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President's Management Agenda: Governing by Accountability – An Overview of Two Initiatives

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Introduction

I believe I can safely say that the federal government has a history of not managing itself very well. We all have heard or read about programs that cost millions or even billions that don't work, inventory worth millions of dollars missing or unaccounted for, or simply purchases of goods at inflated prices that can be bought at the local store for substantially less. As The Auditor General of the Army and commander of the Army Audit Agency, I am very familiar with these types of incidents and the reasons why they happen. A major reason is mismanagement, or worse - fraud. As leaders in the federal government, it is our responsibility to perform our respective organization's mission economically, efficiently and effectively.

Improving Government Performance

"Government likes to begin things – declare grand new programs and causes and national objectives. But good beginnings are not the measure of success. What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises. In my Administration, that will be the standard from the farthest regional offices of government to the highest office of the land.

Governor George w. Bush

Governing by Accountability

In this regard, President Bush has called for a government that focuses on priorities and executes them well. We should not be surprised. When the Governor of the State of Texas, the President called for better management at the state level and is now calling for similar action at the federal level. This approach to governing with accountability is seeking to ensure the resources entrusted to the federal government are well managed and wisely used.

The President’s Management Agenda

“The best organizations in the world are 40 to 50 percent better than their closest competitors—they set their goals by what is theoretically possible, not as a small improvement over last year's performance level. We need to apply this same thought process to our leadership responsibilities in all of the departments and agencies of the federal government, so that we deliver value to the American people. The President's Management Agenda sets us on this course.

Paul O’Neill
Secretary of the Treasury

In the summer of 2001, the President announced the President's Management Agenda, an aggressive and coordinated strategy for improving the management and performance of the federal government. This agenda is guided by the principles that the government should be: results oriented, not process oriented; citizen centered, not bureaucracy centered; and market-based, promoting competition rather than stifling innovation. Rather than pursue an array of management initiatives, the Administration elected to target the most glaring problems where the opportunity to improve performance is the greatest. These five mutually reinforcing government-wide initiatives are (1) strategic management of human capital, (2) competitive sourcing, (3) improved financial performance, (4) expanded electronic government, and (5) budget and performance integration.

Today, I will discuss two of the five initiatives – improved financial performance and budget and performance integration and share with you how the Department of Defense and The Army are supporting these initiatives. I would also like to point out that the Department of Defense and The Army are well aware of what these initiatives represent, as we have had these issues in our crosshairs for reform for some time. It also should be noted that the basis for these initiatives are grounded from the reforms enacted by Congress in the 1990s. I am sure you are all familiar with the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, requiring all federal agencies to prepare auditable financial statements and improve financial management and accountability. Another is the Government Performance and Results Act (GPRA) of 1993, requiring agencies to report on their plans and performance systematically. It is through these reforms and others that form the basis of how agencies will respond to the President's Management Agenda.

Reform

"Congress and the new administration face an array of challenges and opportunities to enhance performance and assure the accountability of the federal government. Increased globalization, rapid technological advances, shifting demographics, changing security threats,and various quality of life considerations are prompting fundamental changes in the environment in which the government operates. We should seize the opportunity to address today's challenges while preparing for tomorrow."

Comptroller David M. Walker

Reform

I think we can all agree government reform is badly needed and the obstacles are daunting – as previous generations of would be reformers have repeatedly discovered. It is important to recognize that many of the challenges the federal government faces are long standing and complex, and will require sustainable attention as aptly described by Mr. David M. Walker, the Comptroller General.

The Administration recognizes the President's Management Agenda as a first step in a long journey towards reform. This journey of reform has no destination or ending but must continuously continue address and resolve issues. The Administration also recognizes that the agenda can't operate in a vacuum and ignore other major current or future challenges and high-risk areas facing federal agencies. Rather the Administration will integrate these high-risk areas such as financial management, information technology, and acquisition management as part of its reform.

Keeping Score

"We are not here to mark time, but to make progress to achieve results, and to leave a record of excellence.

President George W. Bush
October 15, 2001

Keeping Score

The football season is well underway. During the NFL preseason, Steve Spurrier, the new head coach of the Washington Redskins was asked about the significance of exhibition games. Let me paraphrase his answer, he said, "exhibition games have little value but the game is scored and I like to win". Guess what? I like to win too, so do you, and so does the President. Don't forget he was part owner and general manager of the Texas Rangers professional baseball team.

To ensure accountability for performance and results of the President's Management Agenda, the Administration will use a scorecard to track how well the 26 departments and agencies execute these initiatives, and where they stand at a given point in time against overall standards for success.

The scorecard will use a simple "traffic light" grading system common today in many businesses. For example, The Army uses this grading system to report on its monthly unit status. Scores are based on five standards defined by the President's Management Council and discussed with experts in government and academia. For example, the Secretary of the Treasury, the Comptroller General, and the Director of the Office of Management and Budget reviewed the standards for financial management.

Under each of the five standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" it is has even one of the any number of serious flaws. For example, in financial management, an agency is "red" if its books are in such poor condition that auditors can't express an opinion on the agency's financial statements, or if any agency has a history of spending more money than has been given to it by the Congress.

So how has the federal government done so far? A 2001 baseline evaluation of the 26 departments and agencies against the standards show a lot of poor scores with 86% red, 18% yellow, and the only green, in financial management at the National Science Foundation. As for my own department, DoD scored red in all five initiatives. We can only go up! The results are initially discouraging but not unexpected since the areas are "targeted to address the most apparent deficiencies where the opportunity to improve performance is greatest". Over time, I expect the scores, to include DoD, to improve as the departments correct the problems. The results are to be updated twice a year with a mid-year report issued during the summer.

Improved Financial Performance

"Without accountability,how can we ever expect results? Under my Administration, we will bring this cycle of failure to an abrupt end. As President, I will hold all affected agencies accountable for passing their audits not later than 2002. I will say to those I put in place, get your audits right."

Governor George W. Bush

Improved Financial Performance

"Bullets vs. beans" or "mission vs. administration" are difficult decisions in the best of situations. Unreliable and inaccurate information only makes it worst. Decision makers, regardless of organizational level, need timely and reliable financial and operational information to make meaningful decisions that maximize performance, minimize cost, and solve the immediate and future problems. The Secretary of Defense Donald Rumsfield said that one of his highest priorities is to have reliable, accurate and timely financial management information upon which to make the most effective business decisions.

Improving financial management is critical to ensuring accountability. A clean financial audit is a basic prescription for any well-managed organization, yet the federal government has failed all four audits since 1997. On average, it takes agencies almost five months of heroic efforts to close their books and it took almost seven months for GAO to release the Government's Consolidated Financial Report for FY 2001. No one could call this financial information timely even if it was all auditable. And even then the overall government has been unable to pass its audit. But there is good news. For 2001, 19 departments and major agencies received "clean" audit opinions on their financial statements but most only being able to do so after making extraordinary, labor-intensive assaults on financial records.

Even before the President's Management Agenda called for better federal government management, the Department of Defense recognized the need to improve its financial management and business practices to better meet the needs of its customer – the soldier on point, to strengthen accountability, and to fulfill its statutory requirements. This need was a result of a series of studies and audit reports citing the lack of adequate financial reporting systems and a variety of internal control problems that precluded favorable audit opinions on most DoD year-end financial statements. With over 600 systems providing financial data, one can understand why. Until adequate progress is made at DoD, the financial statements of the entire government may not receive an opinion from GAO.

As expected, Congress also took notice of these results and included as part of its passage of the National Defense Authorization Act of FY 1998, a mandate that the DoD biennially submit a Financial Management Improvement Plan, beginning in 1998. With the Department's senior leaders recognizing that the changes needed to fully meet its financial management challenges went far beyond the DoD financial community, its Financial Management Improvement Plan addressed improvements in both financial and nonfinancial systems – such as inventory and logistics – that are needed to support the accuracy and auditability of the Department's financial statements. Since its first submission in October 1998, the Plan continues to evolve from first establishing its concept of operations which guided management's initiatives and efforts in designing, developing and implementing an integrated financial management systems to now ensuring that financial and feeder systems comply with federal accounting standards and systems requirements. The Plan also describes the steps that the Department is taking to develop professionally its current – and next generation – financial management workforce. This seems serious to me.

So far I have talked about DoD, let's shift our focus to the Army. Since 1991, Army Audit Agency has audited the financial statements of its Service's three separate funds, the General Fund, Working Capital Fund, and the Civil Works Fund of the Corps of Engineers. The agency issued disclaimers of opinion for all three funds through FY 2000. A disclaimer of opinion means an auditor is unable to express an opinion because of significant limitations and is a strong signal that the Army isn't meeting its stewardship responsibilities. Reasons for the disclaimers of opinions include inadequate accounting systems, the lack of, or incomplete or unauditable records, accounting systems limitations or deficiencies and internal control weaknesses for selected property accounts.

For FY 2001, the situation changed dramatically for The Army. Due to the events of September 11, and the devastating impact it had on Army financial operations, OMB waived the requirement for the preparation of FY 2001 financial statements for two of its three funds. As for the third fund, Civil Works received a qualified opinion, its first ever, for its FY 2001 financial statements. A qualified opinion means the Corps of Engineers Civil Works balance sheet was fairly presented according to generally accepted accounting principles, except for specific issues identified in the audit report.

One of the driving factors in the Corps' improvement of financial management was the development and implementation of a standard financial management system Corps-wide. When deployment of the Corps of Engineers Financial Management System was completed in March 1998, the Corps was recognized as the first major activity within DoD to have a fully integrated financial management system. The benefits of this system went far beyond producing auditable financial statements. It provided managers at every level the ability to have real time financial data that could be used in day-to-day decision-making.

Another major step for the Corps of Engineers in insuring that financial data is accurate and reliable is to test the security and application controls of the financial management system. In 2001 and again in 2002, the Corps system was subjected to a very intense test of security and application controls. It was the first major nonclassified system within DoD to be subjected to a complete review in accordance with the requirements of the GAO's Federal Information System Controls Audit Manual.

Since DoD has been unable to express an opinion on its financial statements, Congressional concern has turned into action. The National Defense Authorization Act for FY 2002 directed the Secretary of Defense to minimize the use of resources in performing audit procedures required by auditing standards for financial statements that management acknowledges are unreliable. This acknowledgement is contained in an annual report of reliability to Congress. The Act also directed the Secretary to redirect those resources freed to more useful audits, especially in the financial systems improvement area. Redirecting those resources is expected to improve financial reliability and accuracy of financial data and eventually lead to a "clean" audit opinion of the financial statements.

In response to this Act, the Army Audit Agency has shifted a majority of its CFO assets from CFO audits to financial operations audits with the intent to improve internal controls and compliance with laws and regulations. I feel this is a good shift in policy because now we can focus on improving the reliability and accuracy of the systems that generate the information our leaders and managers rely on to make sound decisions. Air Force and Navy Audit Services as well as DoDIG are taking similar action.

In July 2001, DoD launched a major initiative to improve its business and financial processes and systems. The Department is working closely with OMB to develop enterprise architecture and systems that will support efficient operations, and provide accurate, timely, and useful financial information. This will take a number of years, but the Department has documented a clear commitment to improvement and is moving forward.

The Army has recognized significant problems with the processes, procedures, and accounting systems used to prepare its financial statements. Like DoD, the Army continues to place high priority on improving its financial management processes and associated systems. To that end, The Army has prepared a detailed plan called, "The Army Chief Financial Officer Strategic Plan". The Army is actively using this plan, as a key management tool to improve is financial reporting. This plan fixes responsibility and establishes a timeline for addressing and resolving problems of noncompliance such as ensuring critical feeder systems produce reliable and relevant information. It also provides for periodic status to Army leadership.

The CFO Strategic Plan is one of the many initiatives to improve processes throughout the Army. As these business processes improve, so too will the quality of the information that is vital to the Army's decisions makers. All of these actions clearly tie to the President's Management Agenda and the objective of improved financial performance.

Budget & Performance Integration

"Government should be results-orientated – guided not by process but guided by performance. There comes a time when every program must be judged either a success or a failure. Where we find success, we should repeat it, share it, and make it the standard. And where we find failure, we must call it by its name. Government action that fails in its purpose must be reformed or ended.."

Governor George W. Bush

Budget and Performance Integration

The second initiative I will talk about is the Integration of Budget and Performance or the Integration Initiative. The purpose of this initiative is to integrate performance review with budget decisions, with a long-term goal of using information about program results in making decisions about which programs should continue and which to terminate or reform. The intent is to give program managers better information on costs, involve them in a process of setting goals that are commensurate with the resources requested, and then hold them accountable!

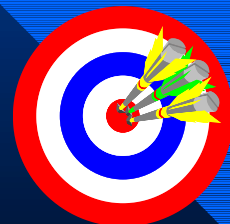
Budget & Performance Integration

"In May 2001, the General Accounting Office reported that the majority of federal managers are largely ignoring performance information when allocating resources. In only six federal agencies did 51 percent or more of the mangers indicated they used this information to a great or very great extent in resource allocation. Of the 28 agencies covered in the survey, fewer than 40 percent of the mangers in 11 agencies said they used the information in this manner, and in one agency, only 24 percent pf the managers did so.

AAA's Customer Satisfaction Ratings

FY97	FY98	FY99	FY00	FY01
4.16	4.46	4.53	4.66	4.71
Goal 4.35	Goal 4.25	Goal 4.40	Goal 4.55	Goal 4.55

Goal



FY02

4.55 out of 5

This initiative builds on the Government Performance and Results Act of 1993 (GPRA) and earlier efforts to identify program goals and performance measures, and links them to the budget process. As Senator John Glenn said several years after the passage of the Act, “The ultimate goal of GPRA is to use program performance to guide resource allocation decision.”

However, in the eight years since the Acts implementation, agencies have struggled making the connection, amid much criticism from Congress. In May 2001, GAO reported a majority of 28 federal agencies surveyed were still not prepared to use a results-oriented approach to running their operations. GAO also said in only six agencies did 51 percent or more of the managers indicate they used performance information to a great or very great extent in allocating resources. According to the GAO, developing a high-performing organization requires time and commitment, along with sustained attention from top leaders. But in their study, they found only four of the agencies had reached a level where two-thirds of managers said top agency officials were committed to managing for results. Yet, at 22 of the 28 agencies, more than half of the managers were accountable for results but fewer managers said they had the power to make decisions. I bet many of you feel the same way.

I think we have all experienced difficulty or even frustration in using our accounting and reporting systems to get the right information. As you are aware, traditional government accounting systems were not designed to satisfy external financial reporting requirements. These systems weren’t designed to deliver managerial information such as the costs of activities, products and services. That is one reason contracting out government functions is so popular. The results-oriented approach is requiring federal agencies to develop methodologies to acquire this information in a timely and cost-effective manner.

Improvements in all of the five President’s management agenda initiatives will matter little if they aren’t linked to better results. What has been missing is the systematic use of measures to make decisions. In particular, performance measures aren’t directly linked to the budget – and yet it is the budget that drives policy development, allocates resources, and has undeveloped potential to support better management. Here are the typical problems experienced:

- Past and planned results aren’t shown with budget requests, let alone linked in a cost-and-results relationship.
- There is little reward in budgets or in compensation for running programs efficiently.
- Program managers responsible for achieving results often don’t control the resources they use or have flexibility to use them efficiently. Authority isn’t aligned with accountability. In the GAO report I

previously mentioned, in 22 agencies more than half the managers reported that they were held accountable for the results of their programs. But only in one agency did more than half the managers report that they had the decision-making authority to help the agency accomplish its goals to the same extent and lastly,

- Performance measures tend to be ill defined and performance and cost data are recorded in separate systems and not integrated to provide timely, analytical, feedback to decision makers and managers.

The American people should be able to see how government programs are performing and compare performance and cost across programs. Only then will the public understand how its hard earned money is being spent.

It isn't all bad! Federal agencies are starting to tighten the link between budget and performance. In a January 2002 report, GAO reviewed the progress of 35 agencies in achieving a closer connection between performance planning, budgeting and financial reporting. The study found that almost 75 percent of the agencies made a connection in fiscal 2002, compared with 40 percent in fiscal 1999. The methods used by the agencies varied to achieve the goal. The EPA assigned program goals, such as reducing acid rain, to specific budget accounts. The Department of Housing and Urban Development linked its budget requests to each of its five general goals, such as ensuring equal opportunity in housing.   Despite the improvement, GAO found that most agencies focused on general goals and didn't get specific as needed to help Congress make informed budget decisions and to help federal managers figure out how best to meet their missions. What does your agency do in this regard?

The Administration is eager to make the government work better by providing a greater focus on performance and the Administration is using performance analyses to make funding decisions in its 2003 Budget. This effort marks the first time an administration formally integrated federal spending to program performance. This integration is designed to begin to produce performance-based budgets for selected programs starting with the 2003 Budget. What is interesting is that good government advocates have called for this same change for decades. A 1949 commission headed by then the 31st President, Herbert Hoover, first introduced the term "performance-based budgeting." Performance-based budgeting means that money would be allocated not just on the basis of perceived needs, but also on the basis of what is actually being accomplished. This approach asks not merely "How much?" It asks to explain "How well?"

The 2003 Budget marks a significant step on the long road to a result-oriented government. Funding decisions were based on performance guidelines, where programs were rated as "effective" or "ineffective," with a few "moderately effective" and "unknown" ratings included as well. The Budget:

- Shifted dollars to programs that are highly rated, in addition to funding high priority programs. The Agriculture Department's Special Supplemental Nutrition program for Women, Infants, and Children

(WIC) was judged effective and received a $364 million budget hike because of its goal of saving lives and improving the nutrition of women and children.

- Set performance targets for selected programs along with funding levels. The National Weather Service got an increase in funding of $32 million because it set specific targets to increase hurricane-warning time by two hours by 2005 and double tornado “lead time” to 22 minutes by 2015. Increases in these warning times can be the difference between life and death.

- Proposed reforms for ineffective programs reducing their funding or terminating them. Funding for fossil energy research and development programs at the Energy Department was slashed $101 million to $58 million because the programs were determined ineffective and duplicative.
- Required agencies and programs to budget for full costs of retirement and health care programs that are currently budgeted centrally. The rationale is that recording the accruing costs as employees earn benefits; managers can get a better sense of the true costs of operations.

Furthermore, since the Budget was released, OMB has been refining and improving the program assessment process in preparation for the 2004 Budget. Special attention has also been given to the development of common performance measures that can be used in the assessment of programs with similar goals.

Measurement leads to improvement, but it is hard to find good measurements in the federal government some critics say. Some of the problems are due to program managers unable to get a consistent, full measure of the costs of their programs from agency budget systems or they frequently don’t actively participate in developing performance measures for the performance of plans required under GPRA.

But good measurements are out there; we just have to try harder to find them. What the government does for the most part is not unique. We pay people, purchase goods and services, and transport people and equipment. We just need to search for the best methods, practices and processes that lead to superior performance. The goal is to adopt or adapt the best features and to implement those features into our own processes to produce the best of the best. For example, Southwest Airlines spent time comparing notes with an Indianapolis 500 pit crew on faster maintenance turn around. A good pit crew can replace 4 tires, adjust the suspension, and pump 40 gallons of fuel in a racecar in under 15 seconds. Now Southwest can turn around an airplane in under 45 minutes, an industry best.

Even before the President’s Management Agenda called for better federal government management, the Department of Defense was addressing Congressional concerns of its financial management operations and systems. DoD has two major systems for budget and performance: Planning, Program and Budget System (PPBS) and Government Performance Results

Act (GIPR). The problem is that these two systems aren't linked in any meaningful way. DoD doesn't completely factor in performance information when making budget decisions and is unable to correlate its budget request with GPRA goals and performance plans but DoD has taken some initial steps toward integration. In 1998, DoD published its first Financial Management Improvement Plan with the intent to enhance its financial management operations, systems, and processes. The Plan also offers a potentially excellent vehicle for displaying relevant performance goals and progress against those goals. While progress and improvements have been achieved in the DoD's financial management operation over the past several years, much, much, much more work remains to be accomplished.

As commander of the Army Audit Agency let me finish up by sharing what a small agency is doing in performance measurement. This may be most relevant to your own operations. Information and analysis are critical to our strategy for continuous improvement. Managers and employees are keenly aware of the need for timely, accurate and relevant data to support management decisions and improve customer service. As a GIPR pilot project, the agency understands that performance data is essential for objectively measuring how an organization is providing services and making managers accountable for results. Our managers and employees use objective data to measure performance, identify areas for improvement, and provide input to our strategic planning process. We believe in the saying, "What gets measured gets done."

One of performance measures the agency's uses to link performance to budget are claimed monetary benefits. For FY 2001, the agency claimed monetary benefits of over $1 billion. As the Army's internal auditor, the agency's mission is to provide objective and independent auditing services. These services help the Army make informed decisions, resolve issues, use resources effectively, and satisfy statutory and fiduciary responsibilities. Saving money has not only benefited the Army but the agency as well. Army leadership continues to recognize this contribution by increasing the agency's budget yearly while maintaining end strength. We also go back to organizations after our audits to see if savings were actually achieved. We have achieved an 93% success rate. We'd like to get that to 90%.

The agency also understands that not all measures can and should be tied to the budget because a direct relationship may not exist between results and funding but is still important. For example, the agency's measures customer satisfaction and employee satisfaction, both key measures of the agency's success.

As you can see, the agency's customer satisfaction levels continue to increase. The agency also raised the goal as a way to challenge our employees to continue to seek ways to improve customer service. When measuring overall customer satisfaction, the agency includes a number of measures such as benefits of the engagement; timeliness of the information delivered; satisfaction with audit team; repeat requests; and stakeholder satisfaction.

AAA's Employee Satisfaction Ratings

FY97	FY98	FY99	FY00	FY01
3.29	3.62	3.85	3.97	4.71
			Goal 3.85	Goal 3.85

Goal

FY02

3.90 out of 5

We believe there is a direct relationship between customer satisfaction and employee satisfaction. If the customer is happy with our services, our employees will feel satisfied as well for doing a good job. As you can see, employee satisfaction increased matching the increase in customer satisfaction for the same time period. Like customer satisfaction, the agency uses a number of measures to measure overall employee satisfaction. These measures include physical work environment, leadership, recognitions and promotion opportunities to name a few.

The agency takes these measurements and its results very seriously. It commits resources and uses a vigorous review schedule to ensure its success.

The initiative to integrate budget and performance has an important purpose – to improve programs by focusing on results. Dollars will go to programs that work, those programs that don't work will be reformed, constrained, or face closure. As measures improve, dollars will go to programs that yield the best results for each dollar spent. As discussed, the Administration has started to apply these principles to the 2003 Budget and will continue to do so to make performance the focus of decision-making.

In closing I would like to thank you again for giving me the opportunity to talk with you on such an important topic. I hope you will return to your respective organizations with a better understanding and knowledge of The President's Management Initiatives.