve productivity. Moreover, IRS refers to its recently developed strategic plan as a "business" plan and refers to taxpayers as "customers".¹ IRS is empowering employees in pilot projects that are improving productivity, winning quality awards, and have a strong customer first flavor. It is also trying out pilot accounting systems that focus on outputs and remove line item controls in budgets.²

The IRS fosters competition among tax return centers, shifting work loads to those showing the highest productivity. New job opportunities accompany the shift in workload.

The very poor marks given to the IRS by the General Accounting Office (GAO) and others for phone support are improving. In 1989 one out three callers got incorrect answers.³ GAO accepts IRS testing that says in 1992 the IRS gave the right answer to taxpayer questions 88 percent of the time.⁴

Need for Change

The shift to a customer-driven mentality is well underway at the IRS. The overall IRS mission statement has a customer service flavor. It says "serve the public by continually improving products and services."⁵ Products mean tax forms and notices. Service includes phone support.

The key objectives of the IRS all have a customer dimension:

- reduce taxpayer burden;

- increase voluntary compliance;
- improve productivity and customer satisfaction.⁶

IRS is planning to measure success versus these objectives. It is already starting to survey customers. It gets high ratings for timeliness of tax forms delivery and poor ratings for product clarity and support.

In another step forward, IRS is increasing the authority of front line employees to negotiate resolution of issues with taxpayers. This supports their stated goal of resolving a person's tax issues in one IRS contact.

Regarding the time to issue refunds, after the IRS finishes processing a return, it creates a computer tape notifying Treasury that this and other refunds are due. The tape is then flown to Treasury. Treasury then processes the tape and issues a check. Ten days elapse from the time the tape is made until a check goes out. Giving disbursing authority to the IRS might cut this time.

Recommendations

1. The Commissioner of the IRS should publish the following standards developed by the IRS in all tax instruction booklets mailed to taxpayers for the 1993 season.

- Refunds will be mailed within 40 days on your paper return; refunds will be mailed within 21 days on your electronic returns when you request a check; and deposits will be made within 14 days on your electronic returns when you specify electronic deposit.
- Our goal is to resolve your account inquiries in a single contact; if you have a repeat problem you can contact the Problem Resolution Office, which will resolve the problem in an average of 21 days.
- When you provide sufficient and correct information to an IRS tax assistant and get an incorrect answer, we will cancel related penalties.
- Let us know where our tax forms or instructions are confusing or difficult — by 1995 we plan to boost the clarity of tax forms and instructions so that 90% of individual returns are error free.

2. The Secretary of the Treasury should delegate disbursing authority for refunds to the IRS in order to speed refunds to taxpayers in 1993 and future tax seasons.

The publication of the service performance standards above represents another step on the part of the IRS towards a customer-driven operation. It plans to measure

performance against these standards and seek continuing customer feedback on the importance of these particular areas of service. The IRS has a broader, aggressive effort to get customer inputs to measure the value added by its full set of initiatives.

Fiscal Impact

The recommendations on service performance standards will not increase costs relative to plans.

There would be initial costs to transfer the check issuing role from Treasury, and several days of float would be lost by getting checks out faster. The move could generate some savings in the long run by cutting out the extra step of passing refund information to Treasury.

¹"IRS Strategic Business Plan FY-93 and Beyond, IRS, September 1992

²"Cost Management System, Cincinnati Service Center," February 1993

³GAO/GGD-90-36

⁴GAO/T-GGD-93-23

⁵"IRS Strategic Business Plan FY-93 and Beyond", IRS, September 1992

⁶Ibid.

ICS.3. Service Performance Standards-Social Security Administration

Background

The scale of the Social Security Administration's (SSA) contact with the public is huge. It administers Old-Age, Survivors and Disability Insurance; Supplemental Security Income; and the Part B-Black Lung program. It pays over \$300 billion annually to 47 million beneficiaries, and it maintains earnings records for 131 million taxpayers.

SSA has 1300 field offices and gets 60 million 1-800 calls per year, certainly one of the world's largest 1-800 services. The SSA estimates a 26 percent increase in work load by 2005.¹ This is due primarily to the population maturing. Disability claims are a trouble spot. The process is slow, and SSA has a backlog of disability claims, hearings and appeals. SSA acknowledges the need for major improvement in disability insurance administration.²

A 1993 Health and Human Services Inspector General's (IG) report on overall SSA services shows declining customer satisfaction for the fourth year in a row. The IG reports longer waiting times in offices. It links dissatisfaction among 1-800 callers to the number of attempts needed to get through.³

To deal with a growing workload and backlogs, SSA is planning major automation improvements. It also plans on doing a greater percentage of the work in field offices to cut rework and on making even more use of telecenters.⁴

Need for Change

SSA has a strong customer orientation, but it has some service problems and its already formidable task is growing. The SSA mission statement says it will administer its programs in an equitable, effective and caring manner. The SSA strategic plan sets out three overall goals that emphasize the public and employees:⁵

- Serve the public with compassion, courtesy, consideration, efficiency and accuracy;
- Protect trust funds and instill public confidence;
- Maintain a motivated work force.

The plan also details seven "Service Delivery Goals" and an extensive list of 34

supporting objectives, ranging from issuing a Social Security Number orally "within 24 hours" to "accuracy in trust fund outlays". The goals and objectives are based largely on the judgment of SSA management, without the benefit of direct customer input. Appropriately, the objectives do seek to cover the full range of SSA tasks. However, taken collectively the objectives are a lot to grasp, and priorities among them are unclear.

The strategic plan proposes to reach all the objectives by the year 2005. There are no interim objectives and so measuring progress between now and then will be difficult. On the other hand, some of the objectives are within reach today, and major initiatives are underway to address problems that would prevent some of the objectives being attained.

The recommendations that follow build on the important baseline established by the strategic plan, and go on to address some of the shortcomings of the plan, which are well understood by SSA management.

Recommendation

1. The Administrator of SSA should publish nationally and post in each of its offices the following performance standards developed by SSA.

- You will be treated with courtesy every time you contact us.
- We will provide you with all the information you need in order to use SSA programs, including your own potential for benefits.
- We will also provide you with information about other social service programs that may help you.
- On most days, when you call our 1-800 service for information or help, you will reach us on the first call; on our busiest days repeated attempts may be needed.

2. The Administrator of SSA should obtain customer opinions on all the goals and objectives of the strategic plan, using that input to revise the goals and objectives as needed, set priorities, and establish interim objectives.

Recommendation 1 selects objectives from the strategic plan that have impact on the quality of SSA's direct interaction with the public. Each is within reach today and, thus, can be set as standards. Doing so, and then publishing and posting them, will immediately communicate to the public, and reinforce with SSA employees, that the quality of customer service is a priority at SSA.

Obviously, while courtesy and helpful information services are critical in an overall customer service program, SSA cannot satisfy its customers without doing the job customers expect in benefits delivery. Recommendation 2 addresses benefits delivery. The recommendation seeks feedback from SSA customers on the basic assumptions of the strategic plan, and most of the plan focuses on the delivery of specific benefits. The intention is that the goals and objectives of the plan would be broadly publicized. Comment cards on them would be placed in all offices. Formal surveys would be done. Focus groups would help point the right direction to take.

These tools would be address fundamental issues of customer satisfaction. Are these the right objectives for SSA or have we missed what matters to you? What areas are most important? How do the proposed numerical performance standards measure up to your expectations? How does SSA performance compare to the level set out in the standard? Answers to these and other questions would provide an improved basis for planning and resource allocation.

Both the recommendations above are consistent with SSA's overall, customer-oriented approach to the future. For example, in the key problem area of disability claims processing SSA is working on a major reinvention effort. This project will field test several new "models for disability claims processing" in fiscal year 1995. The long term goal is to reduce processing times to 60 days or less, the objective in the strategic plan.

Fiscal Impact

These recommendations are not expected to increase costs relative existing to plans.

¹"The Social Security Strategic Plan", September 1991

²"Social Security Administration Annual Financial Statement for Fiscal Year 1992,": February 1992

³1993 Health and Human Services Inspector Generals Report on Social Security Administration's Services

⁴"The Social Security Strategic Plan", September 1991

⁵Ibid

ICS.4 Service Performance Standards-Postal Service

Background

The US Postal Service delivered 166 billion pieces of mail in 1992 and generated revenues of \$46 billion. By volume and revenue, business mail accounts for the bulk of their business. However, residential mail delivery and window service in nearly 40,000 offices are the part of the Postal Service most visible service to the public. The Postal Service has adopted three goals to put itself on an increasingly businesslike basis: a) improving service and customer satisfaction; b) strengthening employee commitment; and c) generating revenues above costs.

The Postal Service's commitment to customer service is being driven by the competitive business environment in document delivery and electronic information services. There is direct accountability because business consumers have a choice of service providers and postal revenues depend upon customer satisfaction. The Postal Service has instituted a Total Quality Management program, a central feature of which is the goal to achieve 100 percent customer satisfaction over the next several years. Marvin Runyon, the Postmaster General, is committed to improving the "accountability, credibility and competitiveness" of the Postal Service. In restructuring the Postal Service in 1992, he created a new emphasis on customer service throughout the organization.

The Postal Service has developed a Customer Satisfaction Index (CSI) to track satisfaction of residential customers in 170 metropolitan areas. The CSI measures overall satisfaction levels and more than 35 individual indicators such as courtesy, waiting time, prompt delivery, and complaint response. A contractor, Opinion Research Corporation, administers the CSI quarterly, with responses from an average of approximately 183,000 customers each quarter.¹ The CSI has been reviewed by General Accounting Office (GAO) and is considered to be a statistically valid survey, conducted in a sound and independent manner.² The External First Class Measurement System measures, in 95 metropolitan areas, the elapsed time from when a letter is mailed to when it is delivered.³

The Postal Service recently incorporated the CSI in its employee bonus system. Absolute ranking in CSI, improvement in CSI, and financial success are each counted as one third in determining performance bonuses. Employees represented by two of the Postal Service's major unions and management are participating in this new bonus system. In 1994, the Postal Service plans to replace its system of individual objectives

and incentives with one where performance-based rewards for executives and managers will be linked to organizational and team success in three areas - financial performance, employee commitment, and customer satisfaction (as measured by CSI).

Between August and November 1992, the Postal Service carried out a large scale restructuring that eliminated some 27,000 overhead positions. According to GAO, the restructuring was carried out "without adversely affecting customer service in the short term. For example, nationally, overnight First -Class mail delivery performance remained stable during the restructuring period."⁴ Performance and CSI have remained stable or have improved even after the restructuring.⁵

The Postal Service is developing ways to strengthen employee commitment and productivity. It has recently initiated focus groups with employees and is taking a number of internal steps to improve employee morale. The Postal Service is also monitoring employee attitudes toward customer service among other topics through an annual opinion survey. In the most recent survey, 85 percent of employees indicated that they understood the impact of their work on customer satisfaction.

Need For Change

The Postal Service first set service standards for First Class Mail in 1971. The standards include local delivery overnight and delivery anywhere in the United States within three days. Today, 84 percent of first class mail is meeting the overnight target for local delivery and 80 percent meets the target for third day long distance delivery according to Price Waterhouse, which conducts evaluations of the Postal Service's performance.⁶ However, the delivery standards are not generally known. For example, until recently First Class mail standards were buried in the back pages of the Zip Code Directory.

Using focus groups and other means of getting customer input, the Postal Service has identified several additional areas for improving customer service: shortening waiting times at Post Office counters, increasing easy access to postal information, improving complaint handling and becoming more responsive to the needs of business customers.

Customers in focus groups across the country identified waiting time in retail lobbies as an issue that they care about. In response, the Postal Service has developed a "service in five minutes program" that they are beginning to introduce nationwide. They began in August 1993 with those offices that can demonstrate that they can provide this level of service on a consistent basis. Other offices will need to make operational changes before they are able to participate in the program.

The Postal Service is planning to train front line employees in the new service in five minutes program. It has developed "service in five minutes or less" door decals and retail counter display cards to be used in those offices that can satisfy the unit manager

and the district team that they can consistently meet the standard.

Easy access to postal information is a second area of service improvement. Basic information, such as the price of a stamp, used to require a trip to the post office or a wait for a telephone representative. In 1988, the Postal Service introduced an interactive Postal Answer Line (PAL) so consumers could get routine information by using a touch-tone keypad. Although this service is now available to more than 112 million customers in 80 metropolitan areas, it is not well known. The Postal Service is looking at a number ways to extend this service: for rotary-dial customers using voice recognition technology, hearing impaired customers who have access to TDD equipment, and automated ZIP Code information.

Recommendation

1. The Postmaster General should further publicize the commitment of the Postal Service to customer service by displaying the following standards in Post Office retail lobbies.

- You can expect first class mail delivered anywhere in the U.S. in three days, your local mail overnight;
- You will receive retail service within five minutes;
- You can get postal information 24 hours a day by calling the following local number: _____

The standards above are ones that the Postal Service itself has developed and that are included in the Postal Service's plans. The National Performance Review believes that publishing and posting these standards even more broadly will highlight and reinforce the Postal Service's growing program of customer service.

The first class mail standard was revised in 1989; it is not well known. Posting it in at least all post offices in the largest 95 metropolitan areas, beginning in September 1993, will enhance the public's awareness of this commitment.

The commitment to "service within five minutes" is a new standard; the Postal Service began a comprehensive program to introduce it this past summer. It will be posted in retail lobbies nationwide as staff are trained and demonstrate that they can meet this performance standard consistently.

Information on the 24 hour postal information line is currently posted in some post offices. NPR's recommendation will mean that this sign will be placed in all other retail lobbies in the 80 metropolitan areas where this service is offered.

These standards and their public display are part of the Postal Service's plans to reach 100 percent customer satisfaction. As its service levels improve and as it gets additional customer feedback, the Postal Service plans to set additional customer service standards. Currently it is working on two additional areas, complaint handling and improved service to business customers.

The Postal Service is seeking ways to improve its complaint handling processes. It now handles consumer complaints via telephone and written complaint forms that are available in retail lobbies. It is completing what appears to be a highly successful test of a 1-800 number for complaints in two metropolitan areas and is preparing a recommendation to begin a nationwide 1-800 complaint number by late fall.

Increasing its responsiveness to business customers is also a priority for the Postal Service. Although this program is earlier in its development than the residential program, there are efforts underway to develop an index and a survey instrument to measure the satisfaction of business customers. Within the past year, the Postal Service has opened 95 Business Centers nationwide for the specific purpose of assisting small and mid-size business customers.

The National Performance Review supports the efforts the Postal Service is making and recognizes it is making customer service a core part of its strategic planning; using focus groups and customer surveys to assess customer issues and concerns; developing innovative customer service programs; and commissioning and publishing external assessments of customer satisfaction.

Fiscal Impact

No impact beyond current U.S. Postal Service plans.

¹U.S. Postal Service. U.S. Postal Service Customer Survey, 1993

²U.S. General Accounting Office. U.S. Postal Service: Tracking Customer Satisfaction in a Competitive Environment, GAO-GGD-93-4, Washington, DC November 1992

³Ann McK Robinson, U.S. Postal Service. External Measurement Systems: Consumer Affairs, slides, n.d.

⁴Michael E. Motley. Postal Service: Restructuring, Automation, and Ratemaking. GAO/T-GGS-93-15. Washington, DC March 1993

⁵U.S. Postal Service, Comprehensive Statement on Postal Operations, 1992, p.3.

⁶In 1990, the Postal Service revised the localities to which the standards apply in an effort to set standards that could be met with greater consistency. GAO criticized this move saying it actually slowed delivery of some mail. GAO-GGD-93-12

ICS.5. Streamline Procedures For Collecting Customer Satisfaction Information

Background

Drawing on authority granted in the Paperwork Reduction Act of 1980, as amended in 1986, OMB currently reviews and approves Information Collection Requests (ICRs) from the executive branch to the public. Several recommendations from the National Performance Review (NPR) depend on a greater input of public opinion. For example, the first step in the recommended program to improve customer service (ICS.1) is for agencies that deal with the public to identify their customers and survey them on services desired and levels of satisfaction. With the NPR recommended program, surveys of customer opinions would be used continuously to set direction and measure performance.

NPR recommendation REG.04, part of the regulatory systems report, encourages greater use of focus groups and small surveys of the public to test new rulemaking ideas early in the process. The goal is to avoid complicated mid-course program corrections.

The NPR's mission-driven budgeting report, in its recommendation BUD.03, proposes surveys of the public as a basic performance measurement method. Carrying the weight of law, the findings and purposes section of the Government Performance and Results Act of 1993 also makes specific reference to customer satisfaction as a necessary performance criterion.

Each of the NPR recommendations seeks to get more public input for a similar reason. Asking the public "what it wants" and "how its government is doing" will be much more accurate than current practices of making best estimates or using second or third hand information about the needs of the public. None of the suggestions for more public input would make their input mandatory. In all cases the public's response would be voluntary.

The primary objectives of the Paperwork Reduction Act are to a) minimize the federal paperwork burden on those outside the federal government, b) minimize the government's cost in collecting information, and c) maximize the usefulness of the information collected. Departments and agencies have the primary responsibility for meeting these goals, but may not collect information without OMB approval.¹ The act covers all ICRs to ten or more people. The Office of Information and Regulatory

Affairs (OIRA) administers the act within OMB.

Under the act, OMB may delegate ICR review and approval authority to agencies that commit sufficient resources to carry out the responsibilities of the act effectively and that assign the task to a senior official who is independent of program responsibility.² Review and approval authority has been delegated to the Federal Reserve Board, but that is the only instance to date of delegation.

Need for Change

Requirements in the Government Performance and Results Act, added to NPR recommendations on customer service, regulatory improvement, and performance measurement in budgeting, would produce a major increase in workload for OIRA. The staff currently working on all ICRs numbers about 35.

At present, program staff in agencies often describe the process of getting a survey out as already being a significant barrier.³ The goals of the Paperwork Reduction Act to reduce burden on the public and improve quality are unquestionably excellent ones. But NPR's concern is that the process of getting clearance is itself enough of a burden to discourage attempts to get customer opinions.

The most common complaint among agency staff is that the survey approval process takes too long. OIRA estimates that it takes 64 days to process the average request it receives, including time for public comment.⁴ Some agency ICR offices agree with that estimate and say they can get expedited processing when needed, but most agencies estimate that the process takes much longer. When agency program staff comment that the process is lengthy they are typically looking at the time spent preparing the package for review, plus the time spent in agency review, added to the time spent by OIRA.

Whatever the precise cause, there is clearly pressure on OIRA to do the job faster. As NPR's recommendations for more frequent customer surveys become reality, the requirement to do a lot more reviews will be added. If ICRs continue to be processed the way they are today and OIRA staff levels are not increased, performance can only decline. But many agencies now have staff experienced in designing packages that can pass OIRA standards — in effect they now represent another review layer — and this staff represents a resource that could speed the clearance process if they were given approval responsibility for at least some portion of the ICRs.

Besides the general interest in speeding up the overall clearance process, there are two proposals that home in on specific types of ICRs and seek to reduce the work involved. The first concerns focus groups. Agency interest is growing in the use of focus groups of interested individuals brought together to discuss a particular topic. The reason is that focus groups represent a potentially simple way of getting customer input.

However, the need for ICR clearance on focus groups could be clarified by OIRA.

Focus groups are usually reviewed in the same ICR process as conventional surveys, although agencies often view them only as a way to get quick, preliminary inputs early in a program's development. Agencies can request clearance of multiple focus groups on the same theme. Informal discussions with OIRA also suggested that focus group requests do not need OIRA review if the results are used as anecdotal evidence and not given the weight of a statistically valid collection method. OIRA has not, however, provided the agencies with written guidance on these issues.

The second proposal to save time and work concerns renewals of previously approved ICRs, where the questions to be asked and the targets for those questions are unchanged. The agencies' argument is that in these cases it would be appropriate to have special procedures for a quick review, or even an outright delegation of approval authority.

The Administrator of OIRA has already begun action to improve OIRA management of the overall ICR approval process, including simplifying the tasks agencies face in making applications to OIRA. For example, she has directed her staff to further refine the clearance materials that agencies must submit in support of their requests. The NPR recommendations that follow urge specific actions as part of the Administrator's overall initiative.

Recommendations

1. For voluntary information collection requests directed at customers, the Director of OMB should issue a memorandum to Departments specifying that they can assume authority to approve such requests by certifying that they will fully comply with requirements of the Paperwork Reduction Act.

A customer is defined to be a member of the public to whom the federal government supplies services or financial assistance directly and individually. A voluntary request would be clearly labeled as such when sent to the public and would exclude any requests where the information is required in order to maintain or obtain eligibility for a program or benefit. It is important that the requests be perceived as voluntary by recipients in order that the burden of supplying the information be a matter of personal choice.

At this point, recommendation 1 is not intended to include surveys by regulators of regulated entities. The task of managing requests for information from these agencies to regulated entities so that the requests would be perceived as truly voluntary is a difficult one. Nonetheless, NPR believes that the regulatory agencies would benefit significantly from more public input. The following recommendation on focus groups

addresses this need in part. However, NPR believes that more research is warranted to define conditions under which voluntary opinion surveys could be done by regulators.

Agencies taking responsibility for ICR approval in connection with recommendation 1 would be accepting the obligation to comply with the Paperwork Reduction Act in its entirety for surveys they approve — a delegation by the Director of OMB would not imply relief from any requirements of the act itself. Agency heads would agree in writing to a) designate a senior official sufficiently independent of program responsibility to evaluate fairly whether proposed information collection requests should be approved and b) provide that official with the resources needed to carry out the responsibility effectively.

Under the act, the recommended delegation of authority would not preclude the Director of OMB from reviewing individual ICRs or revoking a delegation to an agency.

2. The Administrator of OIRA should issue a guidance document on focus groups, specifically establishing under what circumstances focus group activities would be excluded from OIRA review, e.g., when results are to be treated as anecdotal.

This recommendation would allow all agencies to get public opinions in a quicker, less formal way than surveys.

3. The Administrator of OIRA should greatly simplify and speed renewal of previously approved ICRs when the questions asked and the recipients of the ICR are unchanged.

This recommendation simply seeks to take advantage of prior work in ICR development and review to reduce the workload on both OIRA and agency staff. The mechanics of the clearance process for renewals might be much like the delegation proposed under recommendation 1. Agencies could certify that questions, audience and burden are unchanged, and then proceed, supplying OIRA with a copy of the actual instrument used.

The thrust of all three recommendations is that OIRA should adopt a "steer not row" posture whenever possible with regard to ICRs. OIRA could offer training programs in the design of collection vehicles. It could advise agency heads on the design of review systems, and establish coordinating mechanisms to help agencies identify collection efforts similar to their own in other agencies. In parallel to agency efforts, OIRA could review completed information collection vehicles and results on a sample basis so as to advise agency heads on opportunities to improve quality and minimize burden. These sampling activities could provide the basis for an ongoing set of OIRA

publications about best practices.

Fiscal Impact

No cost impact is expected.

¹OMB Information Collection Review Handbook," January 1989

²See paragraph 3507e Paperwork Reduction Act

³See various agency/Vice President town hall transcripts; in addition, notes on the discussions with agency staffs submitting ICR requests

⁴Estimated by Jeffrey Hill, OIRA

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IMPROVING FINANCIAL MANAGEMENT

National Performance Review Report
July 28, 1993

Contributing to this report: Mike Serlin (Team Leader), Treasury FMS; Michael B. Fraser, NOAA; Vincette Goerl, GSA; Linda Hoogeveen, OMB; Anthony Musick, Treasury IRS; John Scully, GSSC; Susan Weersing, DOD.

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INTRODUCTION

The State of Federal Financial Management

One criticism of the accounting profession is that they understand the cost of everything and the value of nothing. In most federal agencies, they do not know the cost, either. Hundreds of rules, 120,000¹ financial management employees, and millions of lines of reports have not added up to useful and accurate information in the hands of the line managers who actually make the decisions to spend federal dollars. This is not due to the lack of hard work and dedication by the financial employees or those line employees delivering direct services to the public. It is due to decades of uncoordinated, budget-obsessed focusing on cash flows unrelated to measures of achieving the mission, and multiple procedures to create the illusion of control.

Any business which kept separate, uncoordinated systems for budgeting, accounting, and product sales would soon be bankrupt, but this is the reality in the United States Government today. The federal government requires professional financial standards of companies, states, and localities, which it does not meet itself. Federal accounting practices have been a low under-funded priority, providing information primarily for archaeologists of the future, rather than managers in the present.

Leadership in financial management is divided among the Office of Management and Budget (OMB) and the Treasury Department in the executive branch and the General Accounting Office in the legislative branch, with various coordinating organizations

established such as the Joint Financial Management Improvement Program (JFMIP) and Financial Accounting Standards Advisory Board (FASAB). The Chief Financial Officers Act of 1990 was intended as one measure to correct this, but its implementation is becoming one more overlay on the same morass of procedures and reports that have doomed previous reforms. The line managers should be the customers and the finance officers should be managing service organizations seeking to meet customer needs, but all too often finance officers perceive their primary role to be keepers of the rules. Conversely, the line managers consider costs irrelevant so long as they stay within their total budgets.

One hundred twenty thousand workers, 5% of the entire federal workforce, are engaged in budgeting and financial management activities. Much of their activity involves labor intensive work and rework entering and reentering data, reconciling discrepancies, auditing, and describing the latest changes in policies and procedures to other employees, auditors and line managers. The lack of effective controls and information has resulted in repeated problems and headlines, from Student Loan defaults of \$3,600,000,000, to IRS delinquent collectible debt of \$22,000,000,000, to the savings and loan bailout which is estimated in the hundreds of billions, and many programs at the Department of Housing and Urban Development. Currently, 60% of the major federal agencies have one or more programs on the high risk list. If that high a percentage of banks were on the bank supervisory "problem" list of banks in financial difficulty, there would be a clearly recognized international crisis.

Over the years, one law has been piled on another in response to scandals highlighting the lack of good information and control, the Office of Management and Budget (OMB) has issued circulars to implement the laws, and agencies have then issued further guidance and regulations, including a growing burden of reporting requirements². The list below illustrates the current situation:

LEGISLATION	REPORTING/ REQUIREMENT
IG Act	IG & Mgt. Reports (OMB Circular A-50)
IG Act Amendments of 1988	Federal Entity Audit Coverage
Federal Managers' Financial Integrity Act	FMFIA Report (OMB Circular A-123)
OMB policy based on FMFIA	High Risk Report
Prompt Pay Act	Prompt Pay Report (OMB Circular A-125)
Debt Collection Act	Credit Management Improvement Plan (OMB Circular A-129)
Federal Civil Penalties Inflation Report Adjustment Act of 1990	Civil Monetary Penalty
Single Audit Act	Single Audit Report to Congress
CFO Act	CFO Act Five year plan
CFO Act	Budget Exhibits on Financial Management Activities & High Risk (OMB Circular A- 11)
CFO Act	Audited Financial Statements
CFO Act	CFO Annual Report
CFO Act	Financial Systems Plan (Circular A-127)
Government Performance and Results Act of 1993	(Reporting requirements to be developed)

The problem with this multiplicity of laws and regulations, individually well intended, is analogous to having six thermostats at different settings to maintain climate control in the same room, guaranteeing wasted energy without accomplishing a satisfactory result.

Transform Federal Financial Management for the Future

This report envisions a day in the near future in which virtually all flows of funds into and out of the federal government are electronic, with financial information as a byproduct of operational activities. This information would be accurate and readily available to line managers, financial staff, and auditors to enhance financial decision making in effectively implementing programs, while improving control. In order to achieve these objectives, clear leadership is needed to establish accounting standards and assure their implementation, and the roles of each central agency and expectations of each program agency understood.

In order to transform federal financial management, the issues and recommendations which follow cover two broad themes:

- Build a strong financial management infrastructure
- Adopt good business practices

Empowering line managers with the flexibility to spend tax money to provide the best service will work only if they are held accountable and the information they need is clear, accurate, readily available and timely. Technology permits data to be collected once as an

operational by-product and made available to all appropriate individuals. Controls can be built into automated systems to assure timely knowledge of actions falling outside established norms. Such controls would allow program managers to make timely decisions, eliminating most staff approvals prior to action. Accountability for program managers' decisions could be monitored through exception reporting, with an effective computer/telecommunications infrastructure in place. Combined with the opportunity to shop for the best and lowest cost staff services, program line managers would be free to concentrate energy on their mission rather than justification for various levels of staff approvals.

The federal government manages over two trillion dollars in cash flow annually. Many of these dollars are being run through inadequate accounting systems, most of the dollars have only recently been subject to audits, and agencies typically have trouble reconciling their records with the Treasury Department (which serves as a bank for federal agencies).

Taxpayers have a right to expect that their dollars are being properly accounted for and are being used in the most efficient and effective manner. Good business practices, with clear accounting standards permitting the public to receive meaningful reporting on costs and results can help regain the public's trust in government. Fewer regulations and reports can reduce overhead staff while improving results. In order for those expectations to be met, the federal government must set new standards of professionalism and improved operations.

The recommendations which follow should result in significantly smaller numbers of

Federal staff employees, and shift the emphasis to program delivery to the public. Once the infrastructure is operational, and the other recommendations in this report implemented, we would expect no more than half the 120,000 financial staff positions filled today would be needed. This will result in an annual savings of at least \$2 billion in direct salaries and benefits. Additional billions in annual savings, not as easy to calculate, will occur through building, furniture, and other expenses no longer incurred for 60,000 employees and time no longer spent by front line employees responding to these staffs.

As large as the annual overhead savings will be, the real value to the taxpayers will be significantly improved stewardship of their tax dollars. Federal managers will be clearly accountable for measurable program results at the most efficient cost. Financial managers will be respected advisors to the line program managers, as effective members of a team assuring excellent government services. The trust of the American people that their government is well managed will have been earned through clear reporting of tangible results.

ENDNOTES

1. "1969-1991 Trend of the Federal Civilian Workforce in Accounting and Budget Occupations" special report from Office of Personnel Management. Figures represent 1991 employment in occupation series 501, 503, 505, 510, 511, 525, 530, 540, 544, 545, 560, 561, 593, 599, and half the total number in 343 (Management and Budget Analysis.)
2. The Treasury Financial Manual, providing guidance to agencies, is approximately 630 pages.

Part 1

BUILD A STRONG FINANCIAL MANAGEMENT INFRASTRUCTURE

Leadership, planning, standards, the incentives of competition, and technology are the elements needed to build a strong financial management infrastructure. They are all within view but slightly out of focus. After many partially successful legislative and executive branch initiatives, most of the elements of a solid foundation for coordinated improvements are present.

Generally accepted accounting principles (standards) for the federal government are being established, wide accessibility of data through technology is being developed, and the Chief Financial Officers Act and the Government Performance and Results Act of 1993 offer a solid legislative foundation for progress.

Travelers on the Pennsylvania Turnpike often remark about the narrow lanes and tunnels, and other design features which are inferior to most of the segments of the interstate highway system today. Many are unaware that it was the earliest of the high speed, limited access highways, on the leading edge of highway design at the time it was built over a half century ago. As money was allocated in the 1950's through 1980's to build new interstate highways using the latest technology and following higher standards, the pioneering Pennsylvania Turnpike became outdated, but continued to serve tens of thousands of motorists.

A similar problem exists with Federal financial management. Accounting systems were among the first applications of computer technology in the U.S. Government. They were installed on large central computers in the 1960's and 1970's by individual agencies without much redesign of the manual practices or much thought given to consistency among agencies.

With information technology today permitting data bases accessible through telecommunications, the opportunity for systems with clear standards, timely and accessible data, and stronger accountability is here. Leadership and a clearly defined plan can create a solid and modern financial infrastructure to replace the multitude of systems and standards which exist today. The recommendations in this section of the report can accomplish these objectives in the next few years.

Part 1

Build a Strong Financial Management Infrastructure

FM.01 ACCELERATE THE ISSUANCE OF FEDERAL ACCOUNTING STANDARDS

Background

The federal government is the only major entity in the United States that is operating without generally accepted accounting standards. This is the case in spite of a history of legislation requiring standards and the unsuccessful efforts on the part of both the executive and legislative branches to develop standards, agree on them, and then implement them.

The Budget and Accounting Procedures Act of 1950¹ directs the Comptroller General, in consultation with OMB and Treasury, to prescribe accounting principles, standards, and related requirements for executive agencies to follow. Acting in response to that legislation, the General Accounting Office (GAO) issued accounting standards in their *Policy and Procedures Manual for Guidance to Federal Agencies (Title 2)*. However, almost immediately, the constitutional question of whether the legislative branch can issue standards for the executive branch to follow and also audit against those surfaced. Even withstanding that division of powers argument, agreement on accounting standards between the GAO, OMB and the Department of Treasury was never achieved. As a result, accounting procedures and systems in agencies have evolved unevenly and inconsistently over the years, contributing to the financial management problems that exist today. Agencies have been vulnerable to critical audit opinions that may be based on various and conflicting interpretations of accounting standards and dependent on the level of accounting sophistication and expertise of government employees who have developed financial processes and systems over the years. Finally, agencies were often caught in the middle of the continuing arguments between GAO, OMB and the Department of Treasury on this entire issue.

In the fall of 1990, even as the Chief Financial Officers (CFO) Act of 1990² was in the final stages of debate, agreement was finally reached between OMB, GAO and the Department of Treasury on a process to resolve this glaring omission and establish federal government accounting standards and principles. A *Memorandum of Understanding* (MOU) was signed by the three parties in October of 1990 to establish a Federal Accounting Standards Advisory Board (FASAB). This MOU cited the Joint Financial Management Improvement Program (JFMIP) and the Federal Advisory Committee Act, as amended (5 U.S.C. App.) as the basis for establishing the Board. The FASAB performs with the oversight of the three Principals that include the Comptroller General, the Secretary of the Treasury and the Director of the OMB. It is composed of nine members selected from both the federal government and private industry.³

Subsequently, provisions were included in the CFO Act that require agency financial systems to comply with applicable accounting principles, standards, and requirements. OMB's Deputy Director for Management was directed to establish government-wide financial management policies and requirements for executive agencies. Further, the CFO Act requires that audits of financial statements prepared under the act are to be done in accordance with generally accepted government auditing standards. Those standards are issued by the GAO in their *Government Auditing Standards*.

Currently, FASAB has a universe of around 12 sets of standards and concept statements that it plans to develop and recommend. These standards are envisioned as accounting for all federal assets and liabilities that would be included in a consolidated financial statement for the U.S. Of those 12, 10 are sets of standards and the remaining 2 are concept statements.

FASAB recommended in December 1991 one set of standards for *Accounting for Selected Assets and Liabilities*. All Principals agreed to this recommendation by late March 1993. OMB subsequently issued Circular A-134, *Financial Accounting Principles and Standards* in May

1993 which established policies and procedures for approving and publishing financial accounting principles and standards. This document also established a set of policies and procedures for the Interpretation of Federal Financial Accounting Standards. Finally, in July of 1993, OMB transmitted this first set of accounting standards to the executive branch, six months after the Board voted approval of this initial standard.

In July of 1993, the Board approved two more sets of standards and one concept statement. They include a set of standards for *Inventory and Related Property*, one set for *Loans and Guarantees*, and the *Statement of Objectives of Federal Financial Reporting*. FASAB expects the Principals to consider and approve these recommended standards this month. Four additional sets of standards and statements are under development and could be considered for issuance in 1994 to early 1995. They include *Liabilities and Future Claims*, *Physical, Intellectual, and Human Capital*, *Financial Reporting Model*, and *Cost Accounting Standards*. Plans published in OMB's draft *Federal Financial Management Status Report and 5-Year Plan* have the FASAB not completing action on all remaining standards until as late as 1997.⁴

Need for Change

Even with the establishment of FASAB and the cooperative efforts by OMB, GAO, and the Department of Treasury, there has been only three sets of accounting standards and one concept statement recommended by the Board in almost three years of existence. The ability to improve financial management rests with the establishment of a strong financial infrastructure on which to build financial processes and systems. The issuance of generally accepted accounting standards is a critical feature of the infrastructure and efforts must be made to accelerate the development and issuance of accounting standards. This step is crucial to reinventing government. Many other National Performance Review recommendations rest on the assumption that we can determine the costs of services.

Under the existing process, the Board can only recommend standards to the Principals. They are not final until the Principals unanimously agree and sign them. Subsequently, these standards must be published by both OMB and GAO.

We believe that the current structure and process to establish accounting standards should be changed to give more independence to the Board to issue standards, to eliminate the veto in the approval process of a standard by any one principal, and to provide more dedicated resources to the development of standards. There is already a large precedent in the financial community to have independent standards-setting boards to establish accounting principals and standards. The Financial Accounting Standards Board (FASB) issues standards for corporations that wish to trade stock publicly. The Security and Exchange Commission (SEC) requires that to trade stock these companies must abide by these standards and be audited annually against them.

Additionally, the Government Accounting Standards Board (GASB) issues standards for state and local governments.

An independent federal financial standards-setting board could immediately issue and publish the standards upon approval by the Board and Principals, eliminating the duplicative processes currently in place. This would not preclude OMB from setting policy guidance for agencies to comply with the published standards. If the Board had the independence to issue standards, the current set of standards could have been published last March instead of four months later in July.

OMB's recently published policies and procedures for interpretation of Statements of Federal Financial Accounting Standards in Circular A-134 raises the question of whether the interpretation of standards would be more appropriately handled by an independent Board. The process as outlined in the OMB Circular would require that agencies and individuals desiring interpretation of the standards shall request that guidance from OMB. Further, if an

interpretation of the accounting standards is deemed necessary by OMB, an entire process within OMB is initiated that includes formal consultation with the Department of Treasury and GAO, resulting in a final interpretation signed by the OMB Director and allowing for separate responses published by the Comptroller General and the Department of Treasury. This entire process is totally outside of the standard-setting process of the FASAB. It creates a duplicate set of resources for accounting standard-setting and sets the stage for decisions to be made that could be in direct conflict with Board actions. Further, it prevents the very necessary flow of information back to the Board on the interpretation of its published standards that could lead to refinement of those standards.

The current process outlined in the MOU for final and unanimous approval by the Principals of all standards approved by the Board contributes to the already lengthy review and approval process and is especially vulnerable to the personalities and working relationships of the Principals themselves. There is a prevailing assumption that if a Principal does not approve a standard, they are required to publish their dissenting opinion in the *Federal Register*. This is intended to put pressure on the Principal to use that veto authority carefully. An examination of the MOU and FASAB Rules of Procedure find no requirement for this public statement of dissent. Eliminating this veto power and requiring two out of the three Principals to agree with the Board recommendations would allow the necessary oversight of the Board to continue, but would limit the vulnerability to the personal and institutional biases that have historically contributed to delays in the agreement to federal accounting principles and standards.

Beyond the nine members of the Board, resources dedicated to the development of standards include a FASAB staff that prepares draft and final documents, reviews public hearings and comments, and staffs monthly Board meeting deliberations on these draft standards. FASAB, through authority given in the MOU, can dedicate more resources to projects through task forces and supplemental staff. Considering the urgency of getting standards established, it would seem

appropriate to use this authority to accelerate the development process. Cost accounting is a prime example where the issuance of accounting standards is essential for the delivery of improved financial management. With the recent passage of the Government Performance and Results Act of 1993,⁵ requiring government-wide performance measurement, budgeting, and results monitoring, the demand for consistent cost information across government will rise dramatically. Many of the reinventing government recommendations will rely heavily on the ability to deliver cost information about programs. This places even more importance and urgency on the Board to develop and issue cost accounting standards. With the current level of staff, action on that standard is not expected to be completed until 1995.

Finally, significant staff effort is required to prepare for the monthly meetings that is the current practice of the Board. Consideration could be given to reducing the frequency of those meetings to bi-monthly or quarterly. With this change, more staff resources could be dedicated toward the development of standards and less toward the preparation for Board meetings.

Recommendations

- 1. Propose legislation to create an independent federal financial accounting standards board that would have the power to develop, publish, and interpret accounting principles and standards for the federal government. (3)**

NPR will propose legislation by December 31, 1993 to establish an independent accounting standards-setting board. This Board would be structured so as to not to conflict with the constitutional division of powers between the executive and legislative branches.

This new structure would support the traditional division of powers between the executive and legislative branches by allowing for an independent Board to issue standards, OMB and the Department of Treasury to implement them, and GAO to audit against those standards. It would

also replicate existing structures, such as GASB and FASB, which independently issue accounting standards for state and local governments and public corporations. Pursuing a permanent Board structure rather than relying on the tenuous nature of an MOU vulnerable to the personalities and commitment of the Principals would ensure minimal interruption in the progress to issue and review accounting standards.

2. Issue a comprehensive set of federal financial accounting standards within two years. (1)

FASAB or any future independent Board shall be required to develop and issue a comprehensive set accounting principles and standards by September 30, 1995. The Board should maximize the use of task forces and a "Fellows Program" to augment staff to ensure the successful delivery of all standards.

Current plans and progress by the Board would suggest that by September 1993, they will have recommended three sets of standards and one concept statement. Plans now in place would also project that they would issue three more standards and another concept statement by September of 1994. Those issued standards would comprise nearly 70 percent of their planned standards, with another year to complete the final 30 percent. Maximizing the use of additional resources should ensure the successful completion of plans by September 1995. Issuing these standards is key to consolidated and consistent financial information reporting and statements. These standards will provide the basis for the development of integrated budget and financial systems that can then provide managers with good financial information for decisions on their programs.

3. Establish a dedicated core staff of 3 to 5 senior financial individuals to supplement the FASAB staff to develop a high-level set of cost accounting standards. (1)

FASAB would temporarily supplement their current staff through the recruitment of a dedicated core staff of 3 to 5 senior financial individuals with cost accounting experience from not only the federal sector, but from state and local governments, private industry and academia to formulate these cost accounting standards. This initial set of standards would be high-level in nature to assure issuance within one year and to allow experience to dictate further refinement of the standards in future years. These standards would be issued by September 30, 1994.

- 4. As an interim step, amend the current MOU to require that two out of the three Principals must agree to recommended standards by the Board for them to become final and that all dissenting opinions be published in the *Federal Register*. (1)**

Consulting with the FASAB Chairman, OMB would propose amendments to the current MOU for these changes and seek approval of GAO and the Department of Treasury by December 31, 1993.

This structure supports the basic democratic tradition of majority rules. Further, it does not eliminate the freedom on the part of any of the Principals to disagree with the Board recommendations. In fact, it sets a very specific process for public disclosure of the dissenting opinion. This also reinforces the review process within the Board to ensure that the opinions of the Principals are considered and conflicts that might be demonstrated by a dissenting vote are minimized.

- 5. As an interim step, revise current MOU and OMB Circular A-134 to shift the responsibility for interpretation of Statements of Federal Financial Accounting Standards from OMB to the FASAB or any future independent Board. (1)**

Consulting with the FASAB Chairman, OMB would propose amendments to the current MOU for these changes, seek approval of GAO and the Department of Treasury, and revise OMB Circular A-134 by December 31, 1993. Any proposed legislation would also include language delineating this responsibility of interpretation of accounting principles and standards.

Requiring the interpretation process to reside with the Board, would allow for interpretation of the standards where the most informed staff and body of information on those deliberations were housed. It would also reinforce a process to collect information that could lead to revisions of standards when the review is appropriate. This proposed process would also be consistent with current accounting standards-setting bodies. Because OMB is a Principal and also is a permanent member of the Board, their ability to influence these interpretations would be assured without duplicating those resources in their own office.

Fiscal Implications

The fiscal implications on these recommendations would be minimal. Although additional resources would be dedicated to the acceleration of the standards, they would be temporary in nature and would be primarily rotations of staff from the executive branch. Some resources would be saved by eliminating the duplicative processes between the Board and OMB.

ENDNOTES

¹The Budget and Accounting Procedures Act of 1950, 31 U.S.C. 3511 (a)).

²The Chief Financial Officers Act of 1990, Public Law 101-576, November 15, 1990.

³Permanent members include an individual from GAO, OMB, the Department of Treasury and the Congressional Budget Office (CBO). Two members are from federal agencies and include one representative of the defense and international agencies and another from a civilian agency. Finally, three are non-federal members selected from the general financial community, the accounting and auditing community and academia. Except for the permanent representatives from GAO, OMB, the Department of Treasury and CBO, the members and the Chairman are selected jointly by the JFMIP principals. Current members on the Board, in addition to the permanent representatives, include representatives from the Departments of Defense and Interior and two private citizens. The current Chairman is Elmer Staats, former Comptroller General of the U.S.

⁴"*Federal Financial Management Status Report and 5-Year Plan*", (insert month) 1993, OMB Report to Congress, p. 11.

⁵The Government Performance and Results Act of 1993, Public Law (insert), July (insert), 1993.

Part 1

Build a Strong Financial Management Infrastructure

FM.02 CLARIFY AND STRENGTHEN THE FINANCIAL MANAGEMENT ROLES BETWEEN OMB AND TREASURY

Background

The fundamental goal of the Chief Financial Officers Act of 1990¹ was to reform and improve financial management in the federal government. A key element of the Act was the establishment of a new leadership structure for financial management. As the implementation of the CFO Act has evolved, issues on the level of leadership, the defining point between policy and implementing procedures, and the management of financial information have surfaced that question the clear delineation of leadership roles between OMB and the Department of Treasury. Resolving these issues now will allow for both agencies to dedicate their limited resources toward the development and implementation of a broad strategic plans and guidance to agencies for improving financial management, rather than toward disputes over authority and duplication of federal financial management roles.

The Act designated a new Deputy Director for Management in OMB as the chief officer responsible for federal financial management, established an Office of Federal Financial Management with a Controller as its director to carry out the functions given the new OMB Deputy Director, and established Chief Financial Officers in 23 agencies across government. The Deputy Director for Management was charged with establishing financial management policies and requirements, monitoring and the establishment and operation of financial systems, outlining the structures in agencies for Chief Financial Officers, and developing and reporting on a 5 Year Plan to improve financial management.

While the Act was very specific about the duties and responsibilities of this new leadership, it also clearly stated that nothing in the Act would interfere with the current duties and responsibilities of the Department of the Treasury.² Those duties specific to financial management are designated to the Commissioner of the Financial Management Service (FMS). The Commissioner is responsible for a wide range of accounting, disbursing, collecting and cash management functions for the federal government. FMS operates the only government-wide financial management system and, while it is a prototype, they produce the only federal financial statements. The Commissioner reports to the Fiscal Assistant Secretary, who is responsible for administering the government's financing operations and fiscal affairs and reports to the Treasury Undersecretary for Domestic Finance.

In the past, OMB and the Department of Treasury have attempted to outline their working relationships in a *Memorandum of Agreement* (MOU). Recently, a revision of that MOU was initiated, but has not been finalized. In this era of limited resources, it is key that we maximize our management resources between OMB and the Department of Treasury to successfully meet the agenda set by the CFO Act.

Need for Change

Never more clearly is there a need for strong and assertive leadership of our federal budget and financial management programs. Managing limited federal resources for priority programs in the face of a growing deficit absolutely demands integrated budget and financial information and management. The CFO Act provides a very comprehensive and strong framework and challenges us to build the financial management infrastructure that can then successfully support and strengthen the management of our federal programs. With the recent passage of the Government Performance Results Act of 1993³, which requires even more integration between budget and financial information to measure, analyze and account for program performance, the time is right to enhance and make a visible commitment to improving financial management by

clarifying the roles between OMB and the Department of Treasury and integrating government-wide budget and financial information.

In the nearly three years since the CFO Act was passed, a tremendous effort has initiated across government to implement the provisions of the Act. While many will agree that progress has been made, it has become more evident that in the area of government-wide leadership of financial management the divisions of roles between OMB and the Department of Treasury have become blurred between policy and implementation. This has resulted in the lengthy and sometime contentious development of policies and implementing regulations between the two institutions. More seriously, it leaves the agencies, who are dependent on this policy and guidance, unable to move forward with reforms and sometimes caught in the middle of policy disputes between the two central agencies. The two areas where this blurring of roles manifests itself are policy and procedure development and government-wide financial information.

There is a growing concern across the financial management community that OMB has not outlined a broad strategic plan for financial management that clearly outlines priorities and goals for the agencies. Currently, the only document where a plan for federal financial management exists is in the OMB's *Federal Financial Management Status Report and 5-Year Plan*. For the past two years OMB has presented to Congress in a fairly lengthy report, their status of federal financial management and the 5-Year Plan for improving financial management. While this report does outline a multi-year plan, it is also exhaustive in its delineation of the status of programs and initiatives for financial management. As a result, it is very difficult to determine the priority or goals of its many programs, making it more difficult for the Department of Treasury and the agencies to implement these programs. With National Performance Review (NPR) emphasizing the importance of measuring performance in federal programs, OMB should respond with a clear statement of a federal financial management strategic plan and related performance goals. Until OMB develops a broad strategic plan, it will be very difficult to

dedicate resources and measure whether progress is being made in improving financial management.

Concurrently, OMB issues various government-wide policies for financial management in a series of Circulars. Treasury provides operating guidance to the agencies on the detailed procedures to implement these broad policies in the *Treasury Financial Manual*. The agencies are responsible for implementing all of the above. Increasingly, OMB's Circulars are becoming more lengthy in their description of the policies and more prescriptive of the implementation. This appears more evident in the credit management and financial systems activities. There is no argument that these responsibilities and initiatives are important in the improvement of financial management in government. However, clarifying the shared responsibilities between OMB and the Department of Treasury in these areas and others would save resources.

Among the other important provisions in the CFO Act was the requirement for agencies to develop systems that integrate budget and financial information. Central agency financial systems in both OMB and the Department of Treasury are not excluded from this challenge. Budget and financial information at the federal government-wide level should also be integrated and based on consistent accounting and systems standards. Currently, separate systems in OMB and the Department of Treasury collect this information from the agencies. OMB currently maintains systems for budget execution and budget formulation, while the Department of Treasury maintains systems for government-wide collections, payments, and cash flow management, with the vast majority of this data and information residing in the Department of Treasury. Data is inconsistently defined, reported and collected. This leads to a duplicative, labor-intensive process requiring OMB, the Department of Treasury and agencies to spend many resources reconciling information to produce useful analyses and reports on the fiscal condition of the federal government. As a first step OMB should clearly define for all what constitutes an

integrated budget and financial system and then work together with the Department of Treasury and the agencies to achieve integrated government-wide financial information.

Although interim systems have been developed to consolidate data, there remains the lack of clear authority and responsibility for all government-wide financial information. While we already recognize that we must take advantage of the availability of more sophisticated information technology to provide accurate and more timely information, we also need to recognize that we must change our approach toward the management of this data and information resource. Data stewardship is a current information technology management approach that presumes data is a corporate resource and requires the management and accountability for that data. Data stewardship not only presumes the strategic planning and implementation of systems to collect and report this information, but requires responsibility for the integrity of that data.

The ever increasing demand for timely, accurate and integrated budget and financial information is equally shared by OMB and the agencies. At the government-wide level, we should be no less rigorous in our drive toward reviewing our information needs and then restructuring our processes and systems to maximize the use of technology now and in the future. We need to agree on a long term strategy plan for the integration of budget and financial information, dedicate the resources toward this effort, and then implement and manage the integrity of that data information resource. To ensure the responsible management of this function, it requires senior level leadership to bring together not only OMB and the Department of Treasury offices, but the agencies as well.

Some efforts have already been initiated between OMB and the Department of Treasury to establish an information architecture to link broad financial information needs with agency-specific requirements. This project, called MIDAS, is at the very early stages. Similarly, initial discussions have occurred between the two central agencies on the need for government-wide

data stewardship. When all is considered, data stewardship at the government-wide level is shared. OMB has the responsibility for defining data needs, the Department of Treasury and the agencies are responsible for collecting that data, and all are responsible for the integrity of their data. In order to recognize the shared responsibility for integrated government-wide financial information, a small and high level steering group could collectively oversee the planning and implementation of this function. Membership would include OMB, the Department of the Treasury and the agencies to allow for the various users and collectors of that data the forum to participate in that management function. Since OMB has the responsibility for government-wide budget and financial policy, they should chair this steering group.

The lack of data stewardship for government-wide financial information, the lack of a comprehensive strategy to meet the long term information needs for government-wide financial information and the lack of commitment and leadership to implement it between OMB and the Department of Treasury are major barriers to the delivery of integrated, accurate, timely, internally consistent, and readily accessible financial information to the public. We need to signal to the financial community that it is not only a priority for them to invest, but that we, at the federal level, will also invest to better manage our financial data and information, modernize our systems and integrate this information.

Recommendations

- 1. OMB and the Department of Treasury will develop a Memorandum of Understanding (MOU) to clarify roles and responsibilities for financial management. (1)**

This MOU shall be developed and signed by the OMB Deputy Director of Management and the Undersecretary of Treasury for Domestic Finance by December 1, 1993 and will be updated at a minimum, with the change of each administration. Consideration should be given to updating this MOU with each change of senior financial management leadership. OMB and the

Department of Treasury will identify two senior level (Senior Executive Service) individuals that will have the primary responsibility to clarify roles and responsibilities related to financial policy and procedures and integrated financial information in the development and execution of this MOU.

2. Develop and publish a strategic plan for improving financial management and include performance goals for all agencies. (1)

OMB, in coordination with the Department of Treasury, the CFO agencies, the Internal Revenue Service, the JFMIP, and GAO, will develop and published this short, crisp strategic plan for financial management by January 31, 1994. This strategic plan should clearly identify priorities and performance goals for the Department of Treasury and the agencies. It would be updated annually by OMB and would set the basis for the tactical 5-Year Plans due each September from the Department of Treasury and the agencies.

3. Create a Government-wide Financial Information Steering Group with the OMB Deputy Director of Management as Chairman that would oversee the planning and implementation for the integration of federal budget and financial information. (1)

OMB, in collaboration with the Department of treasury and the CFO Council shall create a charter to establish this group that would oversee the implementation of the data stewardship responsibilities for the federal government. Membership on this steering group would include at a minimum, the Treasury Undersecretary for Domestic Finance, the OMB Deputy Director for Budget, and two CFOs from the CFO Council representing the agencies. This group should be chartered and convened by January 31, 1994.

4. Develop an integrated budget and financial information strategic plan. (1)

OMB, in collaboration with the Department of Treasury and the CFO Council will develop a short, crisp long-range strategy for linking broad budget and financial information needs with agency-specific requirements should be completed by March 31, 1994. It should address the need for integrated financial and program information to serve the agency program managers in carrying out their programs. It should also clearly specify priorities and performance goals. Once this strategy is developed and approved, support for the full implementation of the project should be given by both OMB and the Department of Treasury.

5. Develop and publish a definition of an integrated budget and financial system. (1)

OMB in cooperation with the Joint Financial Management Improvement Program (JFMIP), who has the responsibility for developing and publishing financial systems requirements, should define and communicate to the agencies what constitutes an integrated budget and financial system by March 31, 1994. The Department of Treasury and agencies should be involved in the development of this definition.

6. Shift the responsibility for review and approval of the Financial Management Service budget to the OMB Deputy Director for Management. (1)

The OMB Director should move responsibility for the review and approval of the Financial Management Service budget from the OMB Treasury branch chief. This should be completed in time for the review of the fiscal year 1995 budget. This would support and be consistent with the CFO Act requirement that the OMB Deputy Director of Management review and approve all financial system budgets⁴ and ensure that resources are dedicated toward the federal government-wide priorities for financial management. The Deputy Director already has the responsibility for budget review and approval for the General Services Administration and Office of Personnel

Management budgets. There is also precedent within OMB for this type of split responsibility for a department's budget with the arrangement for review of the Department of Health and Human Services budget.

Fiscal Implications

The fiscal implications of these recommendations would be minimal. Although additional resources would be dedicated to the development of the MOU and strategic planning, they can be supported from shifts of resources within current programs. The cost to develop and implement an integrated government-wide financial system would require the dedication of resources. Funding for the initiative could be provided by prioritizing and shifting resources planned for financial systems toward these projects.

ENDNOTES

¹The Chief Financial Officers Act of 1990, Public Law 101-576, November 15, 1990.

²Ibid., Section 204.

³The Government Performance and Results Act of 1993, Public Law (insert), July (insert), 1993.

⁴The Chief Financial Officers Act of 1990, Public Law 101-576, November 15, 1990. (31 U.S.C. 503 a (3)).

Part 1

Build a Strong Financial Management Infrastructure

FM.03 FULLY INTEGRATE BUDGET, FINANCIAL AND PROGRAM INFORMATION

Background

Good management requires that financial and program managers be accountable for program results and fiscally responsible for resources they manage. Financial managers must be able to provide information that is essential to monitor budgets and operating performance, to support good financial stewardship, and prevent fraud, waste and abuse. To meet these needs, financial systems must process, track, and provide accurate, timely, internally consistent and readily accessible information on financial activity in the most cost effective and efficient manner.

Government financial systems should be able to not only provide basic accounting functions for accurately recording and reporting financial transactions, but also should be the basic vehicle for integrated budget, financial and program information that managers will use to make decisions on their programs. Financial management systems must reflect how the federal government seeks to manage its activities, and must support these activities through the integration of program functions and the use of current technology.

For years, serious financial management system problems have been reported by audits and by agencies themselves. Legislation has been enacted and OMB Circulars have been issued supporting improvements in financial systems. The Federal Manager's Financial Integrity Act of 1982¹ called for review of financial management systems for good internal controls. Subsequent to that, OMB Circular A-127 *Financial Management Systems* was issued in December 1984, prescribing policies and standards for executive departments and agencies to follow in

developing operating, evaluating, and reporting on financial management systems. A revision to that Circular to remove the inconsistencies and overlapping policies with other OMB Circulars was issued in July 1993.

As agencies began to explore the upgrade of their systems and the use of "off the shelf" financial system software increased, the need became evident for basic financial systems requirements. The Joint Financial Management Improvement Program (JFMIP) sponsored the development in 1988 of the *Core Financial System Requirements*. That initial effort has evolved to developing a comprehensive set of functional standards for federal systems. An update to those core requirements is expected in October 1993. Subsidiary systems requirements have also been developed and issued. They have included *Functional Standards for Personnel/Payroll* in May 1990 and *Functional Standards for Travel* in January 1991. More recent projects include *Seized/Forfeited Asset Systems Requirements* issued in March 1993 and drafts of *Inventory System Requirements* and *Direct and Guaranteed Loan Systems Requirements* were developed and are currently under review.

The enactment of the Chief Financial Officer's (CFO) Act of 1990² specifies several requirements to improve the financial information available to agency managers, the Congress, and others. They include the requirements that agency CFOs integrate accounting and budgeting information, that they develop and maintain accounting and financial management systems which report cost information, and that agency financial management systems must provide for the systematic measurement of performance. OMB requires agencies to include plans to modernize and integrate their financial systems in their annual 5-Year Plan submission.

Need for Change

Current assessments of financial systems would suggest that as a government, we have far to go to reach that future goal of an integrated financial system. Fourteen of the 23 agencies covered

by the CFO Act have problems on OMB's "high-risk" list.³ related to their financial systems. OMB's 1992 agency inventory of 878 agency financial systems⁴ reveals some stunning facts about the condition of federal financial systems. Over 30 percent are over 10 years old and less than 6 percent are between 1 and 2 years old. Moreover, the age of over 18 percent of those systems could not be established with certainty, suggesting that even more could be older. Thirty-three percent of their systems do not meet functional requirements for reporting to OMB and the Department of Treasury. Additionally, 40 percent do not meet internal reporting requirements, which means that these systems are not supporting managers' desire for basic financial information. Finally, over 52 percent of these systems do not meet agency financial processing requirements, which raises a serious concern about the fundamental effectiveness and efficiency of those agency financial management operations. Equally disturbing is the fact that 47 percent of agency systems do not meet their own internal automated data processing (ADP) requirements. In simple terms, this means that agency financial systems are not keeping pace with technological changes in their own agencies, which may place these systems at risk in the near future.

Many resources over the years have been devoted toward improving financial systems. This is evident in OMB's 1992 inventory where 24 percent of agencies report that they are replacing or planning to replace their systems and another 25 percent have upgrades planned or underway. Still, only marginal progress has been made toward the ultimate goal. Many of these improvements have been largely uncoordinated and piecemeal, without an adequate government-wide framework and focused top management attention to make them work.

The CFO Act gave OMB the responsibility to review financial systems plans and the resources required to implement those plans. Agencies are required to include those plans in their 5-Year Plan. While this gives OMB a great deal of opportunity to influence decisions on where systems

are built and when they are supported with resources, there is limited evidence to demonstrate it has been used. This influence was used to support the development of CAVERS (get info). Decisions on the development and funding of financial systems initiatives occur in various processes and at many levels both at OMB and in the agencies. OMB must be able to tap into the key points of these processes and coordinate and facilitate priority financial systems projects through these various processes. This is one responsibility that, if used to its full potential, could have a large impact on the modernization of financial systems in government. More concentrated efforts by OMB during this review process could direct the investment of resources toward the most critical financial systems improvements. Concurrently, agencies need more information about where financial systems improvements are being made across government. While OMB is beginning to collect more information about financial systems through an inventory, and the Department of Treasury's Financial Management Service has information about cross-servicing, there is little effective distribution of this information to agencies. The JFMIP currently develops federal financial systems requirements and has established a role as a clearinghouse for sharing and disseminating good financial management techniques and technologies. This responsibility could be broadened to include a special emphasis on financial systems.

Through their CFO leadership role, OMB can facilitate the development of joint development projects between agencies where mutual interest in a particular financial function are shared. These joint projects provide benefits for all in that they are more cost efficient than independent efforts. Further, if they are built to be flexible and transportable across agencies, then even more savings can result. OMB can also facilitate the funding of these projects through encouraging the use of multi-year or no year funding mechanisms that recognize the long term nature of financial systems development. Additionally, there are many instances where funding and support is available in different agencies for joint projects, but limitations on the transfers of funding

between appropriations limit the collaborative use of these funds. OMB could pursue interagency funding mechanisms which allow for these cross agency projects. Finally, many agencies today receive financial services from other agencies on a reimbursable basis. This approach, generally referred to as cross-servicing or franchising, could be encouraged by OMB for other agencies. Cross-servicing or franchising is discussed in greater detail in FM.06 of this report.

As more emphasis is placed on performance measures and results with the enactment of The Government Performance and Results Act of 1993⁵, more demand will be made for cost information, requiring more investment in cost accounting systems. Currently, cost accounting systems are used in only a few agencies in the federal government. Today, many agencies collect cost information in their financial systems, but cannot associate the information with projects or activities, much less their current budget structure. Because of the way this information is captured, it is too often just "accounting" transaction information, relevant only to financial personnel and not useful to managers. Consequently, program managers have developed their own "cuff" systems to provide the needed financial information to manage their programs. These systems provide duplicative and often very unreliable financial data, but do associate program information with financial information. Currently, there are neither federal cost accounting standards nor systems requirements. Both are very necessary for the development of consistent cost and related performance measurement information within agencies and across government.

Some agencies have made progress integrating cost and program performance information. The Internal Revenue Service (IRS) has initiated the development of a Cost Management Information Systems which is an integrated system to collect operational, financial and performance data to provide managers with decision support information. It builds on IRS's newly implemented modern integrated budget and financial system and applies principles of continuous business

improvement and activity-based management in it's design. Full implementation of the system is expected in 1997. Activity-based costing is a relatively new approach to cost accounting that businesses across the nation are beginning to gravitate toward. A recent *Fortune* magazine article on the new approach cites Chrysler, Union Carbide, GE Medical Systems and Hewlett-Packard, to mention only a few, have shifted to this new approach toward cost accounting.⁶ The article supports the premise that this approach seemed to not only give operating managers better information to manage, but elevated the value that financial people can add to the process. Islands of best practices, such as the IRS using state-of-the-art financial management approaches towards it's business, exist in the federal government. However, they need to be publicized and replicated in other agencies.

Recommendations

1. Heads of agencies will be required to certify that their financial systems are in compliance with the revised OMB Circular A-127 and, if not, they must have plans to ensure their financial systems will be in full compliance on or before September 30, 1996.

(1)

Heads of agencies would be required to certify to OMB by December 31, 1993, that they are in compliance or have updated plans in place to comply by September 30, 1996. Agencies not already in compliance must demonstrate they considered cross-servicing or franchising for financial services, or joint agency development projects before deciding to invest in new systems.

2. Establish innovation fund for financial systems development that awards funds to agencies that propose joint development projects for financial systems software applications. (3)

OMB would propose a multi-year financial systems innovative fund for fiscal year 1995 that would be managed by the CFO Council and made available to agencies to propose joint development projects where mutual interest in particular financial functions are shared.

3. Provide interagency funding mechanisms which allow for joint development financial systems projects and ensure that funding is protected against indiscriminate administrative cuts. (3)

OMB will propose interagency funding mechanisms that will allow funding for joint financial systems development projects to be collected from various appropriations. They would facilitate the development of these joint projects. Such systems projects could support activities like international payroll, revenue collection, loan processing or others where "off-the-self" software solutions are not yet available. Additionally, they will ensure that these joint projects, once approved, are supported throughout the budget process and protected from indiscriminate cuts.

4. Require the JFMIP to establish a clearinghouse of financial systems applications, cross-servicing, and best practices that will be available to agencies as a source of information to support their shifts toward modern financial systems.(1)

JFMIP should build on its already clearly established role as a clearinghouse for sharing and disseminating good financial management techniques and technologies to include a special emphasis on financial systems. This clearinghouse should be available to agencies by September 30, 1994.

This expanded role for JFMIP complements well its role in establishing financial systems requirements and potentially enhances the products for both through this new function. It will

also draw experience from around the financial community and communicate the successes and best practices of agencies.

- 5. Agencies should be encouraged to review their financial processes and simplify, redirect and reengineer them to be fully electronic and reduce the paperwork burden. (1)**

This review, reinforced in the revised OMB Circular A-127 should be included in the agency 5-Year Plans submitted to OMB by September 30, 1994.

- 6. Establish a core of 3 to 5 senior financial systems personnel under the director of the JFMIP to develop cost accounting systems requirements. (1)**

The JFMIP would concurrently develop cost accounting systems requirements as the cost accounting standard is developed at Financial Accounting Standards Advisory Board. They would issue these systems requirements within six months after the cost accounting standards are issued or by March 31, 1995.

Fiscal Implications

ENDNOTES

¹The Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, September 8, 1982.

²The Chief Financial Officers Act of 1990, Public Law 101-576, November 15, 1990.

³"*Federal Financial Management Status Report and 5-Year Plan*", (insert month) 1993, OMB Report to Congress, p. 29.

⁴Ibid. pp. 27-30.

⁵The Government Performance and Results Act of 1993, Public Law (insert), July (insert), 1993.

⁶Pare', Terence P., "A New Tool for Managing Costs," *Fortune*, June 14, 1993, pp. 124-129.

Part 1

Build a Strong Financial Management Infrastructure

FM.04 INCREASE USE OF TECHNOLOGY TO STREAMLINE FINANCIAL SERVICES

Background

The use of information technology to streamline financial services is a key element of the infrastructure that federal government must have to deliver fiscally sound financial management. Historically, financial processes were among the first administrative processes to be automated and they continue today to be fundamental in the delivery of good financial management. Over the years, the greatest challenge before financial managers has been to continue to improve upon these systems and take advantage of the technological enhancements that have evolved in information management. Financial systems generally provide two major products--the delivery of financial information and the automation of financial processes. Both can benefit from the improvements that exist in information technology today.

Financial management systems and applications have not fully used the ever changing enhancements technology has made available. Financial systems lag in standards, compatibility and are, for the most part, out-of-date. Manual processes which require paper documentation and multiple data entry to various subsystems even within an agency financial system are very prevalent throughout the federal government. These situations result in inefficiencies and introduce problems of reconciling erroneous and omitted data. Additionally, they require a tremendous resource commitment of people and time to process financial transactions.

The federal government has led the financial industry in certain technologically progressive applications, but they are not used to their maximum effectiveness. In 1992, the federal

government's cash flow was \$2.5 trillion. Less than 10 percent of collections were received electronically and only 42 percent of payments were made electronically¹. The federal government promotes the use of Electronic Funds Transfer (EFT) which includes transfers through the Automated Clearing House (ACH) and transfers made by wire. Using EFT rather than paper checks for payments reduces costs and allows greater control over the timing of payments. Currently, the cost to send checks is nearly six times the amount to send the payments electronically to banks. Additionally, vendors, individuals or states gain greater security, reliability and convenience if paid electronically by the government.

Electronic Benefit Transfer (EBT) is a more recent advancement. EBT uses plastic cards to deliver federal benefits to individuals who do not have bank accounts or regular relationships with banks. EBT replaces food stamp coupons and checks delivered through the mail. It uses proven technology and the existing commercial infrastructure, that includes Automated Teller Machines, Point-of Sale terminals, and on-line data transmission networks. The goal of the EBT program is to provide an electronic disbursement alternative to all beneficiaries without bank accounts, and to coordinate these efforts with state and local programs. A more thorough discussion of EBT can be found in the Information Technology section of this report.

Electronic Data Interchange (EDI) has been piloted in a number of agencies and is currently used very successfully in the Department of Defense and the General Services Administration (GSA) to exchange common business documents and financial transaction data between and among agencies and the public sector for invoicing, purchase order, receiving reports, and etc. Payments for services between agencies can be handled electronically through the On-Line Payment and Collection (OPAC) system. However, not all agencies use this system in their business transactions within the government and where used, the processing of transactions is not always timely. Additionally, the application of EDI standards throughout the agencies using OPAC would promote even more efficient transfer of financial data among the agencies.

Tremendous resource savings and greater reliability can be achieved when this technology is applied to business practices between or within government agencies, or between businesses and government agencies.

Need for Change

Even though EFT has been available to pay federal employees for 15 years, we still provide checks to employees, if they so desire. Currently around 84 percent² of federal employees receive their salary payment electronically. Some agencies have pursued requiring EFT as a condition of employment and have run into union objections, while others, such as the military have been successful in fully implementing the program. This tool has only recently begun to be used by a small number of agencies to reimburse employees for travel expenses. The GSA began reimbursing their federal travelers in February 1993 through EFT and provided an 800 number for employees to call and check on the status of their payment.

Federal salaries are only a small proportion of the 800 million payments made annually by the federal government. The largest number of payments that the federal government makes are for Social Security (over 550 million) and only 49 percent of those payments in 1992 were EFT. That percentage has increased recently and is expected to be around 55 percent in 1993 due, in large part, to the efforts of the Department of Treasury and the Social Security Administration (SSA) to offer direct deposit of funds at the initial point of contact with a new beneficiary. Federal pension and veterans benefit payments and tax refunds comprise the other significant volumes of federal payments. Of those, 66 percent of federal pensions 43 percent of veterans benefits and 10 percent of IRS refunds were paid electronically.

Converting all unbanked recipients to EBT would save millions of dollars annually over paper-based processing costs, claims costs, and availability of funds. Eight states currently are operating and testing EBT while another 26 are in various stages of planning. These states are

providing recipients with benefits from eight different federal and state programs, ranging from food stamps, Aid to Families with Dependent Children (AFDC), Supplemental Security Income, to social security and veterans benefits. Major issues include the unknown cost/benefit impact and who bears the costs, and the treatment of liability for lost, stolen, and sold cards under proposed Federal Reserve Board regulations.

One approach that is proposed, is a Nationwide EBT that would develop a standard commercial debit card-like EBT configuration. As envisioned, it would be a standard configuration, based upon existing industry standards, that would be offered competitively by vendors, as a base or enhanced service, locally and regionally just as in the commercial environment. This type of project would require a dedicated group of individuals with senior government support and leadership. Just as critical to any eventual system is the settlement, reconciliation, and reporting service to support large scale EBT use that needs to be in place. The Department of Treasury, the Federal Reserve, and the Food and Nutrition Service (FNS) are currently working on this process.

Numerous administrative processes in government, whether they are for travel, procurement, budget execution, timekeeping, property management, personnel/payroll accounting, or other processes requiring financial transactions continue to be labor and paper-intensive processes, require multiple-levels of approval and remain vulnerable to poor internal controls. Most could be streamlined and automated to save time, increase the data accuracy, and improve internal controls through the application of information technology. Modern applications are available for most of these processes today. More off-the-shelf software applications that are designed for Personal Computer (PC) and PC-based Local Area Network (LAN) applications become more available every day. However, agencies continue to use existing manual-based processes, or more often, continue to design and build custom systems to support these processes without improving upon them. Too often, the choice is to design and build mainframe systems requiring

lengthy and costly development. Even with all the activity and interest, manual financial processes persist.

Current approaches toward systems development, such as information engineering, recommend managers develop an information architecture as a first step in the redesign of systems and processes. This approach systematically guides managers through an examination of their current systems and processes and identifies key information flows and products. The benefit of this approach is that it generally results in recommendations to simplify processes, automate others, and more often than not, eliminate many. This avoids simply automating poor manual processes. This is particularly important in the replacement of older financial systems. This approach has been used by the Environmental Protection Agency in the design of their Contracts Management Information System. It is also the approach now being used in the redesign of financial systems in the Departments of State and Housing and Urban Development.

Although much movement has been made in developing standards for electronic signature, final standards and protocols from the National Institute of Standards and Technology (NIST) are still not available. Electronic signature allows for electronic approval of funding documents. Not only does this tool reduce the paperwork burden associated with the administration of these documents, it also automates internal controls that often add to the paperwork process and just as often are ignored. Although many applications are on the market that provide for electronic signature, the standards for secure transfer of data vary between them creating internal control concerns and raising data management issues. NIST has issued a bulletin that provides initial information to Federal agencies on security issues in the use of EDI. The lack, however, of published electronic signature standards and protocols deters many financial managers from implementing these systems and prevents efficient and secure transfer of data between systems.

Recommendations

1. All pay and reimbursement for expenses to all federal employees will be through EFT. (1)

OMB should set the policy and the Department of Treasury should issue requirements to fully implement this recommendation by September 30, 1994. Consideration should be given to a waiver process for hardship cases.

2. All payments between agencies will be through the On-Line Payment and Collection (OPAC) system. (1)

OMB should set the policy and the Department of Treasury should issue requirements to fully implement this recommendation by September 30, 1994.

3. All payments to state or local governments will be through EFT.

OMB should set the policy and the Department of Treasury should issue requirements to fully implement this recommendation by September 30, 1994.

4. Agencies should incorporate in all contracts the EFT payment clause from the Federal Acquisition Regulation.

OMB should set the policy , the Department of Treasury should issue requirements, and all agencies should implement this by October 1, 1994. All businesses with federal contracts should expect payment through EFT. All contracts should include the language cited in the Federal Acquisition Regulations³ beginning October 1, 1994.

5. All benefit payments to constituents should be through EFT or EBT.

OMB should set the policy and the Department of Treasury should issue requirements to fully implement the program. For programs of direct benefits to individuals, EFT should be the presumed method for paying new beneficiaries. Agencies should continue to aggressively promote conversion to EFT for check recipients. A dedicated core of 3 to 5 senior financial personnel from, at a minimum, the Departments of Treasury, Health and Human Services (HHS), Agriculture, and a pilot EBT state should be tasked to review options, develop a strategy, and implement EBT nationwide. This group would report to OMB and complete their initial review of options by March 31, 1994.

6. The National Institute of Standards and Technology (NIST) should immediately issue standards and protocols for electronic signature.

The Digital Signature Standard should be issued by September 30, 1994. NIST should also evaluate risk-analysis methodologies related to electronic commerce issues, with a view towards developing more detailed guidance for agencies that do risk analysis on authentication procedures.

7. Agencies should be encouraged to review their financial processes and simplify, redirect and reengineer them to be fully electronic and reduce the paperwork burden.

This review, reinforced in the revised OMB Circular A-127, should be included in the agency 5-Year Plans submitted to OMB by September 30, 1994.

Fiscal Implications

ENDNOTES

¹*"Federal Financial Management Status Report and 5-Year Plan"*, (insert month) 1993, OMB Report to Congress, p. 49.

²*Ibid.*

³*Federal Acquisition Regulations*. (cite clause).

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5. All payments to individuals should be through EFT or EBT.

OMB should set the policy and the Department of Treasury should issue requirements to fully implement the program. For programs of direct benefits to individuals, EFT should be the presumed method for paying new beneficiaries. Agencies should continue to aggressively promote conversion to EFT for check recipients. Special emphasis to convert promptly should be directed at federal pension and veterans benefits. A dedicated core of 3 to 5 senior financial personnel from, at a minimum, the Departments of Treasury, Health and Human Services (HHS), Agriculture, and a pilot EBT state should be tasked to review options, develop a strategy , and implement EBT nationwide. This group would report to OMB and complete their initial review of options by March 31, 1994.

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This review, reinforced in the revised OMB Circular A-127, should be included in the agency 5-Year Plans submitted to OMB by September 30, 1994.

Fiscal Implications

Part 1

Build a Strong Financial Management Infrastructure

FM05: USE THE CFO ACT TO IMPROVE FINANCIAL SERVICES

Background

Congress' passage of The Chief Financial Officers (CFO) Act of 1990 was a watershed event, promising a new era in federal financial management and supporting efforts to gain financial control of government operations. It has been hailed as "the most comprehensive and far-reaching financial management improvement legislation since the Budget and Accounting Procedures Act of 1950 was passed over 40 years ago."¹

The CFO Act calls for establishing a foundation of basic financial management practices that are common, and considered vital, in the private sector. It directs OMB to "provide overall direction and leadership to the executive branch on financial management matters by establishing financial management policies and requirements..."² The Act also requires long-range financial planning, audited financial statements, integration of budget and accounting data, development of cost information, and many other practices that are requisite to good financial management for an organization of any size. It also establishes a financial management leadership structure within the Office of the President and federal departments and agencies.

Within the Office of the President, the Act established the position of Deputy Director for Management (effectively the CFO³), the position of Controller, and the Office of Federal Financial Management (OFFM), all located in the Office of Management and Budget (OMB). In doing so, OMB became the focal point for financial management in the federal government. Under the Act, OMB now has authority to set financial management policy which should serve to eliminate inconsistent practices among the departments and agencies. It also will be responsible for establishing policies and providing other guidance regarding the systematic measurement of performance of agencies.

The leadership structure called for in the CFO Act includes the organizational structure changes to support the newly-established Chief Financial Officers (CFOs) and Deputy Chief Financial Officers (Deputy CFOs) at 23 departments and agencies⁴. The CFO is to be the principal financial officer for a department or agency, reporting directly to the head of the agency, responsible for all financial management activities. In order to meet these responsibilities, the CFO Office would have authority over the various functional components of financial management: finance, accounting, budget, and financial information systems. OMB has issued a memorandum⁵ outlining the suggested financial functions that should ideally report to the CFO, but budgeting was not among the recommended functions. The memorandum serves as guidance only, and sets no requirements for CFO office structure.

The CFOs are required by the CFO Act to be chosen from "individuals who possess

demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities."⁶ Deputy CFO qualification standards include "...demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than 6 years practical experience in financial management..."⁷

The CFO Act sets a high standard for financial personnel, acknowledging the need for professionalism and competence, and provides a key element in the financial management infrastructure -- quality people. It encourages financial managers to have broad financial management backgrounds. It did not specifically address the qualifications of financial management staff, but implied that high standards should be pervasive throughout the federal financial management community.

The CFO Act also established an important organization, the CFO Council. The Council is composed of OMB's Deputy Director for Management and Controller, the Fiscal Assistant Secretary at Treasury, and the agency CFOs. The Council's function is to "...advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matter."⁸ Thus, the CFO Council is an important vehicle for managing improvements in all aspects of financial management. With its broad agenda, the CFO Council can take the lead in developing and implementing

many plans and projects.

Need for Change

The CFO Act requires that CFO and Deputy positions be filled by candidates possessing proven skills in areas that compose the various aspects of financial management. However, many of the initial CFO appointees were individuals already in place in their agencies when the Act was implemented; there was not sufficient opportunity for the President to appoint new CFOs that fully met the qualifications stated in the CFO Act. Many federal agencies are larger than some Fortune 500 companies, and the past experience of CFO candidates can help determine their ability to effectively run a large financial operation. In order for the public to become confident that the government effectively manages its finances, it is important that the senior financial managers be regarded as professionally competent, both inside and outside of their organizations. They must provide the kind of committed leadership that will bring the government's finances to a higher level of professional management. To be effective, they must be highly regarded by their fellow members of the CFO Council and be viewed as a knowledgeable leader within their agency.

The issue of qualified, committed personnel goes deeper than just a layer or two in the organizational hierarchy. It reaches down to every level of the financial management staff. Many financial managers complain about a lack of training for their staff, and a Civil

Service System that inhibits both the hiring of more qualified employees and the removal of unsatisfactory employees.⁹

The Treasury Department's Financial Management Service has led the formation of the Federal Credit Management Training Institute, which has sponsored Accounting I and Financial Statement Analysis classes taught by the American Institute of Bankers at locations around the country for federal credit managers. Recent Accounting I pretests given to 390 federal employees in the field of financial management resulted in an average score of 41 percent (failure) on a scale of 100. Of the 457 employees who took the Financial Statement Analysis course, the average pretest score was 51 percent (failure). However, the good news is that the training was very effective. Final course test scores for the Accounting I course averaged 74 percent, and for the Financial Analysis course averaged 81 percent.¹⁰ It is apparent that while federal employees are in need of training in the field of financial management, when training is provided it can be very effective.

Many of the recommendations to improve financial management will require a great deal of technical expertise, such as the information systems integration of budget, accounting, and program data. Unless such a project is managed and operated by technically qualified personnel, the efforts to improve financial management will meet with failure.

Recruiting and hiring technically-qualified personnel is not easy under present civil service policies. A former CFO for the Department of Housing and Urban Development, ran into

problems in 1992 when he tried to raise the standards for candidates of HUD's ten Regional Controller positions. The Office of Personnel Management (OPM) would not allow him to specify more stringent qualifications requirements than already existed for this job category. He says, "OPM's criteria were too weak to screen out unqualified candidates." He wanted people with proven backgrounds in finance and accounting. But OPM's pre-set qualifying factors accounted for 70 out of 100 possible points. He was forced to spend weeks developing a complex system to rank the candidates in a way that provided the most qualified candidates a high score with the remaining 30 points, while staying within the parameters set by OPM. He ended up hiring qualified candidates, "...in spite of, not because of existing personnel rules." Clearly, personnel rules are not flexible enough to facilitate improved standards for hirings in the field of financial management.

Many training programs currently exist in the field of federal financial management. They range from courses sponsored by the U.S. Department of Agriculture Graduate School and the Treasury Department, to internship and job rotation programs sponsored by agencies and OPM. There are also many conferences and seminars sponsored by such groups as the Association of Government Accountants, the Joint Financial Management Improvement Program, and the American Institute of Certified Public Accountants. However, financial management personnel do not take full advantage of the current opportunities for training in financial management. This seems to be largely due to a lack of information about the existence of such opportunities and also due to the cost of the programs. Many agencies do not have sufficient budgetary resources to pay for employees to attend courses. Agencies

often are forced to pass up opportunities to train their personnel, even though the cost of the cumulative actions of untrained personnel can ultimately be higher than the cost of any training course.

Financial management training is not a need limited to personnel in the financial management field. Program managers must also be trained in the interpretation and use of the financial information that is and will be made available to them. Budget information has historically been the principal source of financial information for program managers at all levels (from Presidents and Secretaries to line managers). As improved financial information becomes available to aid managers in evaluating program performance, efforts to educate program managers have not kept pace. The financial community is in a position to provide a valuable service to program managers, and yet concerted efforts have not been made at all levels to inform managers on how to use this information. Financial information can inform individuals about the results of past decisions so they can apply this knowledge more effectively when future program decisions are made.

Recommendations

- 1. OMB and agencies should immediately ensure that all financial management personnel are fully-qualified when hired. (1)**

The President, Department Secretaries, and the Senate should immediately ensure that all CFO candidates have relevant experience and stature within the financial community. The Department Secretaries should ensure that the Deputy CFOs are equally qualified, because with the CFOs they can form a strong team promoting good financial management practices within their agency. OMB should enlist private sector associations of financial executives by October 1993 to provide a pipeline of names of qualified candidates, or to develop a rating system of candidates for high-level positions much like the American Bar Association provides for U.S. Supreme Court nominees.

Agencies should immediately improve the quality of personnel hired into financial management positions. They should seek out financial management candidates in the public and private sectors with strong backgrounds in accounting, finance, and information systems when vacancies occur at all levels. Agencies should immediately provide that vacancy announcements are generally open to all qualified candidates. Agencies should be able to specify that candidates are required to have certifications if appropriate, such as certified public accountants (CPAs), certified management accountants (CMAs), certified internal auditors (CIAs), and certified fraud auditors (CFAs). OPM should adjust their rules by November 1993 to allow financial managers to increase the qualifications screening factors in order to ensure that the most qualified candidates will score at the top of a list of ranked applicants.¹¹

2. The CFO Council should coordinate efforts to provide low-cost, effective training for existing financial management personnel. (1)

The CFO Council should design, coordinate, and communicate an extensive array of training options for financial management personnel by December 1993. The Council should seek out low-cost and no-cost training alternatives and reallocate existing training resources in a more cost-effective manner. Agencies should track the training of their personnel, both individually and in aggregate. This tracking should be reported by agencies to the CFO Council beginning in January 1994 to encourage a competition among the agencies and departments for a "best trained staff" award or recognition. In order to improve the qualifications of existing staff and to promote a "lifelong learning" culture, NPR recommends the following possible training alternatives that the CFO Council could adapt to fit agency and personnel needs:

- o Job rotation or visitation (within various financial management functions of a department, between program and financial functions, with the private sector, or state and local governments).
- o Private sector or agency training programs that meet standards for professional accreditation programs.
- o Other forms of professional development including: continuing education, participation in professional associations, sabbaticals, etc.

The CFO Council should establish an accreditation or certification program for financial managers by March 1994. The program could have continuing professional education (CPE) requirements in order to renew the certification. The program could be developed in collaboration with organizations such as the American Bankers Association, American Institute of Certified Public Accountants, the Association of Government Accountants, and federal agencies offering training programs. Such a program is being considered by the Joint Financial Management Improvement Program (JFMIP). It would parallel the CPE requirements for government auditors.

3. OMB should identify the set of financial management functions which should report to agency CFOs. Any exceptions would be reviewed by OMB's Deputy Director for Management for approval. (1)

OMB should issue guidelines by November 1993 stating that certain prescribed financial functions should report to departmental and agency CFOs. These functions would include, at a minimum: finance, accounting, financial information systems, budgeting, accounts payable, collections and internal control. For larger agencies, OMB should discourage from making the CFOs responsible for extraneous functions, such as personnel or facilities management, which detract their focus from financial management responsibilities. Compliance with the guideline should be achieved by February 1994.

4. CFOs should ensure that the information being collected, disseminated, and reported on is useful, objective, timely, and accurate for the benefit of program managers. (1)

CFOs should immediately begin meeting regularly with Agency heads and program managers to develop tools such as financial measures, indicators, and reporting formats, to ensure that line management information needs are being met by the CFO Office. This will provide CFO offices and line managers with a better understanding of the roles that each one plays in the efficient operation of their organization. Additionally, it should increase the collaboration between the two groups, and reduce any existing tensions. The CFO office should explain the value of the financial information it is providing to line managers. Feedback mechanisms should be established by December 1993 to ensure an ongoing usefulness of the information being provided to the program managers.

CFOs, using the CFO Council as a point of coordination, should jointly develop tools by December 1993 to evaluate overall agency financial management performance for reporting to department or agency heads. CFOs should begin making their reports to department heads by January 1994. Copies of those reports should be submitted to OMB's Deputy Director for Management.

CFOs should provide financial management briefings to agency heads on a regular basis to

report on financial management indicators beginning in November 1993. All too often agency heads are not aware of, nor do they understand, the financial aspects of program management. Such briefings would provide for more informed decisions and debates on program management. It would also demonstrate the value of financial information to agency heads so that they may better manage their agencies.

5. The OMB Deputy Director for Management should meet quarterly with Departmental Deputy Secretaries to discuss financial management issues, beginning in November 1993. (1)

This could include a review of management reports, financial performance indicators, cross-servicing issues, and other activities related to emphasizing sound financial management practices. It should also include a review of the financial management tools developed by the CFO Council under recommendation 4. Good financial management practices and tools could be acknowledged and shared. The meeting could also serve to brief Deputy Secretaries on their role in financial management, and to ensure that efforts to improve financial management cross all departments.

Fiscal Implications

Neutral.

ENDNOTES

1. "The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform," GAO, September 1991.
2. The Chief Financial Officers Act of 1990, Public Law 101-576, November 15, 1990.
3. "The Chief Financial Officers Act of 1990: An Overview," Congressional Research Service Report for Congress, February 19, 1991, by Virginia A. McMurtry, 91-184 GOV.
4. The CFO Act agencies include: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Department of Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Treasury, Veterans Affairs, Environmental Protection Agency, National Aeronautics and Space Administration, Agency for International Development, Federal Emergency Management Agency, General Services Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, and Small Business Administration.
5. OMB Memorandum signed by Director Leon Panetta dated February 9, 1993.
6. Ibid.
7. Ibid.
8. The Chief Financial Officer Act, op. cit.
9. See Personnel team papers # ____.
10. Results of Federal Credit Management Training Institute Courses, report dated ____.
11. See Personnel Team recommendations ____.

Part 2

ADOPT GOOD BUSINESS PRACTICES

A well-run organization might be described as follows:

- o Cost-conscious
- o Professionally-managed
- o Efficiently-operated
- o Financially sound
- o Streamlined
- o Effective
- o Flexible
- o Responsive
- o Accountable

Those words are not typically used when the entity being described is the federal government. However, they would be used when describing successful businesses. A private sector business pays immediate consequences for poor management. Unprofitable businesses lose their ability to borrow or raise capital. Ultimately, they may have to file for bankruptcy. Market competition disciplines companies to maintain good business practices. Unfortunately, in the federal government bad management has suffered no market discipline. It is hidden by committee, undiscovered, or even rewarded. Historically, the government has been able to

avoid being accountable for its management of taxpayer assets. Those days are gone. In this environment of scarce resources, taxpayers are demanding that the government use its resources prudently. There aren't enough resources to go around, so there aren't any to lose.

The government need not reinvent any wheels when it comes to improving its operations. Private sector professionals have designed accounting systems, management reports, financial analysis and planning techniques, service delivery systems, and other tools to make their operations run smoothly and efficiently. The federal government needs to adopt the same commitment to improved practices and operations that drive businesses every day. The government needs to be run in a more businesslike manner. The recommendations in this section are intended to improve the manner in which the government conducts its business.

Part 2

Adopt Good Business Practices

FM.06 FRANCHISE INTERNAL SERVICES

Background

The federal line manager now receives services from internal monopolies and is totally dependent on those monopolies for delivery of the services needed for program accomplishment. These monopolies do not have concrete incentives to treat the line manager as the customer, and the line manager has little control over the quality of the services received. Compounding the situation is a highly conservative and risk-averse culture which places extreme emphasis on working to the letter of regulations and on multiple organizations which check for compliance with rules and not for results. The consequence is rules first, service second.

In recent years there has been considerable growth of cross-servicing within the Government. Enterprising service organizations have expanded their services to customers in other organizations on a reimbursable basis. The Cooperative Administrative Support Unit (CASU) program has been a catalyst for such cross-cutting service support between agencies. Similar efforts have been successful in the Department of Defense through the Joint Inter-Service Regional Support Group (JIRSG) program and the Defense Reutilization Marketing Organizations (DRMOs). Centers of excellence have developed elsewhere in government including the Department of Agriculture's National Finance Center; the

Department of Treasury Financial Management Service's Center for Applied Financial Management; the Interior Department Bureau of Reclamation's Denver Administrative Service Center; and the General Services Administration's (GSA) Federal Computer Acquisition Center (FEDCAC) for Automated Data Processing (ADP) buys. The success of these organizations in improving service and reducing costs sets the stage for expansion of this concept throughout government.

The franchising concept draws from most of the principles of the National Performance Review (NPR) including focusing on the needs of the line manager, injecting competition, finding market instead of administrative solutions, decentralizing authority, and fostering excellence.

Our motivating vision is for the line manager to receive quality services fast and for the best value. In this concept, service excellence is promoted through competition among administrative units. The line manager controls funding and buys from the best provider. Servicing units grow or shrink based on demand for their services and are free to manage flexibly to meet demand. The financial bottom line guarantees discipline and excellence in the system. Services are driven by the needs of the line manager who is free to purchase these services from the best provider.

This concept is applicable to any internally provided service. These include all administrative functions such as procurement, personnel, payroll, finance, logistics, security,

and facility management. They could include other services such as engineering, quality assurance and other types of internally focused support. The characteristics of this approach include:

The "franchised" support unit operates within principles and criteria which are established governmentwide by appropriate agencies (eg. OPM) to guide administrative and other services. These criteria would be incorporated in the contracts executed between the customer and servicing agencies.

The market mechanism drives the model. Administrative units actively market their services to gain business. Entrepreneurial management is a key success factor. The line manager seeks the best deal based on price and excellence of outputs - speed, consistency, attitude, and quality of services provided.

The franchising could occur in a variety of circumstances including: within small or large geographic areas; with a mix of local, state and Federal government; with any combination of services; among existing or new civil service units; and at some point during the implementation process, with competition by private businesses.

Need for Change

Flexibility to manage a unit is critical for success and includes: business-like practices; the

ability to manage the workforce easily in response to business changes; freedom from FTE controls; a revolving or industrial-type fund, with pricing flexibility; and simplified procedures for hiring, dismissal, discipline and reward. A number of actions recommended elsewhere will provide considerable additional flexibility for managing in a business-like manner.

There are numerous barriers in the current system. Financial barriers block reimbursable activities from the flexible use of "profits" and transfer of funds among line items and object classes. Personnel barriers include: rules on tenure and retention; classification, pay and reward inflexibilities; the Office of Personnel Management (OPM) central hiring system; and adverse action rules. Full-time equivalent (FTE) controls on agency workforce levels are based on agency appropriations from Congress, and the FTE control system must be changed to enable rising and falling workforce levels and budgets in a competitive, reimbursable cross-servicing environment. Unless the FTE control system is changed, agencies will lack the incentive to use their own ceiling to expand services and the workforce on behalf of outside customer organizations. Parent agencies do not perceive service to other agencies as a part of their mission, and central management agencies have generally not promulgated this as the government's policy. A lack of internal agency delegation of financial and other authorities to field-level managers creates impediments to cross-servicing arrangements.

Incentives are needed for success. In addition to new flexibilities recommended by NPR,

additional incentives are important to success. A means of providing capital loans for initiating new servicing units or upgrading existing capabilities would be desirable. In addition, an important incentive would be flexible use of "profits" including gainsharing with employees and the parent agency.

A minimum supporting management structure would be necessary to provide services to the franchised support units and customer agencies. The model would be an un-bureaucratic "central nervous system" serving as an information repository and broker. Services to units would include coordination with franchising agencies and information on start up, best practices, business advice and opportunities, regulatory issues, etc. Services to agencies would include working to provide a critical mass of competing providers and information on potential servicing units and services available. This would be a mixture of central national effort to provide promotional, information and brokering services and reliance on regional and local efforts among critical masses of participating agencies.

We see as the desired end-state a government in which internal services are delivered by servicing organizations in competition with similar organizations for business. Their customers are the line organizations responsible for carrying out the government's missions in the cheapest and most effective manner. The President should direct Agency Heads to attain this end-state. While the details of this need to be tailored to each agency's specific circumstances and requirements, the basic principles of the process are as follows: agencies prepare their internal service providers for conversion to competitive, reimbursable business

practices; in graduated phases, funding for these services is removed from the current service monopolies and given to the customer organizations; as the customer organizations receive the funds, they are free to purchase services from competing service providers who offer more effective outcomes; the former monopolies succeed or fail based on their ability to provide equally or more effective outcomes than are available elsewhere.

This will not be an easy process. The idea of applying market incentives to internal federal services is revolutionary to those who have practiced in the 100 year monopoly tradition. Even with greater flexibilities and new incentives, there will be great resistance and reluctance to try. While Agency Heads are grappling with long-term plans for making this concept work within their organizations, we recommend an interim effort designed to sell and facilitate the overall concept within and across agencies; identify early opportunities for implementing franchising; and providing a central support activity for start-up and long-term implementation.

Recommendations

- 1. The President should instruct, by Executive Order, Agency Heads to implement franchising for service functions at the Agency Head's discretion. (2)**

The Executive Order (EO) should ask Agency Heads to determine which service functions (eg., procurement, personnel, finance, logistics, engineering, etc.) their agencies do well and can be offered to other agencies and which services are weak and should be purchased from

other agencies. The EO would state that the purpose is better and cheaper government. The President should direct OMB to assist the implementation team and agencies in identifying barriers to implementation and in developing innovative solutions (eg., waiver of FTE controls on reimbursable services, methods of working capital formation and flexible use of revenues). Agency Chief Operating Officers (COOs) should be assigned responsibility for making the concept work within and across agency lines and across functional service lines using the reinvention laboratory concept, pilots or other approaches to accomplish this. COOs should develop long-term agency implementation plans.

2. Establish an Implementation Team. (2)

OMB, as directed by the EO will establish an Implementation Team. OMB will work with the President' Management Council, central management agencies and successful cross-servicing organizations to assemble a representative implementation team. They will also identify an experienced senior manager to lead the team. The basic purpose of the Team is to facilitate long-term implementation by the Agencies and look for early opportunities for immediate action.

3. The President's Management Council (PMC) will implement franchising concept. (2)

As part of their collective responsibilities in the PMC, the Chief Operating Officers should

assume overall responsibility for governmentwide implementation of the franchising concept as soon as is practical. The PMC will have oversight of the implementation team.

Fiscal Implications

By itself, the franchising concept should result in significant savings through the benefits of competition. These savings will be greater to the extent that several other NPR goals are met including debureaucratization of Federal processes; refocusing of review efforts on results not adherence to rules; conversion of rules to general principles; and freeing line managers to strive for results. Because of the highly complex nature of the Federal government and the unique paths each agency must find in implementation of the franchising concept, these savings cannot be objectively estimated. Each agency implementation plan should attempt to calculate and implement savings.

Part 2

Adopt Good Business Practices

FM07: CREATE INNOVATION FUNDS

Background

The timing, amount, and availability of innovation capital calibrates the ability of federal agencies to build capacity to govern and improve performance. The current budget formulation decision process that ultimately leads to an appropriation has not resulted in sufficient new innovation capital to achieve those goals. Given the current and outyear budget realities, it looks unlikely that significant new appropriation funds will be available so alternative approaches using base or nonappropriated funds must be considered.

One definition of innovation capital is the dollars to invest in redesigned work processes, new information technology or other equipment and ideas that help improve the quality and responsiveness of government services, enhance productivity, or that generate cost savings or avoidance. These innovations are not only the capital intensive projects such as large information technology projects (the home runs), but also the smaller, service-oriented improvements (the singles).

The increased availability of innovation capital acts as an incentive for federal managers and employees to implement their creative ideas on how to make the government work better and be more responsive to citizens.

Need for Change

Some of the major barriers to a more responsive government include the deficiency of innovation capital funding, poor internal decision processes, and management that is not aligned to the need for regular investments in innovative technology, quality-related capacity building, or redesigned agency work processes. This paper focuses only on the funding barrier. Other National Performance Review issue papers cover solutions to other barriers.

Many of the larger projects such as information technology modernization or energy and water conservation need interjections of funds (pulse funding instead of level funding) in the initial years with smaller amounts of on-going funding for the outyears. This characteristic of capital investment requirements does not match with the existing budget process which tends to focus on level funding because of a variety of cash flow related reasons such as financing the deficit.

In addition, certain cross-agency projects like the National Performance Review are difficult to initiate because of legal barriers to collecting dues from multiple agencies and the absence of sufficiently large contingency funds to support managerial flexibility.

In discussing alternatives for using innovation capital to sustain the government-wide improvement effort, NPR reviewed options in the following areas:

- (1) sources of funding: salary lapses; other unobligated balances from programs and

end-of-year savings from operations; appropriation set-asides (some percentage); use of matching money both within the federal government and with state, local, and private industry money; separate appropriations (new money or carryover); and borrowing from the Treasury through the Federal Financing Bank;

(2) form of distribution: grants, loans, hybrid, bidding systems;

(3) level in the organization: program office, agency, department, cross-department or agency, government-wide;

(4) types of organization: reserve funds, working capital funds, revolving funds, governmental corporations or non-profit organizations, developmental banks or other quasi-private government sponsored enterprises (GSEs - defined as a privately owned, federally chartered financial institution with nationwide scope and limited lending powers that benefits from an implicit federal guarantee to enhance its ability to borrow money);

(5) frequency of distribution: one-time, multi-year

(6) uses for the funds: information technology, modernization of financial systems, energy and water conservation, reengineering of work processes, start-up costs for new organizations like administrative service franchises, other ideas;

(7) implementation vehicles: existing law, new legislation, Executive and Agency Orders, Presidential Memoranda, OMB Circulars and bulletins, speeches, press releases.

The following examples illustrate the concept:

(1) Under General Creech, the Department of Defense Tactical Air Command used a \$10 million innovation fund one year to fund reinvention ideas. The funds were an

appropriation set-aside.

(2) For the Department of Commerce Pioneer Fund, employees apply for cash grants up to \$50 thousand to finance innovative quality and productivity improvement projects. Funds can be used for project supplies, equipment, and expert services. The source of funding is an annual appropriations set-aside. Treasury's Internal Revenue Service (IRS) and the Department of the Interior have or have had similar funds.

(3) Both the Department of Treasury and Transportation currently operate Working Capital Funds (WCF). The Veteran's Administration has proposed one. These funds require separate legislation and have a specific charter with focus on such purposes as information technology modernization. The charter can make a WCF quite flexible by lifting apportionment controls and adding other operational safeguards (several examples are identified in the Department of Veteran's Affairs issue paper on a proposed WCF).

(4) In the Department of Justice's fiscal year 1992 appropriations bill (Commerce, State, Justice and related agencies), permanent language was added to take the unobligated balances from the last five years and transfer them into a departmental-level working capital fund for capital equipment and other non-salary purposes.

(5) Most Federal departments and agencies use Secretarial and Administrator's reserves under Title 31 USC 1512 for small budget contingencies and to accumulate administrative savings.

(6) In Florida, Governor Chiles cut budgets five percent across the board and returned half of it to agencies with plans that increased productivity or effectiveness.

(7) The City of Philadelphia uses an innovation fund that issues loans that must be

repaid after five years at double the amount borrowed. The County of Los Angeles has a similar fund and approach.

(8) American Express uses a matching fund approach for its technology research group - 40 percent comes from the corporate technology (innovation) fund, 40 percent from the interested business unit, and 20 percent from another business unit that has a vested interest in the outcome of the proposed application.

(9) Texas Instruments uses "wild hare" grants to internal entrepreneurs "intrapreneurs"; and some managers have authority for "IDEA" grants up to \$25 thousand for development of prototypes.

The changes needed can be accomplished through a three-tier system. The expectation is that the smaller less risky projects would be funded at the agency levels; and that the department-level working capital funds, and the venture capital like Innovation Capital fund (ICF) would be used to service the more technically and financially risky project levels.

Recommendations

1. Change the current government incentives structure by submitting new legislation as part of the President's fiscal year 1995 budget to allow agencies and departments to create innovation capital funds based on accounts for retained savings from operational funds. (3)

With Congressional approvals, some portions of unobligated balances from programmatic

funds could also be folded into these accounts. The initial funds could be funded by prior year unobligated balances going back multiple years such as in the Department of Justice example above. The legislation should propose a flexible mix of distribution of the funds to the following goals with proposed minimum shares of any savings from the innovation funds distributed as follows:

- deficit reduction (no less than 25 percent)
- innovative investments by the department or organization that receives the appropriation (no less than 10 percent)
- innovative investments by the agency or organization that created the savings and that receives the allotment from the level of organization that receives the appropriation (no less than 25 percent)
- contribution to the pay and awards for the lower level organization that created the savings (no less than five percent). Each agency could develop a formula for how to reward both individuals and teams who originated the savings. The savings can be segregated by line item to ensure that the incentives reach all parts of each department. Each year, the President's budget would propose a formula for distributing any savings and the final appropriations language would establish the mix for the year. The Office of Personnel Management (OPM) maintains a list of experiments on these approaches in agencies such as the Department of Defense (DOD) that can serve as models.

Once this recommendation is implemented, employees will have more freedom to exercise independent judgment. Since both their individual pay and organizational budgets benefit, self-interest becomes harnessed to reengineering efforts (Adam Smith-type invisible

hand). Upper management and the public benefit by avoiding future program cost increases since the benefits from the investments of innovation capital help reduce pressure for future tax increases. The general public also benefits from the resulting service innovations and productivity increases.

The Clinton administration's recent Executive Order reducing agency administrative costs is already underway. We expect the retained savings recommendation in type M accounts to greatly aid agency's abilities to meet those reduction targets while maintaining and enhancing their abilities to provide services to tax payers and fulfill their missions.

2. Through negotiations between OMB and the appropriation subcommittees, establish department-level working capital funds with a minimum of \$2 million (appropriations set-aside) for all federal agencies that request one as part of the fiscal year 1995 Presidential budget. (3)

Early in the process, each department would have to design a charter that specified the intended purposes for the WCF (ex. information technology investments) and agree to a minimum suite of safeguards such as those prepared by Veterans' Administration (ex. annual Inspector General Audits). These working capital funds have proven to be successful in parts of government such as Treasury and Transportation.

3. The President should direct the Treasury Department to act as coordinator of a

forum for representatives from all federal working capital funds. (1)

The WCF Forum would discuss issues of mutual concern, meet at least quarterly, and would sponsor continued learning through sharing of operational experience, collaborative problem solving, and leveraging efforts by developing cross-department projects funded by matching funds. This cross-boundary organization should refine its own charter based on the evolving requirements of members.

4. Through negotiations between OMB and the appropriation subcommittees on the fiscal year 1995 budget, include new legislative language in the charter for all new and existing WCFs that allows departments and agencies to match funds with each other for cross-agency and cross-department projects or with other partners such as States, local government, and private industry to share risks and leverage participation. (3)

For fiscal year 1994, test this idea in a pilot program at Treasury.

5. New legislation creating the Innovation Capital Fund (ICF) shall be proposed as part of the President's fiscal year 1995 budget. (3)

This legislation will be modeled on the legislation that created the government-sponsored enterprise FNMA except the charter would differ. The legislation could authorize seed

money (no year funds) of \$10 million to start operations of a government-wide venture capital-like fund that offers loans to government agencies that must be repaid. Funds for the loans and occasional grant would come from issuing debt instruments in the credit market with the possibility of also issuing various securities. Many of the pay rates, staffing rules and procedures can be modeled after the Federal Reserve to facilitate competition for high quality employees. The debt issues could be less than the approximately \$300 million increments used by FNMA and use lower interest rates since Wall Street will regard debt by Government agencies that is backed by the implied full faith and credit of the Federal Government as being extremely safe when compared to debt from private industry.

Examples of possible projects include information technology, modernization of financial systems, energy and water conservation, reengineering of work processes, start-up costs for new organizations like administrative service franchises, and other ideas like experiments in flexible organizations to support one-stop services by citizens.

This fund would become self-financing in no less than five years by recovering some share of savings from repayments of loans for the innovation investments which are then reinvested in future loans. The ICF could repay the initial seed money to the Treasury over a period of years. Exact methods and terms of repayment by agencies and departments will be negotiated on a case-by-case basis. Some follow-on funding may be possible for multi-year projects. The focus is on larger scope, more risky projects which would be subjected to a thorough due diligence process to evaluate the technical and financial risks based on life-cycle costing approaches. The charter should have a sunset

provision clause that it terminates in ten years with all proceeds being returned to the Treasury unless the ICF is specifically renewed for another fixed term. The fund will be allowed to make annual contributions back to the Treasury towards reducing the deficit. The charter would also allow integration of federal funds with matching funds from federal agencies, departments, state and local governments as well as with funds from private industry. The charter could allow some limited use of grants to worthy projects and mixtures of grants and loans for the same project.

The charter would also include a variety of safeguards such as those proposed for a Government-Sponsored Enterprises Financial Accountability Act that combines the conceptual elements of the National Banking Act and the Government Corporation Control Act to provide the necessary guidelines for the organization and financial oversight of GSEs. These safeguards would help improve accountability of the organization to the federal officials responsible for supervising enterprise safety and soundness while limiting the government's exposure to financial risks.

The proposed GSE for innovation capital would not fund the same types of projects as the existing Federal Financing Bank located in the Treasury Department. For example, the ICF would not fund loans to foreign governments to support U.S. exports. In addition, the choice of the GSE organizational structure offers greater flexibility in operations and a better blend of having both public and private sector attributes.

6. Legislative amendments to allow interagency cooperative funding will be proposed to cancel the Russell amendment and aspects of the "General Generals" in

the Treasury appropriation language that currently prohibit government agencies from collecting dues for cross-departmental projects such as the National Performance Review. (3)

Fiscal Impacts

The potential quantitative effects on dollars and FTE can not be specified. The qualitative results are estimated to be large for both the short and long-term since investments of innovation capital into projects such as information technology, energy or water conservation measures, and redesigned work processes have large cost savings and cost avoidance.

Part 2

Adopt Good Business Practices

FM08: REDUCE UNNECESSARY, EXCESSIVE, OVERLAPPING REGULATIONS AND REQUIREMENTS

Background

Every agency rewrites and interprets regulations issued by the central management agencies. Policies and guidance should be developed in a simplified manner that will provide flexibility where possible. Since many of the OMB circulars have sunset requirements, OMB could review and eliminate or revise the requirements. Many of the regulations and requirements do not provide management with flexibility to use reasonable judgment to consider the cost/benefit of their actions. Several examples of such regulations, requirements and processes follow.

Agencies spend a lot of time interpreting and enforcing travel regulations that are paper work intensive. In addition to the many regulations put out by the General Services Administration (GSA), most federal agencies rewrite their own regulations. For example, the Federal Travel Regulations are about 200 pages and one agency has another 300 pages of interpretation to implement these rules. In addition, the agency developed a simple help guide for its employees.

Treasury requires the use of third party drafts. A third party draft is a check-like instrument drawn against, and paid by an outside-the-government contractor.¹ Third party drafts are checks that can be used for small

purchases, travel advances and travel reimbursements. Essentially agencies pay someone else to have a bank account for them because they aren't allowed to have their own. This process is often slow and procedurally difficult to follow.

The General Accounting Office's (GAO) Title 7, "Concepts of Federal Accountability and Responsibilities of Accountable Officers" which is derived from Title 31, Money and Finance, Section 351 of the U.S. Code discusses the use of fast pay and alternative pay. Both methods are for agencies to improve their ability to pay bills more timely. Generally, alternative pay defers the verification of the receipt and inspection on the condition that they be performed on a sample basis after the payment. Effective control over disbursements ordinarily requires prepayment examination and approval of vouchers before they are certified for payment. However, to do alternative pay a detailed plan must be developed and submitted to GAO for approval, thereby discouraging its use.

OMB circular A-50, Audit Follow-Up provides the policies and procedures for use by executive agencies when considering reports issued by the Inspector General (IG), other executive branch audit organizations, the GAO, and non-Federal auditors when follow-up is necessary. A-50 gives no consideration to the significance of the findings, dollar amount, and if the findings are treated equally.

The Federal Managers' Financial Integrity Act requires executive branch agency heads to review the controls on its programs to assist in eliminating

fraud, waste and abuse. The Act and OMB Circulars A-123 and A-127 were grounded in the overwhelming need to improve the financial management of the governments operations. Staffs have been dedicated to implementation of the two page Act and it has generated a large paperwork burden.

Need for Change

We believe that change is needed on the above examples to give management flexibility to do their job. The difficulty with eliminating or modifying many of the rules and requirements is that they were brought about by mistakes that people made or poor decisions. However, government needs to determine the cost associated with blindly following many of these rules.

In addition to duplicating the travel regulations that GSA issues, most, if not all, agencies have staffs that spend time requesting decisions from the Comptroller General (CG) for very minimal travel dollars. In addition the CG has a staff that has to research and respond back to the agency. For example, in a 3 page CG decision, a special agent-in-charge represented an agency at a retirement banquet honoring a local police chief and presented him with a plaque and commendation letter. The CG was asked to determine if the employee could be reimbursed for the cost of the banquet. The CG determined that the meal was incidental to the ceremony, therefore, the agent may be reimbursed for the \$35.00 cost. ²

Also, during a visit by the Vice President to the Department of Interior, an employee explained that she had volunteered to travel on government business with a free frequent

flier ticket that required her to stay over on a Saturday night, in effect adding a sixth workday to her week. But when she filed for her per diem allowance for that Saturday, her \$38.00 claim was rejected.

Third party drafts were initiated to improve the control aspect over the Government's funds and for cash management reasons. However, the same controls could exist with commercial checking accounts or the Government Commercial Credit Card known as IMPAC (International Merchant Purchase Authorization Card.) We believe that commercial checking accounts and the IMPAC cards are more cost effective and useful than third party drafts because of the draft's cost of contractor fees, administrative procedures, need for GSA negotiating third party contract, and training necessary for all imprest fund cashiers to use the drafts and cash on hand in safes and cash boxes.

Cash in every office is counter productive to any sound cash management program, because millions of dollars lie dormant in safes and cash boxes. Moreover, imprest funds have been prone to fraud, as low-graded, poorly paid and trained employees are asked to handle substantial sums of money. Major benefits exist through the implementation of checking accounts and the IMPAC card, for example:

Commercial checking accounts would decrease the risk of loss through fraud or theft, eliminate the need for cash and the risk involved in maintaining cash. Electronic fund transfer capabilities could be used to expedite the replenishment of the fund eliminating the middle man. Some of the cash management concerns could be eliminated by requiring the use of interest-

bearing accounts.

IMPAC cards are also an alternative to third party drafts and need to be greatly expanded in the agencies. These cards are convenient and easy to use for major purchases. A number of unique controls have been developed for the IMPAC Program that do not exist in a traditional credit card environment. These controls ensure that the card can be used only for specific purchases and within specific dollar limits. Controls for audit purposes can be stronger and more timely with checking accounts and the IMPAC card than with imprest fund cash and third party drafts.

Alternative pay is a payment mechanism that can save money by lowering administrative costs, prompt pay interest and penalties, as well as allowing more discounts to be taken, since payments can be made more timely. This payment plan is based on making payments, on a not to exceed amount, without the receipt of a receiving report. To obtain GAO approval, even on a pilot basis, it is necessary to perform a major study that would present a specific plan for its implementation. A detailed study requires taking individuals out of their daily functions backlogging their own workload. According to GAO very few agencies have filed for this approval. For example, one agency has piloted their plan for years. We believe that agencies need to improve payments without going through a bureaucratic process of developing plans to make payments. We also believe that many agencies have not asked for approval because of the complex preparation process for the plan.

We believe establishing audit thresholds can save time and money and efficiently use resources. The Department of Education for example, has adopted a threshold policy for monetary audit findings below which extensive audit resolution processing is minimized. Prior to the adoption of this policy, the agency applied the same comprehensive resolution procedures to all monetary audit findings, irrespective of the dollar amounts involved. With the adoption of the threshold policy, audit findings are screened for significance. For example, in FY1992, this agency received a single audit report with a total of \$9 in questioned costs. While no recoveries would have been requested on the \$9 audit report, approximately 16 work hours would have been expended to put the report through the required resolution processing steps. Under this agency's threshold policy the resolution of the finding was expedited in less than one hour. In times of scarce resources, it makes good management sense to establish a threshold for monetary and non-monetary audit findings below which extensive resolution processing could be minimized.

Over the years legislation has been passed to improve the federal managers awareness and the need for strong internal controls. When the two page Federal Managers Financial Integrity Act (FMFIA) was implemented in 1982, it was very valuable because it forced federal agencies to focus on the need for good internal controls. However, the annual reporting requirements for most federal agencies has become pro forma, requires significant resources to implement, and has become a subjective paperwork exercise with very little meaning to the agency. This is because the two page act has generated two circulars - OMB Circular A-123-Revised which is eight pages and parts of OMB Circular A-127-Revised which is sixteen pages. In addition, about a 75 page internal control guideline was developed to implement the act. We believe it is time to review the need for all this

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specific guidance to implement a two page act.

We believe that specific changes in policy related to each of these areas would reduce workload, improve overall agency operations, and allow agencies to set priorities for managing scarce resources. We believe this will also allow organizations to concentrate on those areas which significantly effect their programs and which have a significant amount of federal dollars.

Recommendations

1. Eliminate overlapping and unnecessary regulations and requirements and allow for some flexibility and judgment to be used by agency management by issuing general guidelines. More specific recommendations on these issues have been provided to other NPR teams and will be included in the reports of these teams.

ENDNOTES

1. "Third Party Drafts," Treasury Financial Manual, Vol. I, p.4-3000.
2. "Comptroller General Decision, B-249249," December 17, 1992.

Part 2

Adopt Good Business Practices

FM09: SIMPLIFY REPORTING PROCESS

Background

Many people have stated that federal managers are not receiving the financial information they need to help make policy and management decisions. However, federal agencies spend a lot of time providing multiple reports to central agencies. Central agencies often respond to information requests from Congress by increasing the amount or detail of reporting requirements. Yet, central agencies, federal managers, and Congress often indicate they are not receiving the financial information they need. The reporting requirements need to be reviewed, consolidated, and the amount and type of information requested needs to be changed or eliminated.

Over the years legislation and regulations have been developed to improve financial management in the agencies and to improve the federal managers awareness and the need for strong controls. For example, in 1982 the Federal Managers Financial Integrity Act (FMFIA) was passed to ensure that managers review internal controls. Then, in 1990 the Chief Financial Officers (CFO) Act was passed that, among other things, requires federal agencies to have audited financial statements. Just recently the Government Performance and Results Act of 1993 was passed to establish performance standards for federal agencies. Each new piece of legislation and regulation has required additional and separate reports from agencies.

We believe an overall review of these reports and consolidation is needed. These independently prepared reports do not give an integrated perspective of the agency's performance of its mission or its financial practices. In addition to a consolidation of reporting requirements, we believe that some data could be eliminated or summarized. The following is a list of the reports, the legislation/regulatory source generating them, and the dates due.

<u>Reporting/ Requirement</u>	<u>Legislative/ Regulatory Source</u>	<u>Due Date</u>
FMFIA Report	Federal Managers' Financial Integrity Act (OMB Circular A-123)	Dec. 31
CFO Act Five Year Plan	CFO Act	Aug. 31
IG & Mgt Reports	IG Act (OMB Circular A-50)	Nov 30./May 31
High Risk Report	OMB policy based on FMFIA	July/Dec. 31
Federal Entity Audit Coverage	IG Act Amendments of 1988	Oct. 31
Prompt Pay Report	Prompt Pay Act (OMB Circular A-125)	Nov 30
Civil Monetary Penalty	Federal Civil Penalties Inflation Report Adjustment Act of 1990	Jan. 31
Budget Exhibits on Financial Management Activities & High Risk Area	CFO Act (OMB Circular A-11)	Sept. 1
Credit Management Improvement Plan	Debt Collection Act (OMB Circular A-129)	Aug. 31
Financial Statements	CFO Act	Mar. 31
CFO Annual Report	CFO Act	Aug. 31
Single Audit Report to Congress	Single Audit Act	Mar. 31

Financial Systems Hearings OMB Requirement Annually

Budget Exhibits on Financial Systems Activities CFO Act (OMB Circular A-11) Aug. 31

Need for Change

The reporting requirements, the reporting dates, and the separate stovepipe reports need to be reviewed and joined in order to provide a complete picture of an agency's performance and financial accountability in meeting its mission. We believe that not only should the stove pipe reports be consolidated but we should take opportunities to see if data could be summarized or eliminated. For example:

The CFO Act and the FMFIA - The FMFIA requires management to review internal controls and requires the agency head to prepare a report on its controls on an annual basis. The act requires that a separate report be prepared to determine if the agency's accounting system conforms to the principles standards, and related requirements prescribed by the Comptroller General (Section 4). The CFO Act, among other things, requires the preparation of financial statements for all government revolving and trust funds and commercial operations, and for ten pilot agencies. As part of a financial audit, the auditors will evaluate the accounting system controls. We question if separate reviews of the accounting system are necessary for those agencies that have audited financial statements.

The Prompt Payment Act requires executive departments and agencies to

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make payments on time, to pay interest penalties when payments are late, and to take discounts only when payments are made on or before the discount date. Over 40 pieces of information are requested for this report¹ including every thing from the number and dollar value of invoices and a description of progress made, to problems identified and corrective actions taken in agency vendor payments systems during the fiscal year. We question if all the information in this report is necessary to manage late payments. This report doesn't affect many of the reasons for late payments. The focus of the Prompt Pay Report should be on total dollars and the amount of interest paid. The current report could be revised to a more summary level.

Agencies identify and report on high risk areas/material weaknesses as part of the annual FMFIA report. Until the 1992 report, OMB encouraged detailed corrective action plans. In 1992, OMB offered an alternative reporting format that focused on key milestones. Agencies that used the alternative formats increased the readability and significantly reduced the size of their reports. We believe that additional economies could be realized by providing a statement on each weakness and summarizing the results achieved rather than providing detailed corrective action plans.

We believe that the information contained in financial reports should provide certain information for the reviewer to make policy and management decisions. As long as the separate stove pipe reports continue to be provided no one is accountable for the overall performance of the organization. Therefore, we see the various reports being combined and

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consolidated to provide the following information:

- the agency's financial condition and if the information presented is in accordance with federal accounting standards;
- the quality of financial management exhibited by the agency meets or exceeds established standards or measures;
- the costs disclosed in the financial statements or in supplemental financial disclosures should determine if program managers are carrying out properly the programs entrusted to them;
- agency reports concerning the status of financial management and plans for improvement and annual budget submissions should determine if the necessary budgetary requirements will achieve adequate program results and full financial disclosure, and if the standards for quality are clearly set forth for evaluation;
- the allocation of resources should determine if the head of each department and agency is focusing significant attention on the program; and
- the overall management health of the agency including the agency's ability to meet mission requirements and program goals; ensure that controls over resources are adequate to protect resources and ensure desired outcomes are achieved and audit recommendations are implemented in a timely manner.

In order to determine the information above, most of the current reports need to be combined with other information. Therefore, the individual reports could be consolidated into two inclusive reports. A report that contains planning information, and a report that contains accountability information.

The planning information could be submitted during the annual budget submission. A report that contains information for accountability and evaluation purposes such as audited financial statements, financial analyses, program and financial management performance information, and supplementary information on controls, prompt payment and credit management could be combined for an accountability report after the fiscal year. Reports, would also be changed to reflect only summary points and main objectives to get rid of redundant information.

Recommendations

1. The NPR will propose legislation granting OMB the flexibility to consolidate/simplify statutory reports to Congress and the President. (3)

The need for this is because some of the legislation specifies the due date of specific reports.

2. The NPR will propose legislation requiring agency heads to provide two reports annually, a planning report and an accountability report. (3)

Reports could be combined to reflect two submissions: A Planning Submission due the beginning of September and an Accountability Submission due in March. These reports would also be at summary levels.

3. OMB should work with the Congressional Committees to ensure that any future reporting requirements can be simplified and incorporated into one of the two reports

in Recommendation 2. (4)

4. Reports should be at a summary level and some cost/benefit analysis performed as to the need for the data collected. (2)

OMB should accept audited financial statements as meeting the reporting requirements of Section 4 of the FMFIA, Section 2 reporting could be handled as one of the summary reports. OMB should also review reports like the Prompt Pay Report and reduce the amount of data collected and focus on the significant issues.

ENDNOTES

1. "Prompt Pay" OMB Circular A-125.

Part 2

Adopt Good Business Practices

FM.10 PROVIDE AN ANNUAL FINANCIAL REPORT TO THE PUBLIC

Background

Article I, Section 9 of the U.S. Constitution requires that "...a regular statement and account of the receipts and expenditures of all public money shall be published from time to time."¹ However, the existing financial management infrastructure is so inadequate that no such auditable report can be made. The Treasury Department has been preparing prototype financial statements for the last 20 years, and still cannot provide any assurances regarding their accuracy.

Need for Change

The U.S. Securities and Exchange Commission (SEC) requires that corporations meet very strict standards of financial management before their stocks can be publicly traded. All such companies are subject to rules requiring disclosure of their financial condition, operating results, cash flows, long term obligations, and contingent liabilities. They are also required to be audited by independent certified public accountants (CPAs). These requirements exist to provide a certain level of assurance to investors in the stocks of these companies. These requirements are considered to be common business practices. They are common not just because the SEC requires them, but because they instill a level of

financial discipline that enhances the financial viability of the firm. It's the right thing to do. Unfortunately, these common business practices are very uncommon in the federal government.

The growing public outcry over the financial management of the federal government, the ever-increasing national debt, and the concern regarding taxes have created an environment where the government is being held more accountable for its actions than ever before. The information age we live in provides unprecedented opportunities to inform the nation on the performance of its government. The public will no longer accept silence as a response when accountability is demanded. Our recommendations address the challenges put to the government to explain its spending decisions, and the ramifications thereof. These recommendations are facilitated by the Chief Financial Officers Act of 1990, requiring audited financial statements of major departments and agencies.

The CFO Act of 1990² found that "Current financial reporting practices of the Federal Government do not accurately disclose the current and probable future cost of operating and investment decisions, including the future need for cash or other resources..." While the President's budget is required³ to disclose contingent liabilities of the federal government, this document is neither readily available to the public, nor easily understood. Therefore, the public is not aware of the extent to which the Federal Government is liable on certain obligations, nor the degree of magnitude of these contingencies.

When these contingent liabilities move from the category of being contingent to actual, they seem to occur as a surprise in the budgetary process. A similar problem had existed in accounting for guaranteed loan programs. Before the Credit Reform Act of 1990, guaranteed loan programs were budgeted for at no cost to the government until later years when loans defaulted and government guarantees kicked in. Under Credit Reform, an estimate of future losses has to be budgeted for at the time the guarantees are extended. Contingent liabilities are equally able to be estimated through financial analysis, and could be budgeted and funded at the time the contingent liabilities are issued.⁴

Recommendations

- 1. The Treasury Department should provide a consolidated annual report on the finances of the federal government, including contingent liabilities. (1)**

The Treasury Department should continue issuing prototype consolidated financial statements for issuance by the President, and should set a goal of 1997 as the first year to drop the prototype disclaimer and issue audited, consolidated financial statements on the federal government. While not all components of the Federal Government will be required to be audited by that time, this goal would drive the improvement in data quality towards a definite destination. These statements should include addenda with information on the financial statements of government sponsored enterprises and governmental trust funds, all of which have some contingent liability aspect for taxpayers.

2. The President should issue an annual financial report to the taxpayers. (2)

The Treasury Department should develop a simplified version of the consolidated financial statements for distribution to the public by the President by June 1994. In order to provide an accounting to the public, an annual statement of the government's revenues, expenditures, investments, contingent liabilities, and financial condition should be provided to the public in terms that are easy to understand. This would provide some much-needed accountability from the government to its citizens. It would show them the value they are receiving for the tax dollars they pay. The report could be called Annual Accountability Report to the Citizens,⁵ and should be codified in a Presidential Executive Order in order to ensure ongoing publication. This information could be provided in printed or electronic form to provide wide accessibility to the public.

3. OMB, in consultation with FASAB, should develop a method of identifying and funding the expected costs of contingent liabilities of the Federal Government. (1)

OMB and FASAB should develop a budgeting strategy by February 1994 for identifying and funding contingent liabilities which can be implemented in the fiscal year 1996 budget cycle. Similar to efforts to recognize and fund the costs of loan programs under the Credit Reform Act of 1990, contingent liabilities of the federal government should be costed up front and funded based upon expected loss or subsidy rates. The Federal Accounting

Standards Advisory Board (FASAB) is currently addressing the cost allocation aspects of contingent liabilities. FASAB, or its recommended successor organization, should expedite its standard development process on this issue.

Fiscal Implications

ENDNOTES

1.The Chief Financial Officers Act of 1990 also requires that OMB "provide complete, reliable, and timely information to the President, the Congress, and the public regarding the management activities of the executive branch." Public Law 101-576, November 15, 1990.

2.Public Law 101-576, November 1991.

3.Budget Enforcement Act of 1990 (?).

4.The importance of recognizing these contingent liabilities as accrued costs is explained in "Sound Fiscal Management in the Public Sector," a report by Arthur Anderson & Co., prepared in 1976:

"The cost of pension plans [for example] is an additional employment cost incurred during the period worked by the covered employees and should be accounted for on that basis. If any one period is not charged with the total pension costs applicable, some later period must bear the burden of pension costs which are unrelated to its activities. In such a case, the financial statements of both periods are misstated.

"It is equally necessary to improve financial statement disclosure of pension plans, unfunded liabilities, and the methods of cost determination. Such disclosures help to minimize the potential for abuse and call attention to unwise postponement of potentially dangerous funding problems."

5.A title suggested by the Association of Government Accountants in their preliminary Status Report on AGA Task Force - "State of the Nation Report; Federal Financial Statements for Taxpayers" presented on June 22, 1993.

Part 2

Adopt Good Business Practices

FM11: STRENGTHEN DEBT COLLECTION

Background

We believe that the federal government would be able to collect an additional \$2.5 to \$10 billion over the next five years by strengthening its approach for pursuing seriously delinquent debt. We believe that lending and collection programs could be improved substantially and a fairer financial presentation could be made if agencies:

were provided with incentives to cover the cost of collection and allowed to share in the additional recoveries, could fully use other agencies on a reimbursable basis and/or collection agencies to hold down the growth of delinquent debt, were provided with expanded authority and flexibility to use Special U.S. Attorneys, agency counsel, or private counsel to litigate delinquent debt, and were required to reevaluate their allowances for doubtful accounts.

The federal government was owed about \$241 billion in non-tax debt at the end of 1992, of which \$47 billion was delinquent.¹ The Debt Collection Act of 1982 and OMB Circular A-129 require agencies to establish an aggressive but fair program to collect delinquent debt and establish mechanisms "to collect and record payments and provide accounting and management information for effective stewardship."

Each year, thousands of borrowers from the federal government default on loans from programs administered by a variety of federal agencies. After engaging in their own collection efforts, including referral to private collection contractors, the use of the salary offset program for delinquent Federal employees, and the tax refund offset program, certain agencies refer unpaid debts to the Department of Justice for collection. Justice attorneys also sue to collect unpaid criminal fines and assessments.

Need for Change

Most agencies perform routine servicing of debt adequately, collecting about \$87 billion in FY1992.² However, their performance in collecting seriously delinquent non-tax debt in a timely manner is very poor. We believe agencies consider the collection of debt as a secondary function to loan origination and other program functions. In addition, they do not have the systems and staff to pursue this type of debt. The following are examples of the current obstacles facing program agencies attempting to collect delinquent debt.

The missions of program agencies are to provide services to their clients.

Program staffs, therefore, are sensitive to their clients' needs and reluctant to press for repayment of debt. Agency staffs have excellent knowledge and skills for delivering the program; they do not always have the skills or training to track and collect debt in a timely fashion. Although agencies are required to refer debt more than six months past due to contractors, the average age of debt referred to collection contractors exceeds two years.³

Because resources are scarce, many agencies have not made the necessary investments in specialized debt collection systems, equipment, and personnel. There

is no reward for most agencies for collecting debt, i.e. increased debt collection does not easily translate into increased program budget authority. One exception is the Department of Veterans Affairs (VA), which was given the flexibility to cover their administrative costs from recoveries. VA increased its medical care cost recovery from \$23.9 million in FY1987 to \$520 million in FY1993. The pivotal factor in this accomplishment was the establishment of the Medical Care Cost Recovery (MCCR) Program and the gradual expansion of its authorities. Although VA has been authorized by statute to collect certain costs since 1986, collection remained relatively low until the MCCR Program was expanded in 1990 to allow administrative costs to be funded for the succeeding year from the current year's collections.⁴ A similar example is at the Department of Education where the use of collection revenues to pay expenses associated with collections is authorized under the Higher Education Act. The Department has used this authority to pay private collection agency costs. All other debt collection costs are funded out of Education's operating budget. The idea of using collection revenues to pay expenses associated with collections could also be expanded to franchising or cross servicing debt collection activities. Given the various size of agencies and staffing patterns, debt servicing could be handled by clusters of agencies or by franchising to establish a critical mass of expertise.

Restrictions prevent the use of private collection agencies for the recovery of taxes and tariffs as well as debt from certain loan credit programs. For example, Farmers Home Administration has been prohibited by provisions in appropriations laws from using private collection agencies. Referral restrictions also exist on SSA, Customs

Service, and IRS debt.

Department of Justice has exclusive authority for litigation of most delinquent debt cases. Debts referred to Justice are processed through a central debt collection intake facility managed by the Office of Debt Collection within the Justice Management Division. Debts exceeding \$500,000 are referred to Justice's Civil Division for collection, while the remainder are referred to the U.S. Attorney's Office in the jurisdiction where the debtor resides. The U. S. Attorney's financial litigation units recovered \$782 million in non-tax debts last year out of an inventory of approximately \$4 billion.⁵ Critics of the U.S. Attorney's debt collection activities contend that notwithstanding their request for additional debt collection resources, the U.S. Attorney's Office attaches low priority to debt collection because it is less glamorous than their criminal and civil caseload. However, to improve their efforts in debt collection Justice has a pilot program involving the use of private debt collection counsel currently ongoing in eight judicial districts.

When agencies extend credit to individuals who are already delinquent on another Federal debt, these new loans are likely to result in future losses. The Credit Alert Interactive Voice Response System (CAIVRS) is a Department of Housing and Urban Development (HUD) system used to screen new HUD loan applicants through telephone access of a data base of debtors delinquent on HUD loans. CAIVRS has been immensely successful, and should be expanded by adding the delinquent debtors of other Federal agencies to the data base, and by making the CAIVRS system available to other agencies for the screening of

their loan applicants.

In our opinion, the success of the VA's Medical Care Cost Recovery (MCCR) Program is an example of how recoveries could be improved if an agency's administrative costs are funded by the recoveries. We also believe collection activities would further improve if the agency could share in any additional recoveries and could use some of these recoveries for other uses. We also believe that full and consistent participation by all agencies in an automated system is needed to realize the maximum savings.

Agencies know that many of the receivables on the books are not going to be collected. Yet for various reasons, they do not feel comfortable writing the debt off. Agencies seem to equate writing the debt off with not trying to collect it. They fail to understand that if it is written off then later collected, the debt can be restored. Writing the debt off does not mean that the agency would not continue pursuing collection activities.

Many agencies do not develop and record well a meaningful Allowance for Doubtful Accounts. For example, the IRS had tax receivables at the end of FY1992 of about \$70 billion,⁶ after the allowance was applied, the net receivables were adjusted to \$28 billion. After a financial audit the GAO determined that the net receivables number was about \$22 billion.⁷ This example points out that agencies need to do a better job estimating Allowance for Doubtful Debt so that a fair presentation can be made on their financial statements and reports to Treasury.

Recommendations

1. NPR will propose legislation to allow debt collection activities to be funded by the revenues generated from collections and the agencies be allowed to keep a certain percentage of any increased collection amounts. (3)

2. NPR will propose legislation to increase the amount of debt referred by agencies to private collection contractors by eliminating any restrictions. (3)

We recommend the lifting of restrictions on the use of private contractors by some agencies like SSA, Customs Service, IRS and FmHA.

3. OMB should modify Circular A-129 to require the referral of non-tax delinquent debt to private collection contractors after three months of delinquency rather than six months, and include provisions that would ensure referral at the required time. (2)

4. Expand agency litigation authority for debt collection. (1)

The Department of Justice should exercise existing statutory authority and appoint Special Assistant U.S. Attorneys in other federal agencies based on debt collection workload.

5. Establish a credit management function. (1)

Agencies should separate the debt collection function from the loan making function by establishing a Credit Manager in the CFO organization. This will ensure greater attention to the debt collection function and provide stronger internal controls for the program. The Credit Manager should be certified by an approved federal or private accreditation program,

such as, the Federal Credit Management Institute. This function could also be a candidate for franchising (cross servicing among agencies)

6. Implement the Credit Alert Interactive Voice Response System (CAIVRS).

OMB should ensure that CAIVRS is expanded and used by federal agencies to ensure that potential borrowers under federal direct and guaranteed loan programs have resolved tax and non-tax debt before receiving additional federal credit. Agencies would be required to use CAIVRS for screening of their potential loans.

7. Improve estimates for the Allowance for Doubtful Accounts. (1)

CFOs need to focus on their Allowance for Doubtful Accounts estimates to provide accurate and timely data for audited financial statements as required by the CFO Act of 1990 and for quarterly reports to Treasury.

Fiscal Implications

Estimated recoveries are between \$500 million to \$2.0 billion per year over the next five years. This would be above the current level of recoveries which were \$87 billion in FY 1992.

ENDNOTES

1. "Status Report on Credit Management & Debt Collection," OMB Report to Congress, p. 1.
2. "Options to Improve Performance for Federal Debt Collection." OMB Draft Paper, 1 June, 1993.
3. "Options to Improve Performance for Federal Debt Collection." OMB Draft Paper, 1 June, 1993, page 6.
4. "Medical Care Cost Recovery," Department of Veterans Affairs Annual Report. 1992.
5. Brian Brody of TRS team is checking, will supply ASAP
6. "Status Report on Credit Management & Debt Collection," OMB Report to Congress, p. 1.
7. "Report B-250977," General Accounting Office, 30 June, 1993.

Part 2

Adopt Good Business Practices

FM12: MANAGE FIXED ASSET INVESTMENTS FOR THE LONG TERM

Background

Fixed assets are assets that expand the capacity of an organization to perform its key functions and will be held for longer than one year. The federal government purchases and uses a tremendous volume of fixed assets such as buildings, vehicles, airplanes, and equipment. Recent estimates of the value of the government's investment in fixed assets approximate \$1 trillion (before depreciation), making the management of fixed assets an important concern of financial management. Though the U.S. federal government may be the world's largest investor in fixed assets, it does not use good business practices such as the development of an overall federal investment policy or strategy. In this policy vacuum, after a need level has been established the overriding factor determining the manner of acquisition of fixed assets has been the budget scoring process. Current scoring rules often result in economically poor decisions that ultimately cost more than is necessary, or in denials of otherwise economically justifiable acquisitions.

The U.S. budgeting process borrowed the idea of capitalized assets from the private sector for the purposes of budget scoring. Unfortunately, something was lost in the translation. The budget scoring process (which is used to value outlays for purposes of calculating the

budget deficit) counts the present value of total capital lease payments in the year of contract origination, rather than over the years of the contract. Purchase payments for fixed assets are "scored" similarly, recognizing all future payments in the year of the purchase. In other words, costs of future years are counted in "budget authority" scoring before the payments will be made.

Agencies cannot enter into capital lease arrangements or purchases for fixed assets unless they have sufficient budget authority granted by OMB and Congress. While on its surface this may seem like a conservative method to calculate the deficit and manage money, it actually interferes with good financial lease/buy decisions. When operating lease arrangements are compared with purchases or capital leases in fixed asset acquisition budgeting, the operating lease options may receive the best (lowest) score (because only the current year's payments are counted) and will therefore be determined (by OMB or Congress) to be the method to be used. However, the purchase or capital lease option may actually be the most rational economic option because the government will be acquiring an ownership interest in the asset. Since the lowest-scoring option will tend to be the option approved, operating lease options will often be the selected acquisition method. As a result, the most expensive long term alternative will be chosen in an effort to stay within current year spending caps.

Fixed assets are basically acquired for use by either purchase or by lease. The two types of leases are 1) operating and 2) capital. The definition of these types of leases originated in

the private sector to reduce the problems of unrecorded liabilities associated with "off-balance sheet financing." Operating leases generally have cancellation provisions that prevent the lessor from being obligated under a long-term contract. Capital leases resemble purchases in that they often have a bargain purchase option at the end of the lease or extend over a majority of the lifespan of the asset. Capital leases under private sector generally accepted accounting principles (GAAP) are "capitalized" on the entity's balance sheet. In other words, the value of the asset is recorded as an asset and is depreciated over the life of the contract. The related contract payments are recorded as a liability valued at the net present value of the payments. This liability is divided into the current portion (due within one year) and the non-current portions of the balance sheet.

The concept of operating and capital leases has been very beneficial in recognizing the "substance over the form" of certain financial transactions. The capitalization of leases recognizes the effective ownership of an asset as well as the liability associated with its use. However, application of the capitalization concept in budgeting should be used judiciously, if at all. The capitalization of leases for budgeting causes the future costs of the contract to be recognized in a time period earlier than when the full use of the asset has been rendered. That is unreasonable, and a poor way to recognize costs. The capitalization process under GAAP is intended to recognize the contract's liability, but not the entire expense. The budget process certainly needs a mechanism to recognize government obligations and to control spending. However, budgeting resources based solely upon arbitrary scoring rules for asset acquisition does not meet the needs or the intent of the President or the Congress.

FASAB is preparing an accounting standard exposure draft "Physical, Intellectual, and Human Capital" which will address the accounting for fixed assets, including depreciation. This standard may prove helpful in strategic planning by providing policies on cost allocations.

Need for Change

Present scorekeeping rules may delay the acquisition of an important fixed asset, such as a modernized computer system, because the full cost of the purchase is "scored" as if the system will be paid for up front, rather than over some term of the life of the asset. For example, a \$5 million purchase of a computer system counts toward the deficit the same as a \$5 million expenditure for personnel salaries, even though the computer system will provide benefits to the government for many years in the future. In a case such as this, the decision not to purchase a new system may mean that a financial and management information system continues to be antiquated and inadequate, relying largely on manual data manipulations with the high costs associated with personnel salaries and human errors.

Current scoring rules consider the costs of acquisitions, while ignoring the effect of any

offsetting revenue streams or cost savings. For example, the cost of a building purchased by the General Services Administration cannot be given a reduced score that would net the costs with the projected rental income that will be collected from the agency occupying the building. Such an offsetting calculation is one method of improving the current scoring system.

The current budget scoring process has an inherent bias against capital investments which could ultimately cost taxpayers more in the long run. The budget scoring process was designed to recognize the financial obligations of the federal government made in a fiscal year. While this is a noble goal, it can be accomplished in more practical ways than can result in better fixed asset acquisition decisions. As budget, financial, and program information becomes more integrated¹, these obligations can be tracked in more accurate detail than is currently available in the budget system. Special "obligations" reports could be run for fixed assets, to ensure that they are within established spending limits.

The current one-year budgeting process also serves to limit the ability of managers to manage fixed assets for the long term. Under a one-year system, funding cannot be assured for future fixed asset needs such as repairs and maintenance that may be cyclical, such as the reroofing of a building, which are vital to the proper operation of the asset. Many governments have moved towards budgeting processes that incorporate long range planning for the acquisition, maintenance, disposal, and replacement of fixed assets. In this way,

budgeting for fixed assets is separated from operating budgets, recognizing that it is a way to ensure the most appropriate use of the government's investment in fixed assets.

Good business practices dictate that an organization should have a long range plan on how it will meet future capacity needs. However, the federal government does not have a guiding strategic long range plan for fixed asset acquisitions. Such a plan would establish priorities across departments. Currently, only some agencies have formal plans for fixed asset investments. While the budget document presents information on dollars spent on investments, the information is prepared at the conclusion of the budget process and is used for summary purposes rather than planning purposes. The budgeting process is in need of a more rational comprehensive approach to planning and allocating investment dollars.

One method to achieving a formal long range fixed asset investment strategy is to differentiate spending that benefits current years versus future years. Congress' General Accounting Office (GAO) has been recommending a separation of these types of expenditures in the budget for many years. GAO testified before Congress on behalf of capital budgeting as recently as May 1993². In 1986 the General Accounting Office (GAO) reported³ on the results of a survey of state budgeting practices. Of 45 states responding to the study, 37 indicated that they use capital budgeting. It is also a common practice in business to separate current operating expenses and capital investment outlays in order to

determine an organization's profit or loss by allocating the cost of capital investment to proper accounting periods.

Capital budgeting generally has two components: 1) the operating budget and 2) the capital budget. Typically, the operating budget consists of the revenues and expenditures that will benefit only a given year. Basically, this consists of everything that does not qualify as a capital budget item. As the GAO testified⁴, "...[T]here is no single 'right' way to define capital for budgeting purposes. The point is that the budget should highlight for policymakers the group of programs that they consider to have long term benefits warranting their attention." Usually, operating budgets are required to be balanced every year. A capital budget consists of the revenues and expenditures associated with capital investments. Capital budgets do not have to be balanced every year, but are financed over the life of the assets provided for in the capital portion of the budget⁵. State and local governments issue bonds to finance the capital portion of their budgets.

A recent report⁶ from the National Association of State Budget Officers lists "good practices in capital budgeting" as a result of their survey of state practices. Two key practices identified were: 1) Establish a clear definition of expenditures within the capital budget. and 2) Define the factors to consider in decisions to own or lease. This list could be adapted in the federal government.

Another problem associated with fixed asset acquisitions is the appropriation of funds that

are designated for specific fiscal years. Often there are problems associated with acquisition that delays the purchase or contract; meanwhile, the appropriation expires and there is no money available for the purchase when it is ready to move forward. This is because of the time-intensive nature of design, development, and construction of capital assets. In order to ensure completion for capital investment projects, Congress could appropriate funds for capital investment that are designated as no-year or multi-year funds. Control over these funds would not be lost and agencies will gain flexibility.

Recommendations

- 1. OMB should propose and Congress should make changes to the budget scoring system in fiscal year 1995 to prevent a bias against or in favor of capital investment in fixed assets, and provide a mechanism to recognize the long term nature of some investments. (4)**

The current budget scoring system⁷ should be amended to require total life cycle planning for the total cost of fixed asset acquisition, maintenance, operations, insurance, and replacement. Minimum threshold levels should be established at levels for each agency so that extensive analysis is not prepared for relatively smaller purchases. Decisions between alternative acquisition methods should use this total cost comparison to choose the least expensive alternative. This would ensure that all acquisition methods (purchase, capital lease, operating leases, or successive one-year leases) are evaluated on equal footing. A

total life cycle scoring would result in an unnecessary one-time boost in the deficit calculation because all fixed assets previously scored as an operating lease would immediately be costed in full as if they were capital leases. This big, unnecessary boost in the deficit calculation would need to be corrected by OMB and Congress with a change in the scoring. The annual numbers used in the scoring process for each acquisition alternative could be either an actual cash outlay figure or a reasonable depreciation figure. Obligations for long term commitments could be tracked on separate schedules, and would also be recorded on agency balance sheets as long term liabilities.

2. OMB should propose and Congress approve a budgeting mechanism to plan for and fund the investment portion of the federal budget by June 1994. (4)

Note: At the request of Vice President Gore, NPR staff has arranged several discussions between GSA and OMB regarding the need to establish a budgeting strategy for fixed assets that provides for the selection of the lowest long-term cost acquisition alternative. These discussions are ongoing, and there has been general agreement on the identification of existing systemic problems. Before the final publication of the NPR report, GSA and OMB have committed to jointly propose a new process for the planning, budgeting, and scoring of fixed asset investments. This proposal will be incorporated into the final draft of this issue paper.

The management and budget sides of OMB should begin some joint efforts to evaluate the possible opportunities that exist to control spending and improve long range planning for capital investments. Spending should be identified as either for long or short term benefits. This recommendation extends beyond the current budget presentation of "investment outlays" which is compiled for summary purposes after the budget is prepared. This planning and presentation mechanism should be used in budget formulation as part of the formal budget process. It should be presented in the context of all federal spending planning as the budget is being prepared. Budget caps could be agreed upon for limits on investment spending, and definitions of "capital investments" could be resolved as other controversial definitions were resolved for the 1990 Budget Enforcement Act.

OMB and Congress should work toward a budget that finances only that federal spending which will benefit future years. For accounting purposes, capitalized assets should be limited to those which are tangible, owned by the government, and which will provide benefits in future years.

3. OMB should support the establishment of agency investment funds (modeled after working capital funds) and revolving funds to provide more flexibility in funding alternatives for fixed asset acquisitions in the 1995 budget cycle. (2)

These alternatives provide a mechanism to effectively manage scarce resources while

encouraging a high standard in service delivery. Both investment funds and revolving funds would provide business-like incentives, stimulate cost awareness in both the service activities and the users, and provide managers with increased flexibility to use resources.

Investment and revolving funds could be made available at each agency that requests this method of financing investments. These funding mechanisms could be tested on a pilot basis.

These funds should contain "no-year" money that is not subject to fiscal year limitations in their use. They could be funded by appropriations in the early years, and work towards self-replenishment full funding within a target number of years. Capital projects would apply for funding, and would be placed on a prioritized list of applications upon review and evaluation. The evaluation would include total life-cycle planning and costing, efficiency analysis, and payback periods.

The funds could be established by charter with no apportionment or FTE controls. The charter could require that the fund could be managed by a Board of Directors with equitable representation of the users of the fund. Formal evaluation criteria could be developed and adopted by the board and independent audits of the funds' expenditures should be required. Any changes to the charter could be required to receive Department Secretarial-level approval.

The capital and revolving fund approaches would ensure that the highest priority capital projects receive necessary funding. It would also encourage development of joint projects, shared resources, and increased efficiencies. Furthermore, it would remove artificial time constraints placed upon the expenditure of funds that often result in rushed, ineffective projects.

4. OMB and Congress should appropriate multi-year or no-year funds for fixed asset acquisitions in the 1995 budget cycle. (1)

The President's Budget submission in February 1994 should incorporate increased usage of multi-year and no-year funds for agencies that request such treatment for the purposes of capital investments. Congress should approve requests to designate appropriated funds as such.⁸

Fiscal Implications

ENDNOTES

1. See FM??? discussing integration of data.
2. Budget Policy: Federal Capital Budgeting, Testimony of Paul L. Posner, Director for Budget Issues, May 26, 1993 (GAO/T-AFMD-93-7).
3. Budget Issues: Capital Budgeting Practices in the States, (GAO/AFMD-86-63FS, July 15, 1986).
4. Posner testimony of May 26, 1993, op. cit.
5. Capital Budgeting for the Federal Government, December 8, 1987 Testimony of Frederick D. Wolf, Director of Accounting and Financial Management (GAO/T-AFMD-88-3).
6. "Capital Budgeting in the States: Paths to Success", National Association of State Budget Officers, February 1992, page 7. The report lists good practices in capital budgeting:
 - o Establish a clear definition of expenditures within the capital budget.
 - o Define maintenance expenditures and provide for adequate funding of maintenance in statute.
 - o Include specific operating costs for each capital project.
 - o Ensure that effective legislative involvement occurs throughout the capital budgeting process.
 - o Strengthen the review of the years beyond the budget year in long-range capital plans.
 - o Identify criteria used in selecting capital projects.
 - o Define all program outcomes for capital investments.
 - o Evaluate cost estimating methods to measure their validity.
 - o Establish a tracking system to keep projects on schedule and within budget.
 - o Define the factors to consider in decisions to own or lease.
 - o Develop a clear debt policy.
 - o Review cost-benefit comparisons for private sector participation in capital projects.
 - o Maintain an updated inventory system of capital assets.
7. See Budget Enforcement Act of 1990 (Public Law ____-____) and OMB Circular A-11 on budget scoring.
8. See similar recommendations in budget and procurement team papers. **This needs to be cleaned up!!!!!!**

Part 2

Adopt Good Business Practices

FM.13 FULLY BUDGET AND ACCOUNT FOR THE COST OF EMPLOYEE BENEFITS

Background

Federal agencies should be required to pay for the total costs of employee compensation notably pension payments and retiree health benefits. Agencies pay for the pension benefits of military personnel and civilians under the Federal Employees Retirement System (FERS), however, agencies with employees covered under the older retiree system, Civil Service Retirement System (CSRS), only pay about one-third of the pension cost for these employees. Also agencies only pay the health benefits for active civilian employees.

Need for Change

The CSRS pension cost averages about 28 percent of salary per employee. Agencies and employees each contribute 7 percent into the trust fund. The total of 14 percent is less than half the cost to fund the pension. If agencies were required to pay full normal costs for CSRS employees, with no change in employee contributions, their contributions would have to be increased to 21 percent adding \$6.5 billion to agencies personnel costs.

Agencies also pay only a portion of the health insurance premiums for their active civilian employees, with the remainder being paid by the employee. OPM pays the governments portion of health premiums for civilian retirees'. The cost for retiree health benefits is estimated to be \$4.0 billion for FY 1994. The Department of Defense is the exception for their military employees. Defense pays the government's portion for both active and retired military personnel.

We believe agencies should be charged directly for these costs to ensure full disclosure and to ensure that total cost are available for decision making and evaluating performance. This

would improve budgetary control, improve the choices between labor and other resources, and improve the decision process for performing services in-house or contracting out.

Recommendation

1. Agencies should pay the full accruing cost of CSRS pensions. (3)

NPR will propose legislation to enact an accounting change to require that agencies contribute the additional amount to the Civil Service Retiree and Disability Trust Fund as a discretionary expense.

The Director should make one-time adjustments in the Budget Enforcement Act caps for discretionary accounts to reflect the accounting change as a change in a budget concept.

2. OMB and OPM research the possibility of charging agencies for civilian retiree health benefits. (1)

Fiscal Estimates

The recommendations for this issue reflect an accounting change necessary to better reflect the full cost of employee benefits for the agencies. These changes won't affect the unified budget deficit. Agencies discretionary funds will show larger outlays which will be reflected in an increase in the Civil Service Trust Fund.

Appendix A

APPROACH TO WORK AND ACKNOWLEDGEMENTS

Approach to work

In May, we brought together a group of approximately 54 individual stakeholders from the financial community for a Future Search Conference. This two day event examined federal financial management in the past, present, and future. The attendees consisted of CFOs, Deputy CFOs, Assistant Inspector Generals, line managers, members of the Senate Government Affairs and House Government Operations Committees, along with representation from OMB, GAO, state and local government, private sector, and academia. This group helped us begin to develop our issue papers by identifying the most important issues and recommendations for the National Performance Review. Later in the NPR process, the group reconvened for follow-up sessions to review our draft papers and address changing the federal financial community culture.

The Financial Executive Institute held two round table discussions about federal financial management with representation from major private sector corporations. The discussions provided NPR with the viewpoints and concerns of private sector financial managers.

Our outreach efforts extended to conferences for the American Government Accountants, Federal Executive Institute Alumni Association, and The Federal Financial Managers Council. Individuals at these conferences were provided with "fax sheets" to report financial management problems and solutions, success and horror stories to us. We received over 75 replies.

Acknowledgements

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The following individuals participated in a working session to Clarify OMB/Treasury Roles. From OMB included: Barry Anderson, Phil Lader, Schuyler Leshner, Joseph J. Minarik, Ed Rea, Tom Stack and Hal Steinberg. Participants from Treasury included: Russ Morris, George Munoz, Gerald Murphy, Marcus W. Page and Edwin A. Verburg. Also, Dennis Fischer, GSA; Virginia Robinson, JFMIP; Sallyanne Harper, EPA; Morgan Kinghorn, IRS; Chris Sale, Justice; Alan Lombard, NPR; Joellyn Murphy, NPR; and Carolyn Lukensmeyer, Facilitator, NPR.

The following individuals participated in a meeting on Budget Scorekeeping for Fixed Assets: Roger Johnson, Facilitator, GSA; Dennis Fischer, GSA; Bill Early, GSA; Deb Schilling, GSA; Daniel Neal, NPR; Roy Spillenkothen, NPR; Barry Anderson, OMB; Joseph Minarik, OMB; Phil Dame, OMB; Tom Stack, OMB; Bob Kilpatrick, OMB; Patrick Keogh, GSA; David Haun, OMB; Julia Satsch, GSA; Hermann Habermann, OMB; and Rhoda Mancher, VA.

The participants of Financial Executive Institute Round table included: Jim Kaitz, FEI; Tod Adams, CBI Industries; Richard Obetz, IBM; Jim Healy, CPC International; Gary Johnson, Diamond Shamrock Corp.; Fritz Jackson, Lay-Z-Boy Chair Corp.; Bob Hogan, Associated Materials; Charles Toder, AMAX Inc.; Ted Sheridan, Sheridan Management Corp.; Jack Higgins, Continental Bank; Holly Clemente, Grand Metropolitan PLC.

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Appendix B

IMPLEMENTATION

(1) AGENCIES

(2) PRESIDENT

(3) STATUTORY

(4) FUTURE WILL TELL/ DON'T KNOW