



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 21, 1999

THE DIRECTOR

MEMORANDUM TO THE PRESIDENT

FROM: Jacob J. Lew
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SUBJECT: Priority Management Objectives --INFORMATION

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In a recent budget meeting, you asked about "good government" initiatives in the FY2001 Budget. For the last three years, your budgets have identified agency-specific and government-wide management issues that need heightened attention. We designated them as Priority Management Objectives (PMOs), and OMB has worked with the agencies throughout the year to make progress toward meeting their commitments. Agency managers have primary responsibility to achieve these objectives; OMB helps agencies develop specific measures and implement detailed action plans and we monitor their progress against agreed-to milestones.

We propose to continue this practice this year. Accordingly, we have reviewed progress on past PMOs and preliminarily identified a list of twenty-three PMOs for next year. Roughly half are agency-specific; the other half are government-wide challenges.

Improving Program Management

1. *Modernize student aid delivery* - Modernize the Department of Education's student aid program by providing fast, reliable, and secure financial aid and information to students, parents, and schools. The new Student Financial Aid performance-based organization - authorized just last year in the Higher Education Act Amendments - is expanding electronic access to benefits and services, reforming contracting, developing integrated information systems, and improving program oversight. Last month, they reorganized the staff into three service-oriented channels: schools, students, and financial institutions. General managers have been hired to operate the channels and have been assigned one-year performance targets contained in their Five-Year Performance Plan.

2. *Improve DOE program and contract management* - Over 80% of the Department's budget is spent through contracts. We are working with DOE to better plan and manage before they lock into long-term contracts for significant programs, and to consistently use contracting approaches that emphasize results, accountability, and competition. Since 1994, DOE has incorporated performance incentives and increased competition in some way on each major contract, but it has not yet established or managed any contract consistently to cost, schedule and performance goals. In 1999, DOE created a high-level Project Management office to track and review all projects over \$20 million; those that cannot meet cost, schedule or performance goals will be placed on a "Watch List" to be monitored more closely.

J. Lew

3. *Strengthen HCFA's management capacity* - - Increase HCFA's flexibility to adapt to the changing marketplace while also increasing HCFA's accountability to its constituencies. HCFA faces the challenge of modernizing its administrative infrastructure, in addition to meeting pressing statutory deadlines for program changes called for in the Balanced Budget Act and the Health Insurance Portability and Accountability Act. HCFA is close to having a Management Advisory Committee up and running by March 2000. This Committee will provide guidance on ways to improve HCFA's management performance and accountability.

4. *Implement HUD reform* - - Implement Secretary Cuomo's 2020 Management Reform Plan to restore public trust in the Department by achieving and demonstrating competence in implementing HUD's programs, and restructure the way HUD operates to empower people and communities. The Secretary has completed the internal restructuring and realignment of staff, and has begun to implement the new systems. Much work remains to be done to convince the Congress, GAO and others that these changes will lead to better oversight, enforcement of program rules, and improved performance.

Important

Reform management of Indian trust funds - - The Department of Interior is responsible for managing roughly \$3 billion of funds that the federal government holds in trust for Indian tribes and individual Native Americans, as well as the underlying land, timber, and mineral assets from which these funds are derived. DOI continues to make progress in reforming management of individual Indian trust funds and individual and tribal trust assets, obtain enactment of permanent legislation to consolidate fractionated Indian lands, and resolve disputed tribal and individual trust fund balances. At the end of FY 1999, nearly all of the roughly 300,000 financial accounts managed by DOI for individual Indians had been cleaned up and 45% of these were then successfully converted to a commercial grade accounting system. This effort is on track to meet the goal of converting all remaining accounts by May 2000. All tribal accounts have been managed in a commercial grade system since 1996.

6. *Implement FAA management reforms* - - Three major management reform initiatives will help FAA improve its use of technology and prepare for future challenges: (a) implement a personnel system that, without increasing costs, empowers managers to hire, reward, promote, discipline, and remove employees, while at the same time protecting employee rights; (b) implement a financial system that accurately relates services to costs that can be reflected in user charges; and (c) reduce developmental risk and total life-cycle cost of major IT investment/air traffic control modernization projects. FAA has been preoccupied with fixing its systems for Y2K, but is now able to focus on the broader IT challenges. It has made progress in developing an improved accounting system and has made some advances in implementing procurement reform. The personnel system remains a real challenge from a cost standpoint.

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7. *Implement IRS reforms* - - Modernize IRS's technology and organizational structure to ensure the fairness of tax administration and quickly improve customer service, productivity, and financial management. By the end of FY 2001, IRS will be restructured around four major customer groups with similar filing and compliance characteristics (i.e., those with only wage and investment income, small businesses and self employed, large and mid-sized business, and tax exempt and government entities) to create clearer lines of authority and facilitate greater accountability for end-to-end service for specific customers. In the meantime, IRS is implementing a series of initiatives to provide immediate customer service improvements - for example, expanding the hours when toll-free assistance is offered, new electronic filing options, and strengthened taxpayer advocate services.

8. *Streamline SSA's disability claims process* - - Provide better service to applicants for Disability Insurance and Supplemental Security Income. Changes in the disability adjudication process will increase the accuracy of initial decisions -- so that eligible individuals will be awarded benefits earlier in the claims process -- and reduce the time it takes to appeal an unfavorable initial decision. Average processing times at state Disability Determination Services agencies are expected to decline from 7 months to 4 months for certain cases. Management improvements at the SSA Office of Hearings and Appeals are expected to reduce average hearing processing times by about one-third.

9. *Revolutionize DOD business affairs* - - DOD is adopting better business processes, pursuing commercializations, consolidating redundant functions, and streamlining organizations to reduce overhead and apply resultant savings to fund readiness and modernization. DOD's Defense Reform Initiative (DRI) is the umbrella structure that now encompasses 50 separate initiatives Department-wide including acquisition reform, outsourcing competitions, and electronic commerce. Progress is uneven, but steady. For example, in FY 1991, DOD was operating 324 separate finance and accounting systems. Through the summer of 1999, the number dropped 69% to 102 systems. By FY 2003, the Department expects to reduce the number to 32, representing the largest financial system overhaul ever undertaken by DOD.

10. *Manage risks in building the International Space Station* - - The cost of U.S. participation in the International Space Station has escalated because of technical difficulties, new work requirements, performance shortfalls, and Russian delays and shortfalls. The recent trend of annual cost growth has been curbed in the FY 2001 Budget - a major success. NASA will continue to implement requirements tradeoffs rather than pursue funding increases, address cost and schedule performance problems in its key contracts, strengthen contract management and cost controls, and further reduce risks from potential Russian shortfalls.

11. *Improve security at diplomatic facilities around the world* - - Ensure the thorough review and implementation, as appropriate, of recommendations of the Advisory Panel on Overseas Presence, including an examination of the U.S. government's overseas presence and the current structure of financing and management for overseas facilities. We will also assess the need for additional security enhancements including physical security upgrades as well as promote sound capital planning for the construction of new diplomatic and consular facilities.

12. *Reengineer the naturalization process and reduce the citizenship application backlog* - - Redesign the naturalization process, while simultaneously attempting to reduce a backlog of 1.8 million pending applications for citizenship. INS has reduced the citizenship application processing time to 12 months on average as of the end of FY 1999 from 18 months in FY 1998, and has committed to shorten the period to six months by the end of FY 2000.

Strengthening Government-wide Management

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1. *Use performance information to improve program management and make better budget decisions* - - The Government Performance and Results Act requires us to track performance and results, not just spending levels. We are working to ensure that agencies develop and use performance measures in program management and in allocating resources. We are also working to integrate this information into our budget decisions so that we can better track what taxpayers are getting for their dollars. In developing the FY 2001 budget, we made extensive use of performance information, when for example we considered prison overcrowding, sewage treatment facilities, HOPE VI housing demolition and replacement, and customer service levels at the Social Security Administration.

2. *Improve financial management information* - - At the beginning of this Administration, no agencies prepared financial statements. For FY 1998, all 24 major Departments and agencies prepared financial statements covering all of their accounts and activities: 13 of the 24 received or are expected to receive unqualified opinions -- an increase from 11 for FY 1997 and 6 for FY 1996. We expect 21 of 24 to receive unqualified opinions on their FY 1999 statements. On February 1, 1999 the Department of Treasury issued timely government-wide consolidated financial statements for the second year in a row. Regrettably, these did not receive an unqualified or "clean" opinion. The biggest problems we are experiencing are at the Department of Defense (with longstanding financial management deficiencies), the Departments of Agriculture and Education (because of the complexities of accounting for direct loan and loan guarantee programs), the Department of Treasury (largely the IRS), and government-wide - the inability by most agencies to properly identify and eliminate transactions between federal government entities. We are also concerned about the adequacy of agencies' financial systems, especially at NASA, Defense, Education and Agriculture.

3. *Use capital planning and investment control to manage IT* - - Government-wide, we spend in excess of \$38 billion yearly on IT. We are working with the agencies to (a) ensure effective capital planning, prudent acquisition, and responsible use of major information technology (IT) systems, and (b) improve the success rate of key government IT systems through sound benefit-cost analysis, links to an appropriate information architecture, sensible risk management, and mission-based evaluation criteria. While our focus is on the Departments of Energy, Interior, and Transportation which have significant challenges ahead, we raised during budget reviews with all agencies the importance of sound planning for their IT investments.

4. *Provide for computer security and protect critical information infrastructure* - - Help agencies preserve the integrity, reliability, availability, and confidentiality of important information while preserving the physical integrity of their information systems. Develop approaches to security that are risk-based, cost-effective, and mission enabling. OMB and the NSC are working with agencies to address these growing challenges.

5. *Strengthen statistical programs* - - Strengthen federal statistical programs by supporting improvements in economic statistics; continuing development of the American Community Survey to provide comparable demographic, economic, and housing data for small geographic areas; and encouraging the passage of suitable legislation for statistical data sharing. The Government spends more than \$3 billion each year to produce statistical measures of performance of our economy and society that help decision makers in the public and private sectors. These data are used for everything from monitoring the Nation's progress in the dynamic global economy, to spotting important trends in public health, to projecting the impact of future demographic shifts in the Social Security System.

6. *Implement acquisition reforms* - - The federal government purchases roughly \$200 billion annually on goods and services. We are working with the agencies to reduce contract costs and improve performance levels, and use innovative acquisition techniques such as (a) performance-based service contracts which tie contract payments to performance; (b) more disciplined capital programming processes to reduce cost and schedule overruns; and (c) increased reliance on electronic commerce. Agencies are already making significant progress. For example, to reduce administrative expense and lead-time of small dollar purchases, we established and met the goal of using credit cards instead of paper purchase orders for 60% of purchases below \$2,500 in FY 1999. We are raising that goal to 80% in FY 2000, and agencies are on track to make it.

7. *Implement electronic government initiatives* - - The Administration's vision for electronic commerce contained in the "Framework for Electronic Commerce" and your December 17 directive to agencies constitute a significant, coordinated strategy for fostering greater government efficiency and improving service delivery to citizens and businesses through emerging technologies.

We are working to improve electronic service to our citizens through innovative approaches, improved interagency coordination, and sound financial management of technology efforts. In particular, we are aiming to give citizens improved access to government information and a secure means of communicating with government agencies through electronic means.

8. *Better manage federal financial portfolios* - - At the end of 1998, \$60 billion of the federal government's portfolio of \$1 trillion in non-tax receivables and guarantees was delinquent - an increase of \$8 billion from 1997. As the Department of Treasury implements its new statutory authorities under the Debt Collection Improvement Act of 1996, collections are increasing. For example, Treasury collected \$2 billion through "offsets" of tax refunds and other payments; of this amount, over \$1 billion represented delinquent child support obligations. In addition, the Department of Justice collected over \$1 billion of delinquent debt owed to federal agencies through its litigation program. We are working with the agencies to reduce delinquencies on their loan portfolios and increase their collection of debts through monthly electronic data reporting and the use of specific collection tools such as asset sales. While our focus is on the Departments of Education, Agriculture, Housing and Urban Development, and Veterans Affairs, and the Small Business Administration, all agencies are being encouraged to (a) use the GSA schedule for acquiring financial advisors to assist in reviewing their portfolios in terms of increasing collections and reducing delinquencies, (b) follow the model of SBA in conducting a loan assets sales program, and (c) implement an approved write-off process.

9. *Align federal human resources management to support agency goals* - - People are critical to achieving government results. We must pay more attention to the strategic management of this vital asset at all levels in our organizations. The Office of Personnel Management will be working to ensure that agencies understand and use all of the flexible human resource tools and expertise necessary to support achievement of agency strategic goals and objectives.

10. *Verify that the right person is getting the right benefit* - - We are working with the agencies to (a) ensure the timely and correct payment of federal funds by verifying up-front eligibility and benefit levels of applicants for cash assistance programs, consistent with privacy and security safeguards, and (b) improve the integrity of federal/State credit and benefit delivery programs by reducing overpayments and costly post-payment audit and collections efforts. Key agencies include the Social Security Administration, Internal Revenue Service, and the Departments of Education and Health and Human Services. Through OMB's new Chief Counsel for Privacy, we are working closely with the agencies to effect successful computer "matches" with strong privacy safeguards.

11. *Streamline and simplify federal grants management* - - OMB is taking steps to make it easier for State, local, and tribal governments and nonprofit organizations to apply for and report on federal grant programs. We are working with agencies to develop common applications and reporting systems for grant programs and to identify statutory impediments to grants simplification.

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