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Report to the Secretary of Education

May 1993

DEPARTMENT OF EDUCATION

Long-Standing Management Problems Hamper Reforms

GAO/HRD-93-17

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

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May 28, 1993

The Honorable Richard W. Riley
The Secretary of Education

Dear Mr. Secretary:

This report on the U.S. Department of Education (ED) is one in a series of GAO management reviews of federal departments and agencies. Our purpose in doing these reviews is to assess the management of each department or agency and identify actions that can be taken to improve organizational performance.

To obtain information for this report, we conducted 151 in-depth interviews, primarily with ED's senior officials, and reviewed relevant reports and documentation. Among these were in-house studies; task force reports; departmental personnel statistics; and Office of Personnel Management (OPM), GAO, ED Inspector General, Office of Management and Budget (OMB), and Federal Managers' Financial Integrity Act reports. Our review was conducted between December 1990 and September 1992 in accordance with generally accepted government auditing standards. (See app. I.)

In this report, we include information covered in our briefings with then Secretary of Education Lamar Alexander in July 1991 and his staff in November 1991 and our letter of August 1991[1] identifying problems in ED's planning processes and recommending implementation of a strategic management process. We also include findings from our study of ED's information resources management[2] and our reports on the high-risk area of the Guaranteed Student Loan Program.[3]

As you know, American education is at a crossroads. Student achievement in mathematics and science lags behind that of students in other industrialized nations, some 1,900 students drop out of school each day, and large numbers of students graduate from school lacking the skills sought by employers. The growing belief that these educational problems

[1]GAO Management Letter on the Need for a Strategic Planning Process to the Secretary of Education (Aug. 20, 1991).

[2]Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

[3]High-Risk Series: Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992) and Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 16, 1993).

contribute to America's declining economic competitiveness has spurred many federal, state, and local officials and the business community to agree that national goals for education are needed. You are well acquainted with these policy issues.

You may be less aware of the Department's impaired organizational capacity to manage; that is, fulfill its mission and carry out its role in the national education agenda. In our recent transition report,[4] we outlined the scope of departmental management problems and the need to strengthen departmental management. Here we provide the detailed findings and make recommendations.

Results in Brief

The Department charged with managing the federal investment in education and leading the long-term effort to improve education itself lacks a clear management vision of how to best marshal its resources to effectively achieve its mission. Past Education Secretaries have not built an organization that could implement major policy initiatives. Moreover, the Department's history is replete with long-standing management problems that periodically erupted, became the focus of congressional and media attention, and subsequently diverted attention from the policy agendas. One example of this is the financial management of the Federal Family Education Loan Program (formerly the Guaranteed Student Loan Program).

To reverse this trend and effect long-term change in the way the Department is managed, the Secretary must give priority attention to changing both ED's culture and its management systems. Past Department leaders have focused on short-term solutions and made limited use of career employees in management problem-solving. Thus, ED's current organizational culture leaves it poorly positioned to make long-range changes. Secretary Alexander recognized the need to improve the way ED is managed and took initial steps to enhance departmental leadership, transform agency culture, and improve operations. However, GAO is concerned that this momentum, already dissipating, not be lost.

The National Education Goals (see app. II) constitute a long-term approach to closing the nation's skills and knowledge gaps. But they have not provided a vision of what the Department itself needs to do to achieve its mission. With the exception of the objectives set forth to remedy problems in student financial assistance, the previous Secretary did not

[4]Transition Series: Education Issues (GAO/OCG-93-18TR, Dec. 1992).

establish a management framework with goals and objectives to be accomplished if ED was to support its agenda. Moreover, this general lack of management direction was exacerbated by ED's long-standing practice of filling key technical and policy-making positions with managers who, lacking requisite technical qualifications, were ill-equipped to carry out their managerial responsibilities.

Further, ED's management structure and systems have inadequately supported its major initiatives, such as student aid or special education programs. The Department has no systematic processes for planning, organizing, or monitoring for results and quality improvement. Lacking both clear management goals and a Secretarial focus on management, ED cannot effectively align its activities to support major initiatives, carry out its programs, or correct identified problems. In our November 1988 transition report,[5] we recommended that the Secretary establish a Secretarial-level strategic management process to address these deficiencies. This has not been done.

ED's major management systems need attention. To give the Secretary the tools for managing the Department, information and financial management systems must be repaired. Managers lack the information and resources to oversee operations; give technical assistance; and ensure financial interests against fraud, waste, and mismanagement. To lead and sustain these efforts, ED also needs a skilled work force. But the Department does not adequately recruit, train, or manage its human resources to ensure that workers can accomplish its mission and implement Secretarial initiatives.

Background

Created in 1979,[6] ED is one of the youngest and smallest Cabinet-level departments. Its 5,000 employees fulfill a diverse mission: (1) to provide financial aid for education and monitor its use, (2) to fund and pursue education-related research and information dissemination, (3) to ensure equal access to education and enforce federal statutes prohibiting discrimination in federally funded programs and activities, and (4) to provide national leadership in identifying and focusing attention on major educational issues and problems. (See app. III for a description of ED offices and funding.) As ED's fiscal year 1992 appropriation of $28.8 billion indicates, the federal role in financing U.S. education is small. The Department directly funds 5.6 percent of elementary and secondary and

[5]Transition Series: Education Issues (GAO/OCG-89-18TR, Nov. 1988).

[6]Largely drawn from elements of the Department of Health, Education, and Welfare, ED became a functioning department in May 1980.

12.3 percent of postsecondary expenditures.[7] Historically, however, federal leadership and policy leverage have been significant, particularly in securing equal access to educational opportunities for all Americans.

In addition to mission-related activities, ED Secretaries have used their position to promote such initiatives as effective schools, drug-free schools, and school choice. Historically, these efforts were not connected to any national education agenda that could give direction to federal, state, and local education activities. The situation changed in 1990, when the nation's governors, in conjunction with the White House, developed the six National Education Goals. This was followed in 1991 by the Bush administration's long-term strategy, "America 2000," for achieving the goals.[8]

Over the past 12 years, the Department has found fulfilling its mission increasingly difficult. While its staff has steadily decreased, its work load has grown (see fig. 1). ED was hit harder by the reductions-in-force of the 1980s than any other Cabinet department. By fiscal year 1991, ED's use of full-time-equivalent (FTE) employees had declined 33 percent from its fiscal year 1981 level. Yet throughout this period, the Congress gave the Department responsibility for 70 new federal programs. In addition, the number of grants and contracts awarded by ED grew and civil rights complaints filed with it reached the highest levels in the Department's history (see app. IV).

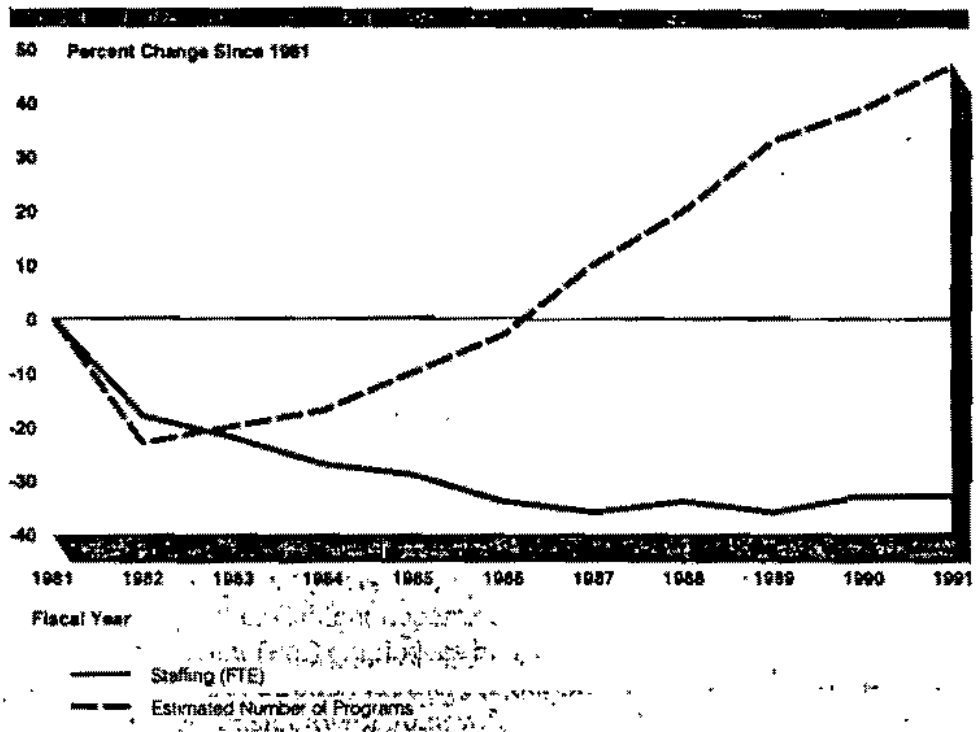
Exacerbating the work load problems was ED's culture[9] and negative self-image. Early leadership did not enhance the self-image: the first Secretary of Education had only a few months in which to try to organize the Department before a new administration took office. The next Secretary made dismantling the Department a formal goal and did not request a budget for it in fiscal years 1983 and 1984. Subsequent Secretaries focused on external policy agendas, devoting little attention to departmental management.

[7]This fiscal year 1992 estimate by the Congressional Research Service does not include the portion of federal support provided indirectly to these institutions through student aid programs and various tax expenditures. Neither does it reflect the support that postsecondary institutions receive from other federal agencies, such as research and development grants.

[8]ED, America 2000: An Education Strategy. Sourcebook, April 18, 1991.

[9]An organization's culture consists of the basic underlying assumptions, beliefs, values, attitudes, and expectations shared by its members.

Figure 1: ED Staffing Declined While Programs Increased



Source: Congressional Research Service and ED.

Note: Supporting data for this and other figures in this report are presented in appendix VI.

ED's strategic and operational management problems have been documented at length by GAO, OMB, ED's Inspector General, congressional committees, and many internal reports and task forces. However, serious problems have persisted or recurred. To help ED manage its increasing work load and tackle chronic management problems, we suggested in our 1988 transition report that the Secretary establish a strategic management process. This would have enabled the Secretary to set major goals and priorities, monitor progress against these goals, and provide feedback to senior agency managers. It also would have allowed the Secretary to systematically correct and improve ED's management systems.

Principal Findings

Management Vision Needed

Without a Secretarial-level process for setting clear goals and priorities and dealing with issues requiring long-term focus, ED's ability to implement solutions to problems and engage in effective Department-wide planning and management is impeded. We observed this in our 1988 report and did so again in an August 20, 1991, letter to the Secretary. However, the Department still has not developed and institutionalized such a process.

To be effective, strategic management must be linked to the budget process; for maximum long-range results, strategic plans must drive budget requests. Absent a strategic plan, ED may be unable to assess the resource levels needed to respond to future changes in program direction.

Traditionally, the Department has operated as a conglomerate of largely independent entities (see app. III). Calling priorities unclear, managers we interviewed said they were unaware of what Secretaries prior to Secretary Alexander had envisioned for the Department as a whole. In reviewing past management practices, we were told by many top officials—including those responsible for management—that they themselves were "out of the loop." That is, they were not involved in priority-setting, decision-making, information flow, and resource allocation. While articulation of the America 2000 strategy provided a much-needed policy concept that defined the national education agenda, it did not offer a management vision for the Department as a whole. The only major management initiatives—a management-by-objectives process,[10] a program accountability initiative,[11] and a joint OMB/ED assessment of the student financial assistance programs[12] —were either required by or included OMB.

Without a top-level vision, managerial efforts tend to be focused on the needs of the individual units in the organization, not the Department as a whole. For example, because ED's information resources management planning takes place at the individual unit level, not Department-wide, critical decision-making information often is not shared. As a result, when

[10]The first management-by-objectives plan was submitted to OMB in fiscal year 1990.

[11]Implemented in 1991, the initiative mandates that ED conduct a systematic and comprehensive examination of accountability systems for every program.

[12]Begun in December 1990 as a response to the student loan default problem, this study made recommendations to correct problems in managing the student financial assistance programs. These recommendations, made to the Secretary of Education and the Director of OMB, were announced on April 8, 1991.

planning problems were combined with ED's inaccurate and incomplete records, erroneous payments and loans were made to ineligible borrowers. Absent a top-level vision, information technology efforts tend to degenerate into loose collections of independent systems specific to a particular office.[13]

Likewise, the financial management of ED's programs suffers from a lack of a unifying vision and clear priorities. In the past, some managers discounted fiscal integrity as a goal, believing that the Department existed largely to get money out to states and local grantees on time. As a result, ED focused too much on the execution of program funding activities and too little on program accountability. This focus has contributed to the mounting problems with student financial assistance and other financial management weaknesses.

Leadership Commitment to Management Lacking

In 1991, Secretary Alexander inherited a management infrastructure weakened by past political leadership that had not given priority to building and maintaining an organization that could implement major policy initiatives. Targeted for abolition in the early 1980s, ED had difficulties in attracting high-quality Assistant Secretaries.[14] ED since has suffered from management neglect. A major problem has been management's practice of placing unqualified managers in key technical and policy-making positions. The high turnover among managers also has been problematic. For example, in the 1-year period from February 1990 to February 1991 ED had three successive directors in the information technology area, two of whom said that they were unqualified for the position. Only in 1992 did ED hire a permanent director with a background in information technology. Further, ED's leadership has had a greater proportion of political appointees than other departments, contributing to heavy management turnover. Without consistent, knowledgeable leadership, information technology problems have languished unresolved.

Even when problems surfaced and ED's staff and senior officials proposed solutions, in-house technical expertise was often ignored and implementation of planned solutions was not tracked. This happened, for instance, when the Department decided to let a long-term contract to improve ED's financial information system. Although in 1989 ED staff wrote

[13]Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

[14]See chapter 4, "Staffing Reagan's Titanic," in The Thirteenth Man by Terrel H. Bell (NY: The Free Press, 1988).

a request for proposal that reached the final stage of bid review, action on the project was stopped when a new Deputy Under Secretary for Management was appointed. After a 3-year delay, a new effort was begun in 1992.

Leadership problems also have occurred in the student financial assistance area, which had three Deputy Assistant Secretaries in the 18-month period between January 1991 and July 1992. As of March 1993, the position was vacant. Lacking continuous, qualified leadership, ED has yet to successfully implement all of the fundamental managerial reforms recommended by the joint OMB/ED task force[15] in 1991. One such reform would address student loan defaults—which totaled more than $14 billion as of September 30, 1991—through strong leadership in all senior positions, as well as better systems and controls. In particular, the OMB/ED task force recommended that the Deputy Assistant Secretary for Student Financial Assistance be "an extremely well-qualified person... available for the long-haul." The first appointee had no background in loans or student financial assistance and abruptly resigned after 7 months. The next appointee, while qualified, left ED after 5 months.

Improving Basic Management Systems Imperative

In developing and implementing critical policies, goals, priorities, and programs, ED does not have in place the structures and systems it needs to support managerial decision-making and accountability. ED also lacks the necessary information, tracking capability, and financial controls.

In gauging how successfully it is enhancing education oversight,[16] ED lacks or has not used existing key information. For instance, it cannot say whether and to what degree persons with disabilities receive federally funded rehabilitation services. Until 1992, ED did not use existing information to identify students who default on loans and then receive new ones. In ED's Chapter 1 Program, the $6.7 billion federal program supporting the educationally disadvantaged, ED officials have reported that states do not provide timely information needed to effectively monitor the program, plan for future expenditures, or justify annual budget requests.

Similarly, because its financial management system does not provide adequate financial controls and cannot produce accurate and reliable

[15]OMB/ED, Improving Guaranteed Student Loan Management: A Blueprint for Action, April 1991.

[16]For a detailed discussion of information resources management in ED, see Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

information, ED cannot ensure that its programs are financially sound. As a result, its programs are subject to increased risk from fraud, waste, and mismanagement.[17] ED's protracted financial management problems have been discussed by its Inspector General and OMB as well as GAO. They involve such important matters as guaranteed student loan defaults—$2.7 billion[18] in fiscal year 1992—and millions of dollars that remain unspent yet unrecovered from the $1.5 billion in discretionary grants and $232 million in contracts that ED awards each year. For example, as of June 30, 1990, 250 expired discretionary grants that were 3 or more years old had unexpended funds totaling $11.2 million, according to ED's Inspector General.[19] These monies remain uncollected.

The Department has underway several efforts to improve financial management, but it still faces major challenges in developing a single, fully integrated financial management system and producing financial reports that are useful to decision-makers. Financial management improvements must be a continuous process requiring top management support and commitment. The Chief Financial Officers Act of 1990 (P.L. 101-576) gives ED a framework for improving its overall financial management.[20]

Human Resources Management Critical

Critical work force problems also have confronted ED as its responsibilities have grown and become more complex. Because of increasingly constrained staff capacity (see apps. IV and V), such aspects of ED's mission as program monitoring and oversight are inadequate. For example, the Department has relied heavily on an honor system in its financial management activities. It pays over $5 billion annually to lenders and guaranty agencies on the basis of unaudited summary billings. Moreover, the shortage of technically qualified staff has contributed to management problems in the financial and information areas. The lack of staff with accounting or financial backgrounds, for example, plays a major role in the persistence of serious problems in managing student financial assistance programs.

[17]See, for example, Stafford Student Loans: Millions of Dollars in Loans Awarded to Ineligible Borrowers (GAO/IMTEC-91-7, Dec. 12, 1990) and Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 16, 1993).

[18]This Department of Education figure is unaudited and may be as high as $2.9 billion.

[19]ED, Office of Inspector General, Expired Grants Allowed to Remain Open for Years, Audit Control No. 11-90760, Mar. 1991.

[20]See The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform (GAO/AFMD-12.19.4, Sept. 1991).

Throughout the 1980s, ED's investment in training lagged far behind growth in training investment in the federal government generally. Likewise, ED's proportion of staff receiving training is less than the federal average.

Also, the amount of time and money individual ED offices spent on training has varied widely.[21] For example, in fiscal year 1992, the Office of Inspector General spent $379 per FTE employee on external training, while the Office of Bilingual Education and Minority Languages Affairs spent nothing on outside training. Similarly, employees in the Office of Inspector General used 37 hours per FTE employee in internal and external training, while Office of Postsecondary Education employees used only 9 hours of training per FTE employee. The Department-wide average was 18 hours per FTE employee. In addition to problems created by lack of training, many senior managers recounted difficulties related to recruiting staff and slow processing of ED's personnel actions. Although human resource issues have been identified in numerous studies, work force assessment has not been systematic. In December 1991, however, efforts were initiated to improve human resource management. (See app. V.)

Finally, ED's work force problems are exacerbated by the Department's demographics. Large percentages (between 40 and 50 percent in some job series) of employees are eligible to retire. Meanwhile, ED officials said, like other agencies, ED is having difficulty attracting and keeping younger, high-skilled workers, such as lawyers, in some regional offices. An ED report[22] notes that nearly half of the Career Intern Class of 1984 had left ED by 1989.

Strategic management of human resources could substantially aid the Department in meeting current and future policy and program requirements. By linking human resource planning[23] to a strategic management process (see fig. 2), ED could use such human resource activities as staffing, rewards, and training and development to support its goals and objectives. Under such an approach, key managers are actively involved in planning for the organization's future, including structuring the

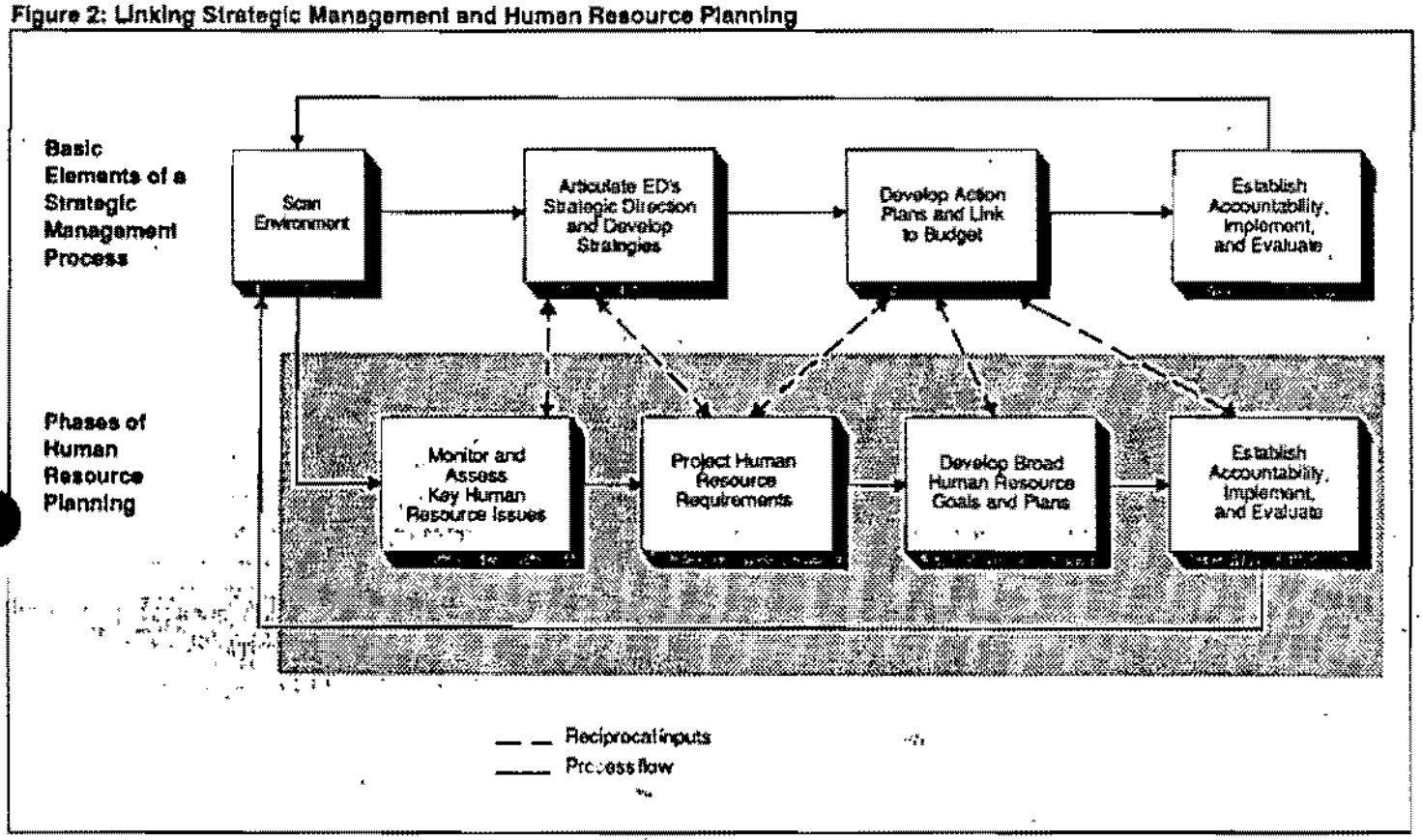
[21]The actual amount of training is higher because some training is not reported.

[22]ED, Horace Mann Learning Center, Strategic Training Plan for the Department of Education, FY 1992-FY 1996.

[23]Human resource planning is a framework for decision-making and management that addresses the consequences of an organization's strategic plans and dynamic environment on its employees. Such planning aims to ensure that the organization has enough employees available with the right skills when and where needed to respond to change and accomplish goals.

mix and organization of resources to accomplish goals and meet challenges posed by changing work force demographics.[24]

Figure 2: Linking Strategic Management and Human Resource Planning



Agency Cultural Transformation Needed

The Department's major management problems remain unresolved, many ED managers believe, in part because of the agency culture it inherited from the Department of Health, Education, and Welfare, its parent agency until 1980. An ED task force observed that this culture is characterized by a focus on short-term solutions, highly centralized decision-making, and limited communication with and use of career employees by senior managers in management problem-solving. In the past, strategies that would have allowed the Department to move forward on management support issues were developed but not acted upon. This problem exists at all levels of the organization. For example, several proactive Assistant

[24]See Management of VA: Improved Human Resource Planning Needed to Achieve Strategic Goals (GAO/HRD-93-10, Mar. 18, 1993) for a synthesis of generally accepted principles of human resource planning.

Secretaries tried to implement a strategic planning process in 1989 but gave up when the Secretary declined to participate.

Furthermore, ED has a negative self-image. ED's managers spoke of the Department as a dumping ground for staff and equipment that other agencies did not want. Some offices referred to themselves as "step-children," "starved" for such basic resources as staff, computers, training funds, space, and equipment. In addition, the formal administration attempts in the 1980s to abolish the Department and recurring reductions-in-force, have fostered the negative self-image.

Despite these roadblocks, ED managers are receptive to change. In addition, ED's recent leadership has taken action to promote positive change in the agency's culture and management. Within months of his 1991 confirmation, Secretary Alexander articulated a policy vision for education and established a respected management team. At Department-wide staff meetings, the former Secretary reported to ED staff on agency activities and progress, and discussed the values and beliefs he would like to see perpetuated. Previous managerial efforts that were neglected by top management—such as a human resources task force report[26]—were resurrected and implementation of their findings begun. Similarly, in 1991 the former Secretary, Deputy Secretary, and other senior executives began looking directly to staff for answers to management problems, such as how to resolve financial management issues.

The former Secretary also encouraged more participatory management techniques,[26] such as those experts agree are useful in promoting positive organizational change. For instance, the Office of Vocational and Adult Education developed a quality culture initiative. Similarly, a Total Quality Management model developed in one unit of the Office of Postsecondary Education was being expanded to the whole office. In September 1992, ED took initial steps to begin Department-wide quality efforts.

While these steps and others constitute a promising departure from the management neglect of the past, they are new and not an established part of the organizational structure. Thus, with the change in administration the momentum could be lost. To institutionalize reform of ED's

[26]ED, Developing the Education Program Workforce, Education Program Curriculum Committee, Mary Jean LeTendre, Chairperson, Apr. 16, 1990.

[26]See Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

management infrastructure, ED must take several actions to ensure its ability to support implementation of the national education agenda.

Recommendations

Building on the initial steps taken by the Department over the last 2 years to improve operations, we recommend that the Secretary of Education do the following:

- Articulate a strategic management vision for ED that demonstrates how its management infrastructure will be developed to support its mission and such Secretarial policy priorities as the National Education Goals.
- Adopt a strategic management process in the Office of the Secretary for setting clear goals and priorities, measuring progress towards those goals, and ensuring accountability for attaining them. Once implemented in the Office of the Secretary, take the necessary actions to implement this process throughout the Department. Such a process should also provide a vehicle for ensuring both Secretarial-level and employee involvement for solving major management problems and for planning and managing long-term change.
- Enhance management leadership throughout ED and strengthen agency culture by (1) implementing a Department-wide strategic management process, (2) identifying good management practices within ED and supporting their adoption where appropriate in other parts of the Department, (3) rewarding managers for good management and leadership, and (4) filling technical and policy-making leadership positions with people with appropriate skills.
- Create for information, financial, and human resources management, strategic visions and strategic plans that are integrated with the Department's overall strategic management process.

Agency Comments

The Department of Education provided written comments on a draft of this report. Their comments are summarized below and reproduced in appendix VII.

The Secretary generally agreed with our findings, noting that the report will serve as a useful road map as the Department pursues efforts to improve its culture and management. In addition, although noting that some changes to build up ED's management capacity will require several years, the Department has begun to act on our recommendations. Specifically, the Department is near completion of a strategic plan and Total Quality Management guidelines that will serve as an initial

framework for improving its performance in the critical areas addressed in our report.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement of actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report. A written statement must also be submitted to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are providing copies of this report to interested members of the Congress, executive branch agencies, and the public. We also will make copies available to others upon request. Our work was performed under the direction of Gregory J. McDonald, Director of Human Services Policy and Management Issues, who can be reached at (202) 512-7225. Other major contributors are listed in appendix VIII.

Sincerely yours,

Lawrence H. Thompson

Lawrence H. Thompson
Assistant Comptroller General

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Abbreviations

GAO	General Accounting Office
ED	Department of Education
FTE	full-time-equivalent
OMB	Office of Management and Budget
OPM	Office of Personnel Management

Objectives, Scope, and Methodology

The purpose of this general management review is to identify the key management issues facing the Department of Education and assess the extent to which its management systems and processes support its mission. General management reviews differ in focus and consequent methodology from our customary work. Typically, our audits and evaluations are done at the request of the Congress and focus on program issues. In contrast, we generally initiate management reviews and through them address such broad, agency-wide issues as strategic planning and human resource management. Such a review depends on the cooperation and support of the head of the agency. Getting action on recommendations that often call for fundamental changes in how an agency operates requires a strong commitment from the top.

Grounded in the experience of successful management consultants,[1] the methodology for a general management review assumes that the key information about the way the agency functions—its strengths, weaknesses, problems, solutions, barriers to change, and culture—resides in its staff. Some reviews have used questionnaires extensively to tap staff expertise. Another efficient way is through interviews with agency officials. For this study, we corroborated and augmented information from interviews with information from other studies done by GAO, departmental inspectors general, and others and pertinent departmental and other documentation.

We interviewed senior officials at ED and examined relevant documents and reports (such as in-house studies and task force reports), personnel statistics from the Department and the Office of Personnel Management, and GAO, ED's Office of Inspector General, OMB, and Federal Managers' Financial Integrity Act reports. Our 151 semistructured, in-depth interviews, primarily with ED's managers, senior executives, and presidential appointees, included questions on various management topics. Among these were: strategic management, performance monitoring, communication, information resources, human resources, and financial management. We also asked about the interrelations between the program offices and central support offices, activities and current status of cross-cutting task forces, innovative programs or activities, and the strengths and areas needing improvement within the Department. This report includes information covered in our briefings with the then

[1]For example, see Gordon and Ronald Lippitt, The Consulting Process in Action (LaJolla, CA: University Associates, Inc., 1978); Rosabeth Moss Kanter, The Change Masters (NY: Simon and Schuster, Inc., 1983); Robert R. Blake and Jane Srygley Mouton, Consultation, 2nd ed. (Reading, MA: Addison-Wesley Publishing Co., 1983); and Edgar H. Schein, Process Consultation: Its Role in Organization Development (Reading, MA: Addison-Wesley Publishing Co., 1983).

Secretary of Education in July 1991 and his staff in November 1991 and our letter of August 1991 identifying problems in ED's planning processes and recommending implementation of a strategic management process.

Our work was conducted at ED's headquarters in Washington, D.C., and ED's Dallas and Chicago regional offices between December 1990 and November 1991 in accordance with generally accepted government auditing standards. We updated selected data through September 1992.

National Education Goals

In 1990, the nation's governors, in conjunction with the White House, developed six National Education Goals to be met by the year 2000:[1]

1. All children in America will start school ready to learn.

2. The high school graduation rate will increase to at least 90 percent.

3. American students will leave grades four, eight, and twelve having demonstrated competency in challenging subject matter, including English, mathematics, science, history, and geography; and every school in America will ensure that all students learn to use their minds well, so they may be prepared for responsible citizenship, further learning, and productive employment in our modern economy.

4. U.S. students will be first in the world in science and mathematics achievement.

5. Every adult American will be literate and will possess the knowledge and skills necessary to compete in a global economy and exercise the rights and responsibilities of citizenship.

6. Every school in America will be free of drugs and violence and will offer a disciplined environment conducive to learning.

[1]ED, America 2000: An Education Strategy, Sourcebook, April 18, 1991.

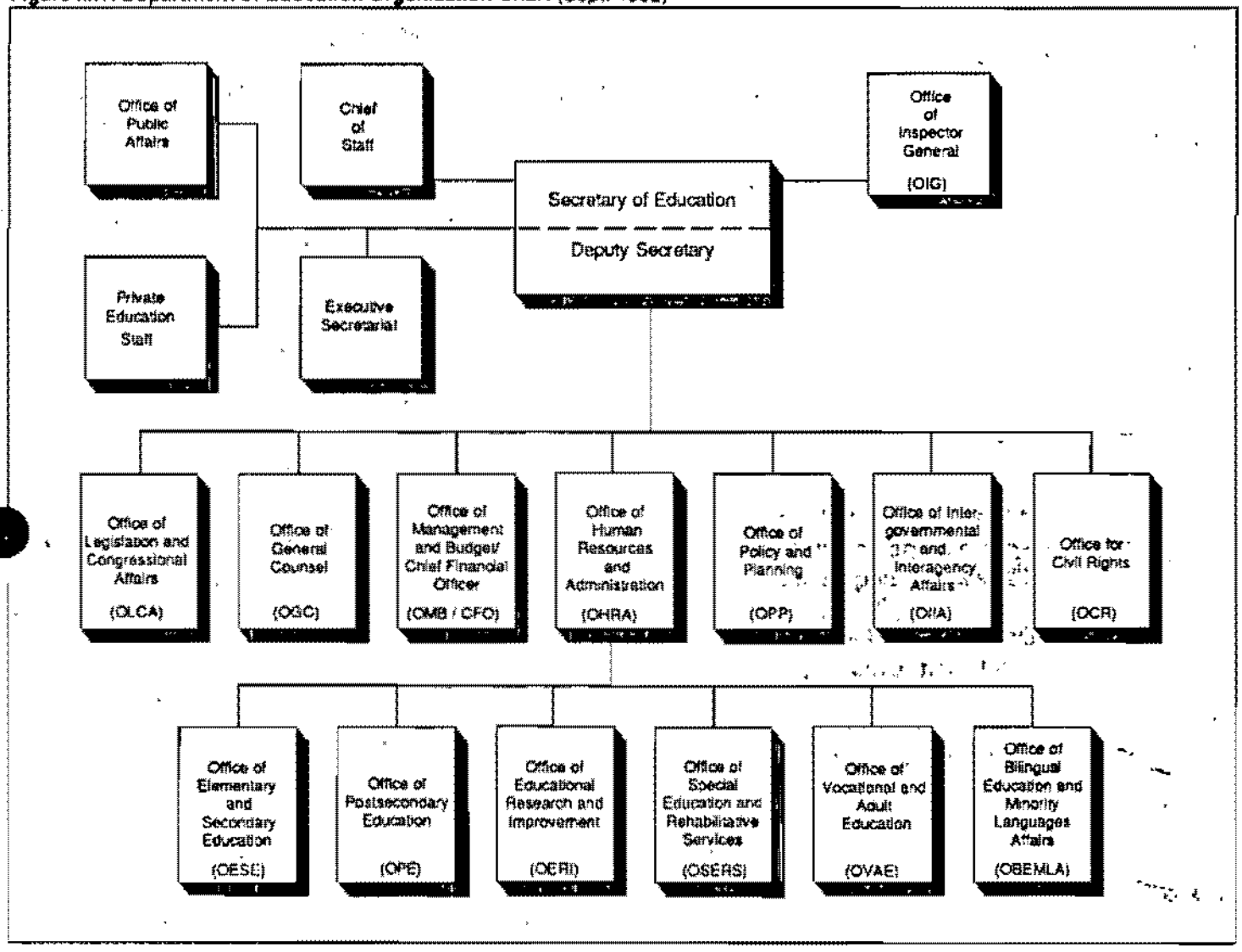
Department of Education: Organization and Programs

The U.S. Department of Education, created in 1979, is the primary Cabinet-level federal department that assists the President in pursing his educational agenda for the nation and in implementing federal education laws enacted by the Congress.

Organization and Functions

ED has some 5,000 employees. About half work in six program offices. The others work in several central management offices (including the Offices of the Secretary and Deputy Secretary), the Office of Inspector General, and the Office for Civil Rights (see fig. III.1). Each office has a role in carrying out ED's diverse functions (see table III.1).

Figure III.1: Department of Education Organization Chart (Sept. 1992)



Source: ED.

Table III.1: Department of Education Offices: Function, Funding, and Staffing (Fiscal Year 1992)

Dollars in millions

Office	Function	Appropriations	Programs[a]	Employees
Postsecondary Education	Administers funding for postsecondary education programs, including student financial assistance, institutional development, student services, housing and academic facilities, cooperative education, international education, and graduate education.	$12,109	54	1,222
Elementary and Secondary Education	Provides financial assistance to states, local education agencies, and Indian-controlled schools to improve preschool, elementary, and secondary school student achievement.	9,189	58	287
Special Education and Rehabilitative Services	Supports programs that assist in educating children with special needs, provides rehabilitative services to youth and adults with disabilities, and supports research to improve the lives of individuals with disabilities.	5,054	59	425
Vocational and Adult Education	Administers programs that help states assist adults in attaining the basic skills needed to obtain a high school diploma or its equivalent and find employment.	1,443	25	113
Educational Research and Improvement	Collects, analyzes, and disseminates information on the progress and condition of American education; conducts and funds education research; and administers programs to promote reform and innovation, improve practice, and enhance libraries and library education.	420	35	495
Bilingual Education and Minority Languages Affairs	Administers bilingual education programs to students with limited English proficiency in elementary and secondary schools and conducts research and evaluation in bilingual education.	225	18	48
Civil Rights	Ensures equal access in federally funded education programs by investigating complaints, conducting compliance reviews, and providing technical assistance to help institutions achieve voluntary compliance with civil rights laws.	54	[b]	902
The Secretary	Provides for the overall direction, supervision, and coordination of all Department activities and advises the President on all federal policies, programs, and activities related to U.S. education.	[c]	[b]	105
Deputy Secretary	Assists the Secretary in the discharge of Secretarial duties and responsibilities. The Deputy Secretary serves as Acting Secretary in the absence of the Secretary.	[c]	[b]	24

(continued)

Dollars in millions

Office	Function	Appropriations	Programs[a]	Employees
Human Resources and Administration	Oversees departmental administrative matters, and directs, coordinates, and recommends policies for activities that include: evaluating and assessing the departmental programs and internal management practices; managing the Department's discretionary grant-making, procurement, and automated data processing activities; providing personnel and training services to departmental offices; providing resource management services, including facilities management, administrative support, and audiovisual communications; and developing and managing the departmental Affirmative Action Program.	[c]	[b]	549
Inspector General	Conducts and supervises audits, investigations, inspections, and other reviews of ED's programs and operations; provides leadership, coordination, and policy recommendations to promote economy, efficiency, and effectiveness; prevents fraud and abuse in ED programs and operations; and reviews proposed and existing legislation and regulations governing ED's programs.	26	[b]	365
[illegible]aral Counsel	Provides legal services to the Department and its officials that include: interpreting all federal laws affecting ED's operations; representing ED in administrative and judicial litigation, and drafting and reviewing legislation and regulations for ED; and advises the Secretary and other officials on policy initiatives and legal developments.	[c]	[b]	112
Policy and Planning	Oversees all matters related to Department program plans and directs, coordinates, and recommends policy for activities that are designed to: coordinate planning and policy discussions with the Office of Management and Budget and Executive Office of the President; direct analytical studies on the economic, social, and institutional impact of existing and proposed education policies and provide advice on the formulation of departmental policies, legislative proposal, and program operations; and develop, coordinate, and monitor a planning system for supporting the Department's long-term program strategies and financial plans.	[c]	[b]	65
Intergovernmental and Interagency Affairs	Serves as liaison between ED and the public and provides overall leadership for the Department in establishing communications with a wide variety of intergovernmental, interagency, international, and public advocacy groups.	[c]	[b]	125

(continued)

Dollars in millions

Office	Function	Appropriations	Programs[a]	Employees
Management and Budget/Chief Financial Officer	Oversees all matters related to program policy, budget, and legislative development; management of the Department's program budget and administrative resources; financial management, financial control, and accounting; and program analysis.	[c]	[b]	250
Legislation and Congressional Affairs	Coordinates and directs departmental interaction with the Congress by working closely with the Secretary and departmental offices to develop and present ED's legislative programs and coordinating congressional testimony by Department officials. This office also responds to congressional inquiries about Department programs and policies and notifies members of the Congress about award of grants and contracts.	[c]	[b]	29

[a]As of fiscal year 1991.

[b]These offices do not administer programs.

[c]These offices do not receive a separate appropriation but share in the appropriation received for program administration of $292 million.

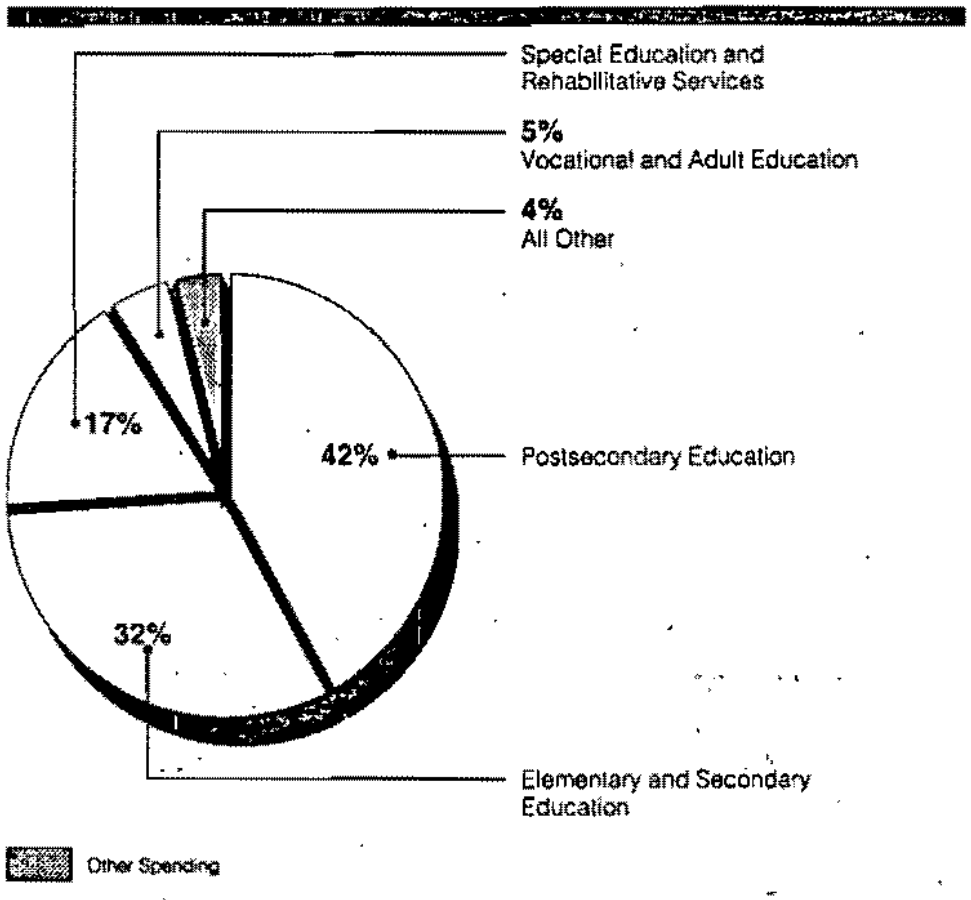
Note: This table does not include the appropriation of $90 million for the Educational Excellence Initiative and the $292 million for program administration.

Source: ED.

Program offices range in size from the Office of Postsecondary Education (over 1,200 employees) to the Office of Bilingual Education and Minority Languages Affairs (48). Most of ED's work force, 70 percent, is located in headquarters, while 30 percent work in the 10 regional offices. Top-level regional managers report directly to their counterparts in the Washington headquarters.

The Department funded more than 200 programs out of fiscal year 1992 appropriations of $28.8 billion. Four offices were responsible for dispersing almost all the appropriations: the Offices of Postsecondary Education ($12.1 billion or 42 percent), Elementary and Secondary Education ($9.2 billion or 32 percent), Special Education and Rehabilitative Services ($5.1 billion or 17 percent), and Vocational and Adult Education ($1.4 billion or 5 percent) (see fig. III.2).

Figure III.2: Most Spending Managed by Four Offices (Fiscal Year 1992)



Source: ED.

Of ED's fiscal year 1992 appropriations, allocations for salaries and expenses[1] account for about 1 percent and four program areas—Compensatory Education, Pell Grants, Federal Family Education Loans, and Special Education—about 70 percent.

[1]Includes salaries and benefits of ED employees; contracts for student aid data collection and processing and other departmental services; costs associated with accounting, financial management, and payroll; and other administrative expenses such as rent, utilities, travel, and mail.

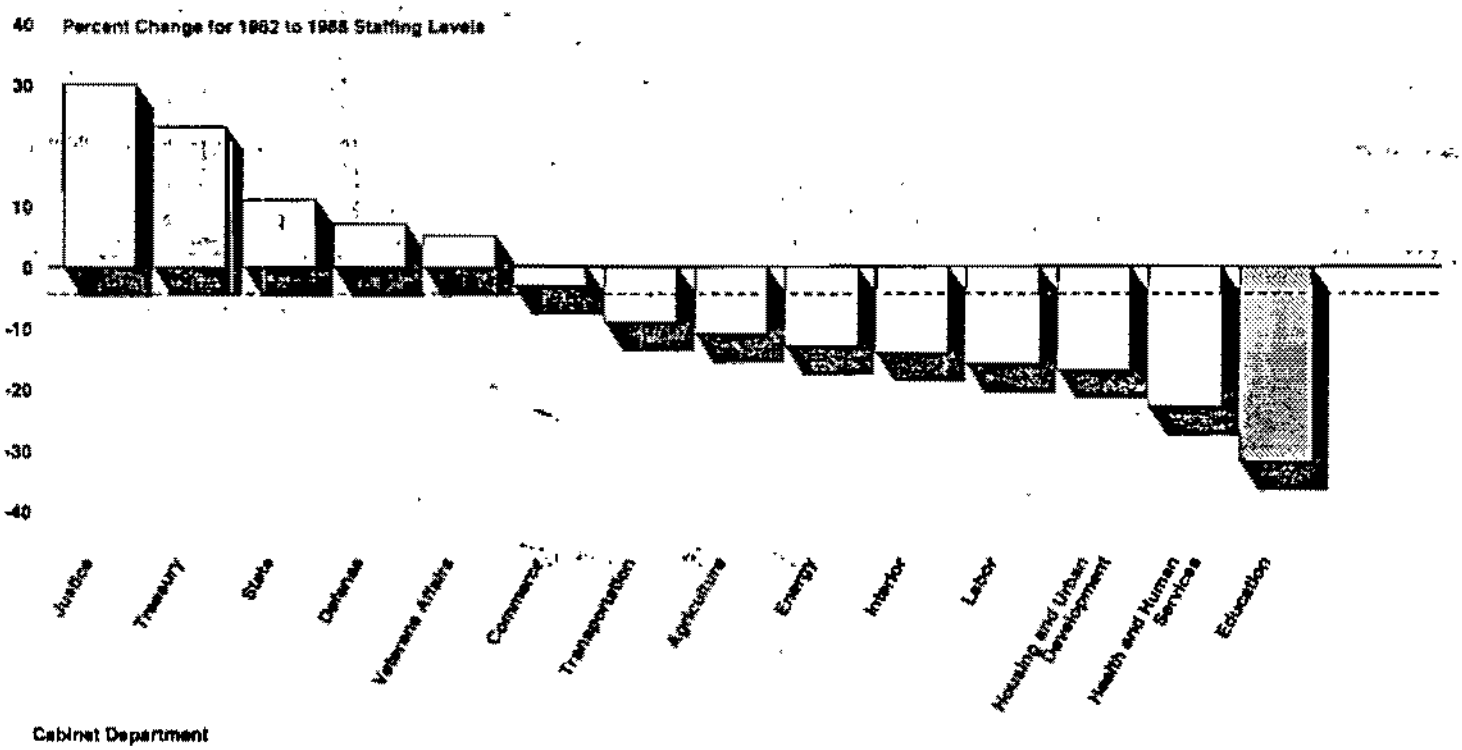
Work Load Increased While Resources Declined

Through the 1980s, ED's resources decreased while its work load grew. Through reductions-in-force and hiring freezes, ED experienced the greatest drop in staffing of any Cabinet department, 32 percent from 1982 to 1988. At about the same time, the numbers of programs funded, grants, contracts, and loan activities grew.

ED Resources Decreased in the 1980s

As one would expect, the general decline in ED's staffing numbers (shown in fig. IV.1) was accompanied by a drop in salaries and expenses. By fiscal year 1991, salaries and expenses were 22 percent less than the 1981 levels when adjusted for inflation.

Figure IV.1: ED's Reduction of Staff Greater Than Any Other Cabinet Department



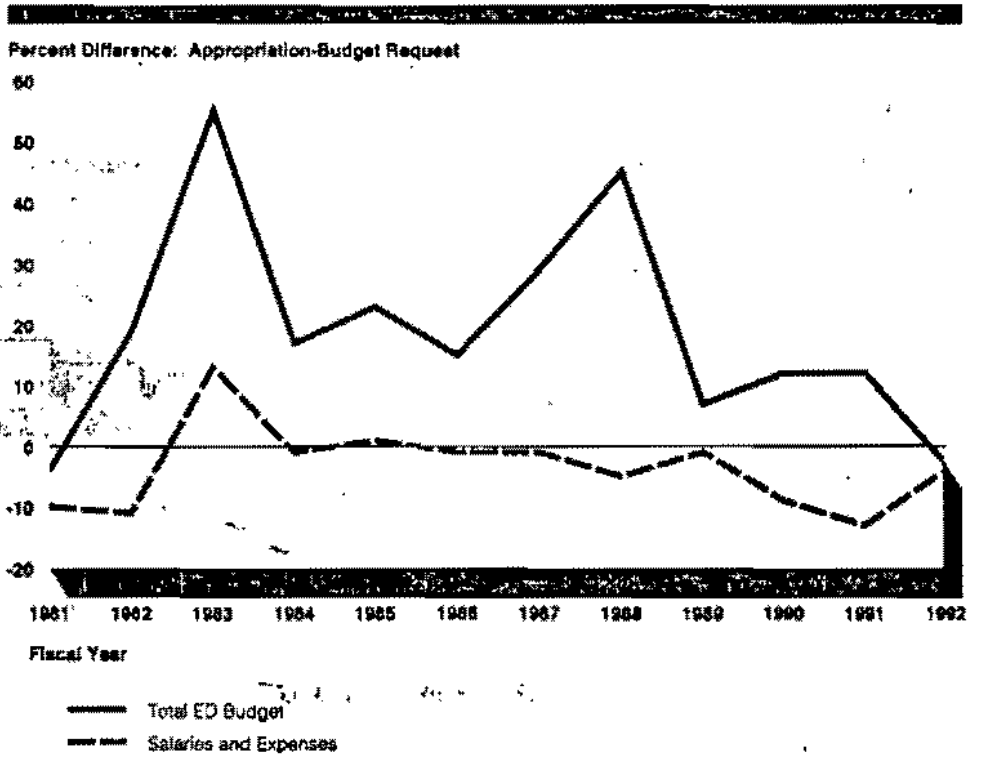
----- Average Change in Federal Employment

Note: Between 1982 and 1988, federal employment overall decreased an average of 4.4 percent.

Source: Office of Personnel Management (OPM).

At the same time, departmental appropriations increased in current dollars. ED's total appropriations increased from $14.8 billion to $28.8 billion, about 95 percent, between fiscal years 1981 and 1992. Throughout the 1980s, Presidents' budget requests tended to be less than what the Congress had appropriated the previous year. Although the Congress usually appropriated more than Presidents requested for ED programs between fiscal years 1981 and 1992, it tended to appropriate less than requested for salaries and expenses (see fig. IV.2).

Figure IV.2: Congress Usually Appropriated More Than Presidents Requested for Programs but Not for Salaries and Expenses



Note: Because ED did not begin operation until May 1980, no budget was requested until 1981.

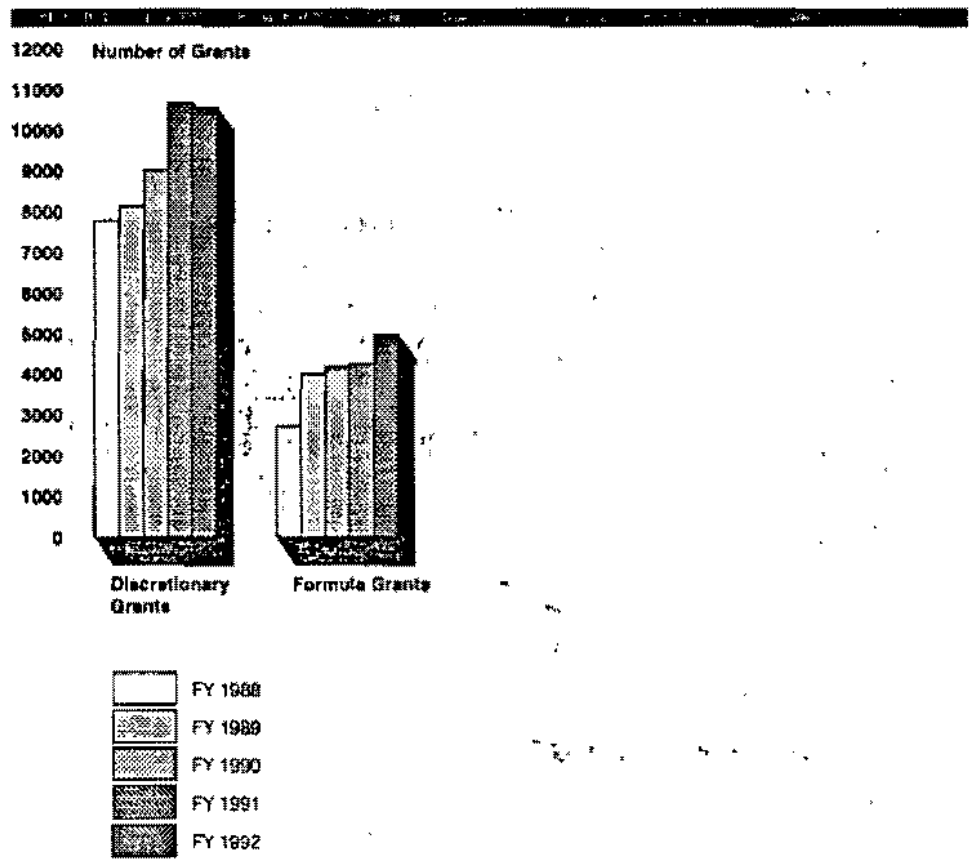
Source: Congressional Research Service and ED.

ED Work Load and Responsibilities Increased

Even as ED's staffing and the amount appropriated for salaries and expenses declined when adjusted for inflation, its work load increased. The number of programs funded between 1981 and 1991 grew from an estimated 150 to about 220, as figure 1 on page 5 shows.

Grants, contracts, and loan activities also grew during the 1980s. The number of contracts ED awarded increased 103 percent between fiscal years 1986 and 1992. The number of discretionary grants rose 36 percent and formula grants rose 85 percent between fiscal years 1988 and 1992 (see fig. IV.3). The number of loan commitments in the Federal Family Education Loan Program (known as the Guaranteed Student Loan Program) increased 109 percent from 2.3 million in fiscal year 1980 to 4.8 million loans in fiscal year 1991.

Figure IV.3: Number of Discretionary and Formula Grants Increased Over Time

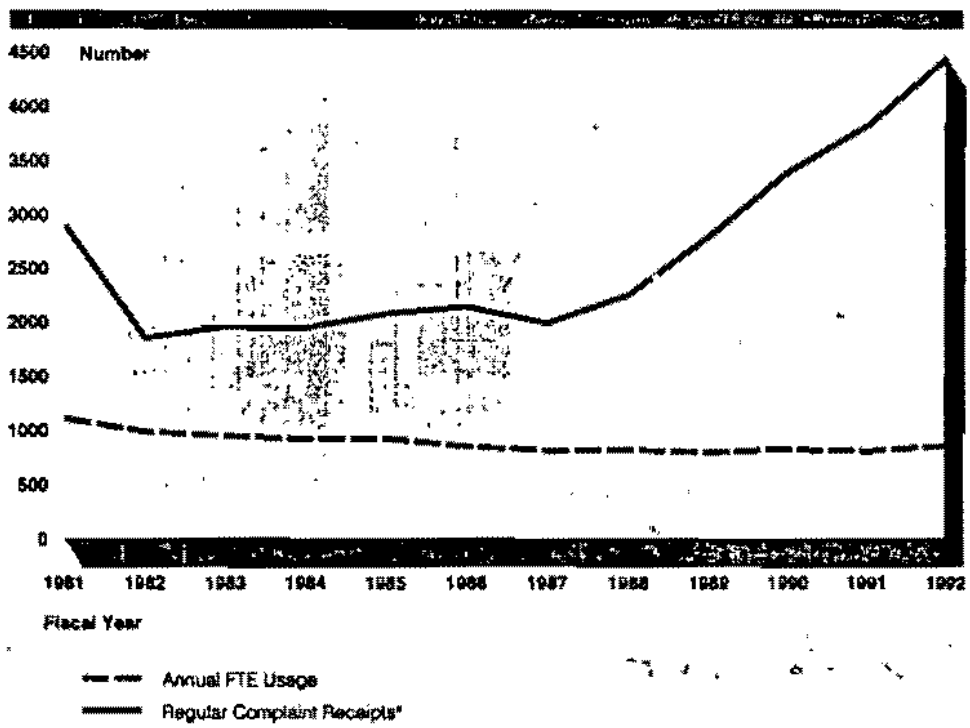


Source: ED.

In the Office for Civil Rights, civil rights complaints increased dramatically over the last decade and now exceed any previous level in the

Department's history (see fig. IV.4). At the same time, the Office experienced a 23-percent drop in its use of employees—from 1,099 employees in fiscal year 1981 to 848 in 1992. Because complaints now require more labor-intensive investigation, the Office for Civil Rights has been unable to devote the amount of resources it would like for compliance review investigations and technical assistance. As a result, in fiscal year 1992 the Office was unable to devote more than 6 percent of its regional staff resources to compliance review investigations and 4 percent to technical assistance activities.

Figure IV.4: Complaints Filed With the Office for Civil Rights Rose to Highest Level In ED's History While Staff Dropped 23 Percent (Fiscal Years 1981-92)



*Excludes those relfiled due to enactment of the Civil Rights Restoration Act of 1987 and those repetitively relfiled by a single complainant.

Source: ED.

Human Resource Issues: Training, Recruiting, and Work Force Assessments

Several of our major findings regarding leadership in the Department of Education are human resource issues. They include the lack of vision and commitment to management improvement on the part of its leaders. Also significant is the Department's high proportion of political appointees, which exacerbates the amount and frequency of turnover, particularly in technical and policy-making leadership positions. In addition, ED needs to address issues in training, recruiting, and work force assessments.

Work Force Composition Diverse

In September 1992, ED employed a diverse work force, in which women (61 percent) and minorities (46 percent) were well represented. Compared with other Cabinet-level departments,[1] ED employed a higher percentage of minorities in fiscal year 1990, had a higher percentage of women than all but one (Health and Human Services), and employed a higher percentage of persons with targeted disabilities.[2] But while ED had the highest percentage of blacks and women at GS 11-15 levels when compared to 22 of the largest federal agencies in fiscal year 1990, the proportion of blacks and women decreased at higher grade levels. For example, black women were 34 percent of employees at grades 9-12, 13 percent of employees at grades 13-15, and 2 percent of senior executives in fiscal year 1991. In contrast, white women were 25 percent of employees at grades 9-12, 28 percent of employees at grades 13-15, and 20 percent of senior executives. Similarly, black men constituted 11 percent at grades 9-12, 8 percent at grades 13-15, and 6 percent of the senior executives, while white men were 23 percent of grades 9-12, 45 percent of grades 13-15, and 63 percent of the senior executives.

ED officials are justifiably proud of the overall diversity of the Department's work force. However, the relatively low percentage of women and minorities at higher grade levels within ED suggest that it, like other agencies, may have retention and discrimination problems in the future in the absence of corrective action.

Employee Training Neglected

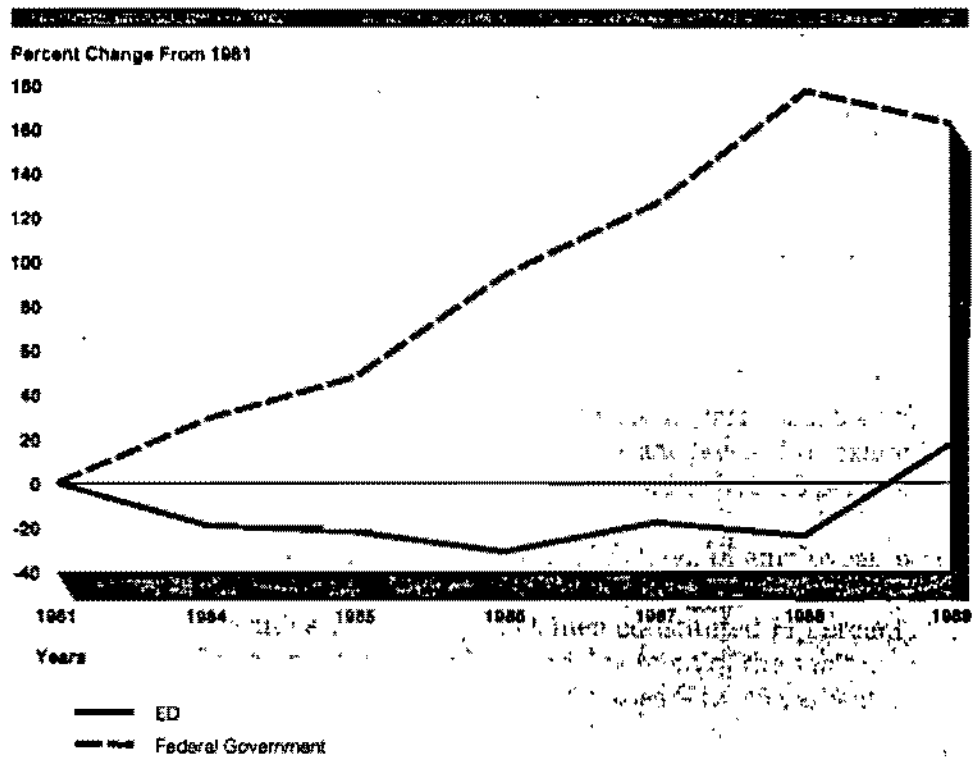
ED has been unsuccessful in developing and upgrading the skills of its current work force due to insufficient training resources. ED managers and several reports identified serious skill weaknesses in such areas as accounting, finance, analysis, writing, and management. But throughout

[1]The Departments of Defense and Veterans Affairs are not included in this comparison.

[2]"Targeted disabilities" refers to deafness, blindness, missing extremities, partial and complete paralysis, convulsive disorders, mental retardation, mental illness, and distortion of the limbs and spine.

the 1980s, ED lagged far behind the growth in training investment in the federal government as a whole (see fig. V.1).

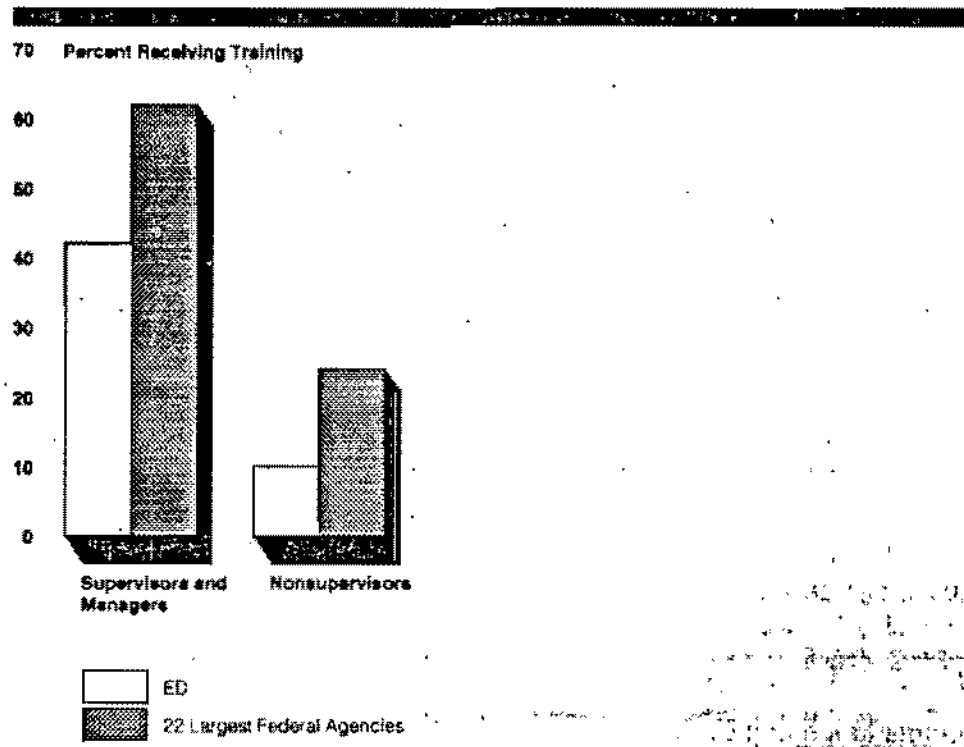
Figure V.1: ED Investment in Training Lagged Behind Federal Government



Source: ED.

Likewise, the proportion of ED employees receiving training also was less than the federal average (see fig. V.2).

Figure V.2: Percent of Employees Receiving Training Less Than Federal Average (Fiscal Year 1990)



Source: OPM.

Recruitment Problems Widespread, Timeliness an Issue

Many senior managers recounted difficulties related to recruiting employees and the slow process of ED personnel actions. They called the process frustrating because it reduces their competitiveness in hiring qualified applicants and leaves positions unfilled for longer than they wish.

An example of the many problems in recruiting qualified people in a timely fashion was given by one top manager, who said it took him over 9 weeks to get an eligible list of GS-6s. Another noted it took 15 months to fill a vacancy for a professional staff position. One reason is that ED's Personnel Management Service does not advertise positions in places where they are likely to attract more qualified applicants, managers asserted. For example, one position required the skills possessed by school district business managers. Rather than advertising in the professional journal to which the pool of qualified applicants subscribe, it was only posted in the standard federal information places. This attracted no applicants.

Nor was Personnel termed helpful in getting managers through the nuances of hiring. For example, one manager, unfamiliar with writing position descriptions, said she could not get the assistance she needed from Personnel. Still other managers said that often the people on Personnel's certification list were unqualified. Sometimes a position had to be advertised several times before a qualified candidate was selected.

Nonetheless, some managers perceived ED's Personnel Management Service as helpful in meeting their needs. Others suggested that Personnel staff were simply overworked and "move as fast as they can" or perceived the slowness of the process as attributable to OPM-mandated procedures.

Issues Identified, but Work Force Assessment Unsystematic

Various studies ED has conducted highlight some of the human resource issues confronting the Department. For example, the Department's 1990 task force report and its strategic training plan said ED is having difficulty attracting and keeping younger, high skilled workers.

A 1991, joint OMB/ED study on student financial assistance[3] identified serious weaknesses in human resource management, particularly the lack of employees with adequate financial, accounting, and analysis skills; training; and technical leadership. In our report on the Office of Special Education and Rehabilitative Services,[4] we identified major problems in filling vacancies, key positions filled on an acting basis, and limited training and development programs.

In addition, during our review ED managers cited concerns about a range of human resource management problems with recruiting, training, promotion, and a dwindling resource pool. These issues, they say, have not been systematically assessed or studied. While some work has been done in identifying specific needs of individual offices, and groups of employees, no Department-wide assessment of work force needs has been done.

[3]OMB/ED, Improving Guaranteed Student Loan Management: A Blueprint for Action, April 1991.

[4]Department of Education: Management of the Office of Special Education and Rehabilitative Services (GAO/HRD-90-21BR, Nov. 28, 1989).

Efforts Underway to Improve Human Resource Management

In December 1991, Department officials initiated efforts aimed at improving ED's human resource management. ED officials have begun projects to address training needs and involve their employees in improving work processes.

For example, officials developed and piloted plans for an employee skills clinic where ED employees can have their skills assessed and obtain information about internal and external training opportunities to upgrade their skills. In addition, a consultant will help ED develop a model recruitment program. ED administered a survey to all employees to solicit their opinions about job conditions, the work environment, recognition and contributions, and overall effectiveness of the Department. ED's Office of Vocational and Adult Education has implemented its "Star POC" (Principal Operating Component) initiative as part of its mission. This initiative is intended to improve morale, communication, and productivity and to encourage employee involvement, contribution, and teamwork.

Tables Supporting Figures in Text

Table VI.1: Data for Figure 1

Fiscal year	Estimated number of programs	Percentage difference from 1981 levels	Staffing (FTE)	Percentage difference from 1981 levels
1981	150	*	6,883	*
1982	115	–23	5,660	–18
1983	120	–20	5,369	–22
1984	125	–17	5,026	–27
1985	135	–10	4,877	–29
1986	145	–3	4,527	–34
1987	165	10	4,413	–36
1988	180	20	4,516	–34
1989	200	33	4,425	–36
1990	208	39	4,596	–33
1991	220	47	4,630	–33

Table VI.2: Data for Figure III.2

Dollars in thousands

Office	Fiscal year 1992 appropriation	Percent of appropriation
Postsecondary Education	$ 12,109,136	42
Elementary and Secondary Education	9,188,917	32
Special Education and Rehabilitative Services	5,053,932	17
Vocational and Adult Education	1,442,608	5
All other	1,038,296	4

Table VI.3: Data for Figure IV.1

Department	Percent change in staff for 1982-88
Justice	30
Treasury	23
State	11
Defense	7
Veterans Affairs	5
Commerce	–3
Transportation	–9
Agriculture	–11
Energy	–13
Interior	–14
Labor	–16
Housing and Urban Development	–17
Health and Human Services	–23
Education	–32

Table VI.4: Data for Figure IV.2

Dollars in thousands

	Total ED budget			Salaries and expenses		
Fiscal year	Request	Appropriation	Percentage difference	Request	Appropriation	Percentage difference
1981	$15,485,332	$14,807,740	–4	$291,096	$262,513	–10
1982	12,353,966	14,752,370	19	308,719	275,462	–11
1983	9,950,508	15,422,286	55	256,505	290,663	13
1984	13,191,889	15,441,482	17	294,835	292,382	–1
1985	15,484,949	19,078,624	23	301,450	303,762	1
1986	15,545,314	17,939,011	15	277,342	273,512	–1
1987	15,218,094	19,687,697	29	298,755	294,070	–1
1988	14,049,789	20,314,175	45	316,000	299,118	–5
1989	21,164,824	22,738,556	7	314,701	310,718	–1
1990	21,910,000	24,622,959	12	342,124	312,517	–9
1991	24,618,311	27,503,298	12	406,700	353,076	–13
1992	29,620,044	28,632,889	–3	388,088	371,412	–4

Table VI.5: Data for Figure IV.3

	Number of grants, fiscal year				
Type of grant	1988	1989	1990	1991	1992
Discretionary	7,757	8,120	9,018	10,663	10,559
Formula	2,689	3,988	4,149	4,238	4,972

Table VI.6: Data for Figure IV.4

Fiscal year	Annual FTE employee usage	Regular complaint receipts
1981	1,099	2,889
1982	976	1,840
1983	941	1,946
1984	907	1,934
1985	913	2,064
1986	843	2,126
1987	807	1,974
1988	808	2,236
1989	789	2,779
1990	815	3,384
1991	797	3,809
1992	848	4,432

Table VI.7: Data for Figure V.1

	ED		Federal government	
Fiscal year	Training expenditures	Percentage change from 1981	Training expenditures	Percentage change from 1981
1981	$1,089,425	*	$370,963,901	*
1984	885,469	-19	476,993,493	29
1985	849,631	-22	550,106,092	48
1986	752,592	-31	721,194,820	94
1987	892,446	-18	839,063,403	126
1988	824,818	-24	1,029,324,721	177
1989	1,288,964	18	972,055,228	162

Table VI.8: Data for Figure V.2

	Percent receiving training	
	ED	Average of 22 largest federal agencies
Supervisors and managers	42	62
Nonsupervisors	10	24

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Related GAO Products

Education General Management Review Report

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

Other Related Reports

GAO Management Letter on the Need for a Strategic Planning Process to the Secretary of Education (Aug. 20, 1991).

Department of Education: Management of the Office of Special Education and Rehabilitative Services (GAO/HRD-90-21BR, Nov. 28, 1989).

Transition Series: Education Issues (GAO/OCG-93-18TR, Dec. 1992).

Transition Series: Education Issues (GAO/OCG-89-18TR, Nov. 1988).

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 16, 1993).

High-Risk Series: Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992).

The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform (GAO/AFMD-12.19.4, Sept. 1991).

Fiscal Year 1990 Financial Audit Attempted of the Guaranteed Student Loan Programs (GAO/AFMD-91-53ML, Apr. 12, 1991).

Stafford Student Loans: Millions of Dollars in Loans Awarded to Ineligible Borrowers (GAO/IMTEC-91-7, Dec. 12, 1990).

Management of VA: Improved Human Resource Planning Needed to Achieve Strategic Goals (GAO/HRD-93-10, Mar. 18, 1993).

Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/HRD-90-109, Aug. 31, 1990).

Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

Meeting the Government's Technology Challenge: Results of a GAO Symposium (GAO/IMTEC-90-23, Feb. 1990).

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ABSTRACT

The United States educational system is not meeting the increasing demand for highly skilled workers required in the international marketplace. While local, state, and federal governments spend $221 billion on public elementary and secondary education, only a small percentage of the nation's students have adequate reasoning and problem-solving skills. Students' knowledge of math and science also lags behind that of their counterparts in other industrialized nations. The Department of Education must help schools meet these challenges and adjust to a higher proportion of poor, minority, and immigrant children. However, the Department faces serious internal problems. In 1990, the President and the nation's governors established the National Education Goals. The goals concern children's readiness for school, their understanding of challenging subject matter, school environments, performance assessment, and readiness to enter the work force. And although the Guaranteed Student Loan Program is helping more students, it is inordinately complex, has poor oversight, and suffers skyrocketing defaults. A direct loan demonstration program, in which the Department becomes the lender, may be a partial solution. Another difficulty is longstanding Department management problems that could hinder efforts at student assistance program reform. A list of related General Accounting Office products is included. (JPT)

United States General Accounting Office

GAO Transition Series

December 1992

Education Issues

GAO/OCG-93-18TR

GAO United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration in the area of education. The issues include the need to (1) enhance federal efforts to meet the National Education Goals, (2) reduce the cost and preserve the integrity of the student loan program, and (3) strengthen departmental management.

As part of our high-risk series on program areas vulnerable to waste, fraud, abuse, and mismanagement, we are issuing a related report, Guaranteed Student Loans (GAO/HRO-93, Dec. 1992).

The GAO products upon which this transition series report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the Secretaries-designate of Education, Health and Human Services, and Labor.

Charles A. Bowsher

Charles A. Bowsher

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Education Issues

Our educational system is not keeping pace with the demands of a changing economy. International competition is transforming the American workplace, increasing the demand for highly skilled workers across manufacturing and service industries. Employers want employees who can solve problems, share management responsibilities, and work in teams. Yet the nation's schools are not educating many students to meet these demands.

In the United States, public elementary and secondary education is a $221 billion cooperative enterprise of local, state, and federal governments. This enterprise faces great challenges. Only a small percentage of the nation's students can perform tasks requiring complex reasoning and problem solving, and their achievement in mathematics and science lags behind that of their peers in other industrialized nations. We estimate that about one in three youths aged 16 to 24 will not have the skills needed for even entry-level, semiskilled, high-wage occupations. Over 1,900 teenagers drop out of school every day. While the federal government contributes less than 6 percent of what is spent on elementary and secondary education, the Department of Education has a strong leadership role to

play in working with states and localities to improve the nation's education system as a whole and in ensuring that all children will benefit from the improvements.

Among the challenges that the Department faces in school reform are helping schools to adjust to a higher proportion of poor, minority, and immigrant children; continuing to support the development of high national standards for all children; and moving thoughtfully in backing the development of new forms of student assessment. The Department will also need to consider how to use existing categorical programs in the context of broad reform and how the discrete services provided by its programs complement one another and those of other agencies. For example, to help ensure that young children are ready for and succeed in school, the Department should continue efforts to link its programs with others, such as the Department of Health and Human Services' Head Start program. The Department will also need to work closely with the Department of Labor to develop an effective national strategy for our youth's transition from school to work. Most importantly, the federal government will need to determine how to maximize its

resources to promote widespread school reform efforts among states and localities.

However, the Department has long-standing managerial problems that may hamper its taking a strong leadership role in reforming the nation's educational system. In our 1988 transition report, we noted many deficiencies in the Department's management, particularly in student assistance programs; loan defaults cost the federal government $3.6 billion in 1991. The Congress has enacted changes that could significantly improve the operation of these programs, but serious problems remain in overall departmental management, financial and management information systems, and human resource management. If not addressed, these problems could undermine not only student loan reforms but also reform of the nation's educational system.

Enhancing Federal Efforts to Meet National Education Goals

Concerns about the quality of our nation's education system have increased dramatically in the decade since A Nation at Risk documented the system's inadequacies.[1] Even though changes were implemented during the 1980s, many experts agree that major improvements are still needed to prepare the nation's youth for the economic realities of the next century. A critical component of our nation's competitiveness is the capacity of the nation's students to meet the demands of a changing workplace. Members of the business community have been particularly alarmed about the lack of skills among entry-level youth.

The Department of Education is in a unique position to provide leadership, even though its financial contribution is small. For example, the federal contribution to U.S. spending on elementary and secondary education has never exceeded 10 percent; in fiscal year 1990, it was less than 6 percent. But the federal role in education has been important in ways these figures do not convey.

The Department and the Congress have traditionally developed programs to address

[1] A Nation at Risk: The Imperative of Educational Reform, National Commission on Excellence in Education (Washington, D.C.: U.S. Government Printing Office, 1983).

specific national needs. The cornerstones of federal efforts have been programs to assist specific groups of students: disadvantaged students, those with disabilities, and those whose proficiency in English is limited. New concerns about the quality of education for all students, however, are broadening the focus of the federal role in education.

Early in 1990, the President and the nation's governors agreed to National Education Goals for the year 2000, which have become a framework for education reform efforts. These goals address the need to ensure all children's readiness for school and improved grasp of challenging subject matter, ensure school environments conducive to learning, and enhance the knowledge and skills of those entering and competing in the work force. Moving the nation toward meeting these goals will be a key task of this administration and the Congress.

As the nation moves toward higher standards for all children, it faces a growing number of disadvantaged children who, as a whole, are becoming more diverse and increasingly poor. The Department of Education faces dual challenges: exercising leadership to improve the nation's education system as a whole and ensuring that all

children, especially those who have been less successful in the nation's schools, will benefit from these improvements.

Promoting Readiness for School

Many children are unprepared for school. Of the 22.8 million children in the United States under the age of 6 in 1991, over 5 million lived in poverty, an increase of almost 50 percent from 1975. Many of these children experience disadvantages, including problems with language development, nutritional deficiencies, and health problems. Poor children have the lowest participation rates in preschool programs, despite evidence that high-quality preschool programs can substantially increase chances for success in school.

The Head Start program, operated by the Department of Health and Human Services, is the largest federal effort to provide comprehensive early childhood services to disadvantaged children, with a fiscal year 1992 budget of $2.2 billion. The Department of Education, however, also supports services for young children through Chapter 1 of the Elementary and Secondary Education Act, Even Start, and parts of the Individuals With Disabilities Education Act. These programs had combined fiscal year

1992 budgets for young children totaling over $1 billion.

As the nation seeks to ensure that all children are prepared to enter school, coordinated efforts from all levels of government will be needed to guarantee access to quality preschool services and attention to the needs of young children after they enter school. The Department of Education should continue to work closely with other agencies to promote these efforts.

The Department of Education should consider how the discrete services provided by each of its programs complement one another and those of other agencies. In addition to examining relationships to federal preschool programs, such as Head Start, the Department will need to consider how its programs relate to those of states and localities that fund preschool programs. Furthermore, many federal and state programs fund child care services that could complement preschool programs. All of these programs form an unconnected patchwork of services. In examining strategies to integrate services provided by different agencies, we found that efforts linking clients to services—by using case managers or developing agreements among

service providers—are more successful than state-led approaches that attempt to reorganize entire agencies or create new services. Still, the incoming administration and the Congress will need to identify the best ways to link together the many programs that serve young children and their families.

In preparation for the reauthorization of Head Start, we are conducting several studies that should also help to illuminate issues for the Department of Education's early childhood efforts: an analysis of census data to determine preschool participation rates among the nation's children, whatever the funding source; an in-depth study in several states to identify the federal, state, and local programs that deliver services to young children, as well as how they relate to one another; and a study of the arrangements that other nations have made to provide preschool services to young children.

Leading School Reform Efforts

Leadership by the Department and the Congress is needed in promoting widespread school reform. This leadership must address a number of issues: how to foster national efforts, without a prescriptive federal role, to

develop high standards related to the national education goals; how to use major federal categorical programs in the context of broad reform; and how to maximize the federal government's limited resources to promote state and local school reform efforts.

Developing National Standards and Assessments

In 1992, the National Council on Education Standards and Testing issued proposals to set high national standards for five core subjects—English, mathematics, science, history, and geography—and to develop a system of national assessments using those standards. A variety of groups—funded by the Department of Education, other government entities, and foundations—have begun to develop these national standards and new forms of assessments.

To meet the National Education Goals, the Congress and the Department will need to work together to ensure that progress continues in developing high standards for what students should know. The Congress and the Department also need to proceed thoughtfully as new forms of student assessments are developed. We are studying the role of assessments in national school reform efforts, including the likely cost of a

national assessment for the United States and the experience of some Canadian provinces with student assessment. The Department and the Congress will also need to consider how to avoid misuse of these assessments, which could be used to deny opportunities to some students. A key point of debate has been the fairness of assessing students, especially when their schools have not afforded them adequate materials, curricula, or instruction.

Federal leadership—using the knowledge of technical experts and educators—is also necessary in developing indicators to track progress toward meeting all of the goals. In measuring progress toward improving student competency in challenging subjects, we found problems with the way performance standards were set and how achievement tests, specifically for mathematics, were interpreted.

Changing Context for Categorical Programs

The context for federal categorical programs is changing. The Congress and the Department will need to consider how categorical programs will help disadvantaged students achieve the high standards implied by the National Education Goals. Research and an expanding

knowledge base—about how children learn and the most effective teaching practices—have led to a greater focus on higher order thinking skills and advanced skills instruction, rather than an emphasis on basic skills and remediation. The Congress and the Department need to consider different ways of serving children with special needs—whether the children are disadvantaged because of poverty, have disabilities, or lack proficiency in English. A key issue is how to ensure that these students, who are the traditional targets of federal categorical programs, also benefit from broader school reform efforts.

Our ongoing work will explore the operation of categorical programs in the context of current reform efforts. In one study under way, we are examining the accountability system established for the Chapter 1 categorical program during its last reauthorization in 1988.

Facilitating Widespread Reform

Federal leadership will be needed to promote extensive school reform. The critical issue that has continually faced the Department is how to enable its programs to play a role in widespread innovation. Efforts of various kinds are under way at the state

and local levels. Different reform models have been adopted by individual schools, but these have not been used extensively. Some experts believe that implementing reforms across an entire school district may hold more promise for widespread school reform. We are studying how school-based and districtwide reform models are identified, adopted, and implemented at the district and school levels, and with what effects. We also have studies under way to examine state and district efforts to (1) reform school system regulations and (2) give schools more control over their budgets.

Another issue the Department will need to consider is how to enhance, as part of reform efforts, the training and preparation of teachers. Current programs may be inadequate. For example, we found that the Eisenhower math and science state grant program, while flexible and popular, funds mostly short-term teacher training. Most experts believe that this training will not contribute significantly to achieving the National Education Goal of making U.S. students number one in the world in math and science achievement by the year 2000.

Helping Schools Adjust to Demographic Changes

Growth in the number of poor children places greater demands on school resources. In 1991, over 14 million children lived in families with incomes below the poverty level, an increase of 40 percent from 1975. Given this growth in child poverty, any public commitment to meeting the National Education Goals will require examining the distribution of resources devoted to education, new institutional strategies to improve educational services, and ways to ensure equal educational opportunities.

School districts that have high proportions of poor children will face greater challenges in providing educational services, especially those districts with limited capabilities to finance those services. Better targeting of existing federal resources to the nation's neediest schools could provide a partial solution. For example, we found that the Chapter 1 formula, which allocates federal funds for educational services for disadvantaged students, could be revised to reflect the greater need of counties with high concentrations of poor children and the reduced capability of some counties to fund needed services. Currently, the Department collects little systematic data on schools' physical condition and the relative need for resources. For example, national data are

unavailable to determine whether those schools with more students at the poverty level also face greater burdens of inadequate facilities.

As of 1991, over 25 percent of American children were black, Hispanic, or members of other minority groups. Heavy immigration from Latin America and Asia has contributed to this trend, swelling the number of children with limited proficiency in English. Although our work exploring the implications of these and other demographic trends is ongoing, other researchers have already come to some conclusions. For example, because immigration from non-English-speaking nations is rising, many urban school districts face students speaking many different languages and having limited proficiency in English. The concentration of these students in some school districts will require new approaches to provide these children with a quality education. We are examining the magnitude of this problem and are assessing district strategies to provide services to students speaking many different languages.

To meet the needs of children from high-poverty and immigrant backgrounds, schools may also have to house services that other agencies have traditionally provided.

We are examining various approaches to providing comprehensive services, such as health or child care, at the school.

New strategies to meet the needs of growing numbers of poor and immigrant children cannot ignore discrimination issues. In some districts, we found that the use of ability grouping has resulted in disproportionate numbers of minority students' being assigned to lower ability classes for all subjects. These assignments are made without considering students' potentially greater abilities in some subjects than in others. The Department needs to improve its enforcement efforts related to discriminatory ability grouping and to revise title VI regulations to identify practices that schools should use in assigning students on the basis of ability.

Helping Students in the Transition From School to Work

Only 30 percent of our graduates go on to a 4-year college. Those not heading for college often are carried along in undemanding or poor-quality programs that frequently do not give the students skills that employers need. We estimate that about one in three youths aged 16 to 24 will not have the skills needed to meet employers' requirements for entry-level, semiskilled, high-wage

occupations—5.5 million high school dropouts and 3.8 million graduates who lack high school competencies.

Clearly, many of America's youth have been leaving high school poorly prepared for the world of work. Given the profound changes taking place in workplaces in the United States and abroad, these youth may be even less prepared for the workplaces of the future. The challenge facing the Congress and the incoming administration is how to adapt the nation's education and training systems to more effectively prepare youth for the world of work.

We found that the United States does not have a coherent strategy for preparing our youth for work, while other nations do. Our principal foreign competitors emphasize that all youth be prepared for work and be ready to adapt to workplace changes. We are studying key components of comprehensive approaches for the transition from school to work; that study will help focus efforts to ensure that youth are prepared for jobs of the 21st century.

While the Department of Education is responsible for elementary and secondary education, it shares responsibility with the

Department of Labor for secondary and postsecondary skill training. (For a discussion of issues relating to the Department of Labor, see our transition series report, Labor Issues, GAO/OCG-93-19TR, Dec. 1992.) The magnitude of the problems facing youth in transition from school to work requires strong federal leadership in many areas, with an emphasis on combined efforts among the Education and Labor Departments and the Congress.

Improving Work-Related and Academic Skills

The Carl D. Perkins Vocational and Applied Technology Education Act Amendments of 1990 provide the framework for federal efforts geared to improving high school graduates' occupational and academic skills through vocational education. The amendments encourage expanded use of instructional approaches, such as linking high school programs with community and technical college programs, and integrating academic and vocational instruction so that students can learn to apply academic skills in a work-related setting. In ensuring that the amendments are fully implemented, the Department should consider how vocational education reform can be an integral part of school reform and not be seen as a separate effort for some students.

On the basis of our studies of foreign approaches for improving the school-to-work transition, we have suggested general expansion of school-employer linkages, particularly apprenticeship-type programs. Modifying our nation's apprenticeship system to serve large numbers of youth could be difficult; yet adding apprenticeship-type programs to our educational system shows promise.

Our studies of apprenticeship-type programs, which have strong links to employers, have identified three basic types of programs. For example, high-quality cooperative education gives high school juniors and seniors work experience and on-the-job training, together with job-related classroom instruction. Students learn about the working world, acquire job skills, and often are offered permanent employment with their co-op employer. Similarly, school-to-apprenticeship programs offer high school seniors structured skill training, but have the additional benefit of being tied into the formal apprenticeship system. High school academy programs operate as schools-within-schools and provide training in a series of occupations related to a single industry. For example, the Academy of Applied Electrical Science, housed in

Philadelphia's Thomas Edison High School, trains youth for careers in the electrical trades. Programs are developed with extensive input from employers and often involve practical, hands-on experience.

Many districts and schools are developing new instructional approaches that foster school-employer linkages. The nation faces a significant challenge in expanding promising approaches and developing others, so that all students can be prepared for a changing world of work. The Department of Education is a focal point for federal leadership to encourage this reform.

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As part of the move to national education standards and closer school-employer linkages, education and business leaders are struggling to define what skills graduates need to be prepared for work. Some of our foreign competitors, notably Germany, maintain quality occupational training by using competency testing and certifying that trainees meet national standards. Employers view certificates as evidence that trainees have achieved particular skill levels. In the United States, certificates often certify course completion and not necessarily the attainment of skills. It is now recognized that

the United States needs to move toward the use of competency-based skill standards and certification. The Departments of Education and Labor have started such efforts.

We are studying the development and use of occupational skill standards and certification systems. We are looking at what barriers existing systems have had to overcome, how federal efforts could facilitate the development and adoption of new systems, and how the two Departments are working together to foster the development and use of skill standards. In the meantime, many schools across the nation are developing and using their own competency-based curricula. The Department of Education should determine how to ensure that schools develop curricula that are consistent with the broader efforts under way to define needed skills.

Developing Program Information

School officials across the nation are also working independently to develop congressionally mandated performance measures for vocational-technical programs, conduct yearly assessments, and improve programs as needed. But it may be difficult to develop a national picture from these independent efforts. The 1990 Perkins

amendments require the Department of Education to develop a national data system to help policymakers and educators assess vocational education efforts. The Department should make development and implementation of this system, which the act required to be in place by March 1991, a priority.

Many students, their parents, and employers are unaware of the potential benefits of alternative approaches to the transition to work. Because high school cooperative education, like vocational education, has a reputation as a dumping ground for academically weak students, parents, students, and teachers often avoid these programs. Yet, we found high-quality programs in 15 sites in eight states. The actual extent of high-quality programs is unknown, partly because the Department of Education no longer collects information on them. The challenge is to find ways to evaluate existing programs, disseminate information on promising approaches, and, through technical assistance or other means, facilitate their adoption.

Reducing the Cost and Preserving the Integrity of the Student Loan Program

Guaranteed student loans have helped millions of students receive an education they might not have received otherwise, and most borrowers have repaid or are repaying their loan obligations. The Federal Family Education Loan Program (formerly known as the Guaranteed Student Loan Program) provides access to a postsecondary education for those who cannot otherwise afford it. The program operates on the premise that once educated, the borrowers will earn income sufficient to repay their loans. In 1991, the program generated about 4.8 million new loans, totaling over $13 billion for students attending over 7,500 schools. These loans were provided by 7,800 lenders and administered by 46 state or private nonprofit guaranty agencies.

Despite its success in providing federal assistance to an ever-increasing pool of eligible students, the program has been plagued by many problems. It is inordinately complex and cumbersome, lacks sufficient oversight, and places most of the financial risk on the federal government; controls to minimize that risk are inadequate. Loan defaults have skyrocketed—totaling $3.6 billion in 1991—as students assume debt burdens they are often unable or

unwilling to repay, especially when schools fail to provide a quality education and thereby lessen the opportunity for gainful employment.

The Department's Office of Inspector General, the Office of Management and Budget, and our own reports have documented accountability problems that have contributed to defaults, fraud, and mismanagement. The Congress and the Department, recognizing the need to strengthen program integrity, have made substantial legislative and regulatory reforms to fix the existing program. For example, the Congress established a direct loan demonstration project that could ultimately save billions of dollars and simplify program administration. In addition, the new administration favors changes that may provide students with additional access to postsecondary education while also reducing their debt burden. This would be accomplished by forgiving some or all loan repayments through voluntary national service or by easing the burden through income-contingent repayments.

Regardless of the program's structure, there are serious problems in the Department's financial and management systems. The

Department lacks proper systems and controls to adequately manage its multibillion dollar student assistance programs, and problems erupting from these programs could eventually overwhelm any potential reform measures. For example, the Department's student loan information systems contain data that are not always useful, timely, or accurate, thereby limiting their use for compliance and evaluation purposes. As a result, millions of dollars have been loaned to borrowers for amounts exceeding statutory limits or to borrowers who are already in default and, therefore, ineligible for additional loans.

The Department must continue to improve program management and reduce the government's risk. Potential improvements are covered in greater detail in our high-risk series report on guaranteed student loans. The Department must also move cautiously toward implementing the direct student loan demonstration program that could simplify program administration and save federal money.

Implementing Direct Loans Successfully Rests on Achieving Improvements

The Higher Education Amendments of 1992 authorized a direct loan demonstration program to determine if the current guaranteed student loan delivery structure—with lenders and guaranty agencies making and servicing loans—could be simplified and program costs reduced. Under the demonstration, the Department becomes the lender and schools are responsible for loan origination.

We believe that a direct student loan demonstration has merit because of the potential savings it could achieve. We estimate that switching from guaranteed to direct student loans could save the federal government about $4.8 billion—in present value terms—within the first 5 years of implementation. Direct lending would achieve these savings by (1) enabling the government to partially offset program costs with borrowers' interest payments, (2) reducing the cost of subsidizing students' interest charges, and (3) eliminating interest subsidies to commercial lenders.

We found that schools have mixed views about their ability to administer a direct loan program. But they share severe reservations concerning the Department's ability to manage the program. For direct lending to

succeed, the Department needs to forge an effective partnership with postsecondary educational institutions and others who may originate loans and to provide strong program leadership. Poor management by the Department could trigger more loan defaults, for example, which would substantially erode potential cost savings.

Strengthening Departmental Management

Long-standing management problems and deficiencies could undermine the ability of the Secretary to successfully implement education reforms. The Department of Education has lacked a clear management vision and effective management systems. Without well-defined management goals and the Secretary's focus on management, the Department cannot effectively align its activities to support major policy initiatives, carry out its programs, or correct identified problems. Past Secretaries have not built an organization that could implement major policy initiatives. Moreover, the Department's management problems have erupted periodically, becoming the focus of congressional and media attention, and diverting previous Secretaries from their goals. Significant changes to the Department's management systems should be a top priority.

In our 1988 transition report, we recommended establishing a Secretarial-level strategic management system. This has not been done. As a result, there are no systematic, Department-wide processes for planning, organizing, or monitoring for results and quality improvement. Although the outgoing Secretary and Deputy Secretary took initial

steps to improve operations, much more needs to be accomplished.

The Department's management support systems need attention because they do not provide key information to gauge the success of departmental programs. For example, the Department cannot say whether and to what degree those with disabilities receive federally funded rehabilitation services; nor can the Department identify students who, after defaulting on loans, receive new ones. Attempts to correct deficiencies in financial management—including those in student financial assistance programs—have been short-lived. The Department must have information and financial management systems that provide needed data and protect the federal government's financial interests from waste, fraud, and mismanagement. Corrective actions will require new systems and revised regulations, or legislation, or both. Thus, these actions may extend over several years.

The Department has a full slate of ongoing responsibilities and may not be poised to implement new ones. Between 1981 and 1991, the Department's work force declined by 33 percent; yet the number of programs

that the Department manages has increased from 150 to 220. Furthermore, the Department inadequately recruits, trains, and manages its staff. It cannot ensure it has the work force needed to implement Secretarial initiatives and to monitor ongoing programs and policies. For example, the shortage of qualified staff has contributed to problems in information and financial management, program monitoring, and technical assistance. The ability of the Department to do its job is diminished by its long-standing practice of filling key positions with managers who lack technical qualifications.

The Department's effectiveness has been further weakened by overly centralized decision-making and by excluding career employees from management problem solving. The Department's 1:37 ratio of political appointees to career employees is the highest among cabinet-level departments. Former administrations' attempts to abolish the Department and reductions-in-force have weakened the morale of many employees. Without adequate attention to human resource problems, the Department will be unable to achieve its goals effectively.

Related GAO Products

Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992).

Student Loans: Direct Loans Could Save Billions in First 5 Years With Proper Implementation (GAO/HRD-93-27, Nov. 24, 1992).

Department of Education: The Eisenhower Math and Science State Grant Program (GAO/HRD-93-25, Nov. 10, 1992).

Compensatory Education: Chapter 1 Funds in Eight Districts Used for Classroom Services (GAO/HRD-92-136FS, Sept. 30, 1992).

Integrating Human Services: Linking At-Risk Families With Services More Successful Than System Reform Efforts (GAO/HRD-92-108, Sept. 24, 1992).

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, July 28, 1992).

Guaranteed Student Loans: Prompt Payment of Origination Fees Could Reduce Costs (GAO/HRD-92-61, July 24, 1992).

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

National Assessment Technical Quality (GAO/PEMD-92-22R, Mar. 11, 1992).

Vocational Rehabilitation: Clearer Guidance Could Help Focus Services on Those With Severe Disabilities (GAO/HRD-92-12, Nov. 26, 1991).

Student Loans: Direct Loans Could Save Money and Simplify Program Administration (GAO/HRD-91-144BR, Sept. 27, 1991)

Student Financial Aid: Education Can Do More to Screen Schools Before Students Receive Aid (GAO/HRD-91-145, Sept. 27, 1991).

Transition From School to Work: Linking Education and Worksite Training (GAO/HRD-91-105, Aug. 2, 1991).

Within-School Discrimination: Inadequate Title VI Enforcement by the Office for Civil Rights (GAO/HRD-91-85, July 22, 1991).

Department of Education: Monitoring of State Formula Grants by Office of Special Education Programs (GAO/HRD-91-53, Apr. 15, 1991).

Education Grants Management: Management Actions Initiated to Correct Material Weaknesses (GAO/HRD-91-52, Feb. 26, 1991).

Training Strategies: Preparing Noncollege Youth for Employment in the U.S. and Foreign Countries (GAO/HRD-90-88, May 11, 1990).

Early Childhood Education: What Are the Costs of High-Quality Programs? (GAO/HRD-90-43BR, Jan. 24, 1990).

Education Issues (GAO/OCG-89-18TR, Nov. 1988).

Transition Series

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- Budget Issues (GAO/OCG-93-1TR).
- Investment (GAO/OCG-93-2TR).

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- Government Management Issues (GAO/OCG-93-3TR).
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- The Public Service (GAO/OCG-93-7TR).

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- Transportation Issues (GAO/OCG-93-14TR).
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- Environmental Protection Issues (GAO/OCG-93-16TR).
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- Internal Revenue Service Issues (GAO/OCG-93-24TR).
- Foreign Economic Assistance Issues (GAO/OCG-93-25TR).

Foreign Affairs Issues (GAO/OCG-93-26TR).

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General Services Issues (GAO/OCG-93-28TR).

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Speeches and Testimony

Statement by Madeleine M. Kunin Deputy Secretary on Management Improvements at the Department of Education before the House Subcommittee on Labor-HHS-Education Appropriations

May 16, 1996

Good morning Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to come before the Subcommittee to describe the management improvements we have made at the Department of Education. Strengthening the Department's management capacity has been uppermost for both Secretary Riley and me since we joined the Department three years ago.

We recognized from the start that effective and efficient management is central to our mission to help improve the quality of education for America's children. The promise of a better education can only be kept if we have the management capacity to fulfill it.

That is why we have worked hard to build a strong management team throughout the Department, working closely with both career and non-career employees, to articulate the Department's mission and to work day-by-day, step-by-step, to make the changes necessary to achieve it.

Looking back, I believe I do not exaggerate when I say that we have transformed the Department from a demoralized, fragmented, sometimes unfocused agency that was in a technology time-warp, into an effective, technology-literate organization that understands its mission and is well on the way to achieving it.

Not that our job is done. Effective management is a process of continuous improvement and retooling. And we have much more to do. But when we compare where we were three years ago to where we are today, the differences are dramatic.

The first wake-up call was made to the Secretary and me in the form of a GAO report completed shortly before our arrival, entitled "Long-Standing Management Problems Hamper Reforms."

The problems outlined in this GAO report reflected a rudderless and often ineffective agency. They included a weak commitment to effective management by previous administrations, the lack of a strategic planning process, the dearth of accurate data from the Department's financial management systems, poorly qualified staff in areas requiring technical expertise, and an agency culture that focused on short-term fixes to problems while ignoring the underlying changes needed to prevent

problems from recurring.

Secretary Riley and I found little to quarrel with in this report, which echoed similar criticism over the years from Congress, the education community, and the Department's own Inspector General. This report became the blueprint for our efforts to transform the Department's management. Permit me to describe some of the positive results of this transformation for our many customers.

A MANAGEMENT VISION: THE STRATEGIC PLAN

Our first priority was to develop a Strategic Plan to carry out the Department's mission and to help States and communities reach the National Education Goals established by the Nation's Governors and the Congress.

As for any business, the Strategic Plan provides the clear, long-term focus needed for effective management. Our Plan was the result of a lengthy process which had Department-wide input, and it is now used in our daily deliberations. For example, when debating tough budget and policy choices, the Strategic Plan becomes our reference point.

The plan has a further advantage: it is injecting discipline into the management process by requiring measurable performance indicators. The Strategic Plan includes performance indicators for measuring our progress toward objectives and strategies for each of four priorities: (1) helping all students reach challenging academic standards, (2) helping every State create a system facilitating the transition from school to work, (3) ensuring access to high-quality postsecondary education and lifelong learning, and (4) transforming the Department into a high-performance organization.

The fourth priority -- transforming the Department itself -- reflected both our commitment to making the Department work for its customers -- the American people -- and our belief that success in the other priority areas would not be possible without dramatic improvements in the agency's management and culture.

The emphasis on performance indicators in our Strategic Plan reflects the growing interest in measuring government programs by their results, both within the Clinton Administration and in the Congress. In 1993, Vice President Gore launched the National Performance Review (NPR), which brought the business world's customer- focused approach to the Federal Government and takes a results-oriented approach to make government work better and cost less. In the same year, Congress passed the Government Performance and Results Act (GPRA), which called on Federal agencies to combine strategic planning with performance indicators in order to move the government toward performance-based budgeting by the end of the decade.

I know that members of this Subcommittee have expressed interest in the Department's efforts to implement GPRA. The GPRA requirements are a substantial challenge, as is reflected in the timelines for implementation provided by the legislation. However, I believe we are making excellent progress at the Department of Education. For example, we completed our Strategic Plan roughly three years ahead of the GPRA timetable, which calls for all agencies to have a plan in place by September 30, 1997.

We also are moving forward on developing performance indicators for each of our major programs, as called for by GPRA. For example, program staff for the $7 billion Title I program are currently using 28 specific performance indicators grouped under the five broad goals outlined for the program

in our Strategic Plan. These goals include improved student learning, restructuring curricula around high State standards, increasing the effectiveness of Federal and State support for local reform efforts, increasing parent and family involvement in Title I schools, and improving community support for education.

Specific indicators for Title I include data from the National Assessment of Educational Progress, which will be used to measure academic achievement in high-poverty schools, and the proportion of States that develop and implement assessment tools based on their own high standards.

Similar efforts are underway for other Department programs, though not all have moved as far as Title I: Developing appropriate, meaningful performance indicators for the wide variety of programs administered by the Department is difficult, but I am confident that we will accomplish this task well ahead of the GPRA deadline.

We are also collaborating with other agencies to develop meaningful performance measures. The best example of this is our cooperation with the Department of Labor to develop indicators and collect data for the School-to-Work Opportunities program. And we are working with the National Science Foundation to measure the impact of the Eisenhower Professional Development program.

TRANSFORMING THE DEPARTMENT: GETTING RESULTS

The GAO report found that earlier attempts to improve management had failed for three basic reasons: (1) they were not supported by the Department's senior political leadership, (2) career managers were not sufficiently involved, and (3) they often occurred in isolated offices and were not connected to Department-wide strategies.

To prevent this from happening again, we established a new management structure designed to institutionalize Department-wide improvement efforts. There are two key elements of this new structure. The first is an Executive Management Committee, composed primarily of senior political appointees, which is charged with setting overall management policy and direction for the Department.

The second element is the Reinvention Coordinating Council (RCC), composed of senior political and career officials as well as Union officials, which identifies and carries out Department-wide strategies for management reform. The RCC has been most effective in creating high-level Department teams to develop and implement cross-cutting quality improvement initiatives.

For example, the RCC chartered a Discretionary Grants Reengineering Team (DGRT) to look at ways of streamlining the discretionary grantmaking process, which currently involves six program offices and the Grants and Contracts Service. The DGRT conducted focus groups in the field with over 100 applicants and grantees to help identify problems and weaknesses in the current system. The result is a redesigned, decentralized process that will consolidate program and grants staff, cut the number of steps involved in grantmaking by more than half, and shift the focus from "getting the grants out" to promoting successful project outcomes. Implementation of this new process is expected to be completed by the end of fiscal year 1997.

Another reinvention team developed a new General Performance Appraisal System (GPAS) that includes two major innovations aimed not just at measuring performance, but more importantly, at

providing employees with the information they need to improve their performance. The first innovation is the use of a variety of sources -- in addition to the supervisor - - to conduct an evaluation. These sources include co-workers, subordinates, and customers. And second, we have developed and provided every employee with new software that helps them to coordinate an evaluation of their own performance and to participate in evaluating others.

Another initiative created Low-Hanging Apples teams, which brought career employees together to develop common sense recommendations which have helped to reduce bureaucracy and save money.

At present, we are hard at work with a Customer Communications team responsible for making the Department a world-class clearinghouse for education information. Working through Customer Service Representatives from every office within the Department, this team is developing World Wide Web sites for most offices, creating a one-stop shopping telephone information system, streamlining our publications system, reducing publication storage costs, working to cut mail costs, and making data available in customer-friendly formats.

What we have achieved through efforts like these is results. The changes we have made over the past three years have led to better customer service, less bureaucracy, greater flexibility for our customers, and internal improvements that help the Department work better and save taxpayer dollars.

Better Customer Service

We have worked hard to remind every Department employee of the importance of focusing on the customer. This has involved developing and publishing customer service standards and expanding the use of technology to improve and simplify customer access to information from the Department.

For example, the toll-free number 1-800-USA-LEARN connects customers to a "one-stop shopping" center for information about Department programs and initiatives. Callers receive materials directly or are referred to the appropriate office with the answers to their questions. We currently receive about 5,000 calls per week over this line. A similar number, 1- 800-4FEDAID, provides up-to-date information on postsecondary student financial aid and is expected to handle more than three million calls this year. The average wait time for callers to this line is just 11 seconds.

The Department also has moved aggressively to take advantage of the customer-service possibilities created by the expansion of the Internet and other online technologies. The Department's site on the World Wide Web -- located at http://www.ed.gov -- has received several awards, including top ratings from such publications as *Government Executive*, *Internet World*, and most recently *Iway*. For example, *Iway* described our site as "a great resource for teachers and school administrators."

These technologies allow us to provide the public for the first time with direct access to information on Federal education programs, grant competitions, education legislation, research, statistics, and even downloadable software making it possible for users to apply "online" for student financial aid.

Usage of the web site has grown dramatically, increasing from month to month, from a little over 300,000 hits in March 1995 to nearly 2 million hits last month. We truly are witnessing an information revolution, and I am proud to say that the Department of Education is very much a part of this revolution.

Another 2 million people went online last year to find answers to their education questions through

the Educational Resources Information Center (ERIC). ERIC is managed by the Department's National Library of Education and maintains the world's largest and most frequently used education database. ERIC includes the award-winning AskERIC question-answering service and Virtual Library, the National Parent Information Network, and over 50 subject-oriented World Wide Web sites and gophers.

AskERIC (located at http://ericir.sunsite.syr.edu), which last year provided personalized responses to 15,000 educators, parents, students, and other individuals, was named winner of the Second Annual Best of the Net Awards by GNN, publisher of *The Whole Internet Catalog*.

Less Bureaucracy and Red Tape

Another part of improving customer service is using common sense to eliminate unnecessary bureaucratic procedures -- cutting the "red tape" that we all have come to associate with government.

Technology has helped here as well, particularly in the Department's efforts to greatly reduce the paperwork involved in Federal education programs. For example, we are expanding the use of a computer-based system to provide notice of student aid eligibility to postsecondary institutions, a change that ultimately will eliminate 4 million paper forms that represent an unnecessary burden to students, parents, schools, and the Department alike.

We also have worked with Congress to simplify and reduce the paperwork involved in applying for Federal education funds. For example, nearly all States are now taking advantage of the new provision permitting a single consolidated application for all Elementary and Secondary Education Act programs. In addition to reducing paperwork, this change promotes the comprehensive planning that is so essential to effective education reform.

The Department has streamlined its discretionary grants program by eliminating the application previously required for non-competing continuation awards. This change has helped us to take two to three months off the time formerly required to notify grantees of their continuation awards.

Reporting requirements also have been reduced. Most of the programs authorized by the Improving America's Schools Act require reporting once every two or three years instead of annually -- permitting States, schools, and teachers to focus on what really counts: educating students, not paperwork.

Greater Flexibility for Our Customers

When the Nation's governors, including then-Governor Bill Clinton, met in 1989 at the first Education Summit, what they most wanted was flexibility in the use of Federal education funds, in exchange for better results in terms of improved student achievement. Since then, we have moved a long way in changing the Department culture from a focus on regulatory compliance to a focus on educational results.

We have taken a two- pronged approach to the statutory and regulatory requirements governing Department programs: first, we ask if they're necessary, and if not, we get rid of them; and second, if they are needed in most cases but under certain circumstances stand in the way of effective teaching and learning, we'll waive them.

As part of President Clinton's regulatory reinvention initiative, we have reached out to talk with hundreds of customers and have reviewed every single Department regulation. We have eliminated 118 of those regulations -- 612 pages in all, or about 46 percent of our total regulations. As a result of these efforts, we are considered one of the "stars" of deregulation, if I may say so, by the Office of Management and Budget.

Programs that have been authorized or reauthorized since President Clinton took office didn't need this kind of review, because we have been careful from the start to regulate only when absolutely necessary. For example, we are administering Goals 2000 and School- to-Work without issuing a single regulation. And of the 49 programs included in the Improving America's Schools Act, only 8 will require regulatory guidance.

When we need to regulate, we are taking a performance-based approach to target rules only where they are needed. In the student aid area, for example, we have to ensure that schools have the resources available to make refunds to students who withdraw before completing their course of study. However, instead of requiring all 7,300 colleges and universities to set aside a reserve fund to cover refunds, we demanded a letter of credit only from the handful of schools with a history of refund problems.

The Department -- with the help of Congress -- also is offering its customers an escape from the "one-size-fits- all" regulatory approach by greatly expanding the use of waivers of statutory and regulatory requirements. If States and school districts find that such requirements present an obstacle to innovative reform efforts, they may seek waivers of the requirements from the Secretary. To assist States and communities with waiver requests, we have established a Waiver Hot Line (202-401-7801). To date, the Secretary has approved about 100 waivers.

For example, the school district in Clarkston, Washington was granted a waiver which allows it to implement a schoolwide program under Title I one year before the school will be eligible under the 50 percent poverty threshold.

The most far-reaching waiver approach is the new ED-FLEX demonstration, which allows the Department to give State-level officials broad authority to approve waivers of Federal statutory and regulatory requirements that stand in the way of effective reform. This pilot project began with six States and has just been expanded to 12, with the State of Maryland the first to join the original six: Oregon, Massachusetts, Kansas, Ohio, Texas, and Vermont. The Department is examining how ED-FLEX States are using this new flexibility through evaluations of State and local implementation of Federal programs.

In postsecondary education, the Department is now encouraging institutions to submit proposals to participate as "experimental sites," a vehicle authorized by the Higher Education Act for trying out experimental regulatory and management approaches. Once again, our strategy here is performance-based: institutions can seek waivers of regulatory and statutory requirements in exchange for demonstrating results that reflect the objectives of the provisions in question. So far, 144 institutions have received approval to establish experimental sites.

Internal Management Improvements

The GAO report identified serious deficiencies in the Department's basic management systems, including financial management and human resource management. Addressing these deficiencies

was especially critical in view of the necessity of learning to do more with less. Improving service to our customers while still meeting President Clinton's goal of reducing Federal employment by 12 percent by the year 2000 meant that we had to learn to work smarter. This involves streamlining our organizational structure, improving the skills of our employees, expanding the use of technology, and upgrading our financial management and accounting systems.

Common sense tells us that our effectiveness in administering Department programs depends in part on the success of our efforts to streamline the number of programs we administer. The National Performance Review called for the elimination of programs that duplicate other programs or that have achieved their purpose, and each of President Clinton's budgets has included substantial numbers of program eliminations, phase-outs, and consolidations.

Over the past three years we succeeded, with the help of this Subcommittee, in eliminating 64 programs, totaling roughly $625 million, of the more than 200 programs administered by the Department. President Clinton has asked Congress to terminate an additional 16 programs in our 1997 budget request.

These terminations will help the Department streamline its organization. I am pleased to tell you that we are ahead of schedule in reaching the 12 percent staff reduction called for by President Clinton, thanks largely to a successful buyout incentive program. In addition, we have eliminated layers of hierarchy and bureaucracy, moved to a team approach, put greater emphasis on front-line services, and reduced redundant jobs.

For example, the ratio of supervisors to employees has changed from 1:6 to 1:8. Our goal is to achieve a ratio of 1:12. The Department also is reducing the number of grade 14 and 15 employees by restricting hiring and promotion at these grades.

In addition, we are emphasizing the use of cross-cutting teams to carry out new responsibilities without adding staff. Our most dramatic success earned us a Hammer award in the Office for Civil Rights for the successful restructuring of a rigid, bureaucratic New York regional office with six layers of review into three self-directed work teams. This brought the supervisor-to-staff ratio down from 1:6 to 1:15 and greatly speeded up the complaint resolution process.

Another example is the Office of Elementary and Secondary Education (OESE), which recently completed a reorganization under which each program office provides cross-cutting budget and policy support to regional service teams that are responsible for grant administration, technical assistance, waiver requests, integrated program monitoring, and other services to OESE customers.

Working smarter also requires that we improve the skills of our staff, giving them the tools needed to improve job performance and customer service, as well as to take on new assignments and improve productivity as staff resources decline. The GAO report found the Department's investment in training lagged far behind other Federal agencies during the 1980s, and the proportion of our staff receiving training was below average as well.

To address this problem, we increased our investment in training to reach the private sector standard of 2 percent of salaries, from $1.5 million in 1992 to $5.4 million in 1996. These new resources are focused on training in customer service, teamwork, process improvement, and computer skills. The Department also is developing a financial management training program. The first two courses of this program, which provide an introduction to financial management and accounting, are currently available to all Department employees.

Giving our staff the tools they need to do the job also has meant expanding the use of technology to help improve productivity. Three years ago less than half of the Department's employees had computers; today all employees have computers on their desks. Similarly, when I joined the Department our local area network, or LAN, was used only to connect computers to centrally located printers. Today we have full e-mail capacity, including Internet mail, to facilitate communication both within the Department and with our customers. We also are providing full Internet access, including access to the World Wide Web, to employees who need it. For example, Department staff often access legislative documents through Thomas, the Library of Congress's legislative web site.

In addition, technology has been crucial to our efforts to improve financial management. The GAO, the Office of Management and Budget, and the Department's Inspector General all had found that the Department's financial management system did not provide adequate financial controls and could not produce accurate and reliable information. As a result, the Department's programs were subject to increased risk from fraud, waste, and mismanagement.

In response, we have rebuilt our financial management system from the ground up. The core of this effort is the Education Department Central Automated Processing System project, or EDCAPS, an integrated administrative and financial management system. Once fully implemented, EDCAPS will enable the Department to produce more timely and accurate financial information for our program and financial managers, as well as for program recipients and the Congress.

Other projects have included expanding and enhancing automation of payments, expenditures reporting, current account information, and travel management. These and other improvements have greatly increased the availability of information to Department managers and customers while substantially reducing the paperwork burden of sound financial management.

One measure of our success in carrying out necessary internal management changes has been the dramatic decline in the cost to taxpayers of student loan defaults. Net default costs in the student loan programs have declined from $1.7 billion in 1992 to $0.5 billion in 1995, as a result of reducing the default rate from 22 percent to 12 percent and increasing collections from $1.0 billion to $1.9 billion.

This progress reflects our strong emphasis on accountability in managing Department programs. I was especially pleased to read, in a recent *New York Times* article on the rising risks of Federal loan programs, that Comptroller General Charles Bowsher was quoted as saying that "one bright spot is the improved oversight of student loans by the Education Department." I would add that last year the Direct Loan program was the first government loan program to receive a "clean" audit under the new reporting requirements of the Chief Financial Officers' Act.

THE 1997 BUDGET REQUEST FOR MANAGEMENT

The 1997 budget request supports the continuation of the efforts that I have described here today to transform the Department of Education into a high-performance, customer-focused organization.

To continue making the changes needed to produce results like these, we are asking for $505.7 million in total discretionary budget authority for Federal administration in 1997. This request would restore funding for salaries and expenses to approximately the 1995 level, and represents just 2 percent of the total discretionary budget for the Department.

These funds would be used to improve management of the student financial aid programs, provide more effective and helpful program monitoring and technical assistance to grantees, enhance information technology used to improve customer service, upgrade accounting and financial management systems, maintain support for staff training, and complete the renovation of the Department's government-owned headquarters building.

The total request for Federal administration, including discretionary and mandatory funds, would support 4,613 full-time-equivalent (FTE) employees in 1997, compared to 4,750 FTE in 1996 and 5,131 FTE in 1995. This reduction has been achieved by attrition and by retirements resulting from the "buyout" program, which will generate estimated savings in 1997 of over $3 million. Partly as a result of this decline in staff, the Department's ratio of program obligations to employees is $6 million for each FTE -- the highest ratio of any Federal agency. We are coping with these staff losses through the use of improved technology, the reallocation of staff to high-priority areas, and staff training.

Nearly one-quarter of the Department's FTE and one-fifth of its discretionary budget request for management is devoted to the Office for Civil Rights, which enforces the Nation's education- related civil rights laws, and the Office of the Inspector General, which investigates fraud and abuse in education programs and helps protect the $40 billion annual Federal investment in postsecondary student financial aid.

Mr. Chairman, in addition to my written testimony, I would like to submit for the record a Department organization chart which was requested by the Subcommittee and a document that summarizes our reinvention efforts over the past three years.

Thank you for this opportunity to tell the Subcommittee about the dramatic progress we have made to improve management at the Department of Education. We are clearly well on the way to making the Department a first-class, highly efficient organization. I will be happy to answer any questions you may have.

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Statement by
Marshall S. Smith
Deputy Secretary (A)
U.S. Department of Education

before the

Subcommittee on Labor, Health and Human Services, Education, and Related Agencies Committee on Appropriations U.S. House of Representatives

on the
Department of Education's Fiscal Year 2000
Budget Request for Management
March 23, 1999

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to share with the Subcommittee our continued progress in making the Department of Education a high-performance organization dedicated to improving the quality of America's education system. In particular, I want to update the Subcommittee on Year 2000 computer issues, the modernization of our student aid delivery systems, the implementation of the Government Performance and Results Act, and the dramatic improvement in customer service that has been made possible through expanded use of the Internet. In describing our progress in these areas, I will also address the issues that have been raised by the General Accounting Office (GAO) and the Department's Inspector General.

Our success in each of these areas was made possible in part by the support provided by this Subcommittee. I want to thank you, Mr. Chairman, as well as other Members of the Subcommittee, for recognizing the importance of investing in sound financial and administrative management to reach our common goal of improving educational opportunities in America. For fiscal year 2000, we are asking for $552 million in discretionary

management funds, which includes funds for the Offices of Civil Rights and the Inspector General. This is an increase of $33 million over the 1999 level, mostly for pay raises, other built-in costs, and investments in technology. I hope you will give careful consideration to this request, which remains less than two percent of the Department's total discretionary budget.

YEAR 2000 COMPLIANCE

Last year's management hearing focused on the Year 2000 problem, reflecting growing concerns that the many computer systems that Federal agencies rely on to carry out their missions were not Year 2000 compliant. At that hearing, I described the Department of Education's comprehensive Year 2000 Project Management Plan, which set out a detailed schedule for assessment, renovation, validation, and implementation of our computer systems. The Year 2000 problem was a special concern for the Department, because so many of our systems are critical to the delivery of more than $50 billion annually in Federal financial assistance to more than 8 million postsecondary students.

I am pleased with our progress in bringing all 175 of the Department's data systems-including our 14 mission-critical systems-into Year 2000 compliance. Each of the 14 mission-critical systems, including the 11 student aid systems, has undergone independent verification and validation (IV&V) by a third party contractor and is in production. We are pursuing our IV&V contractor's recommendations for continued documentation and monitoring procedures and for testing with external customers and partners. In addition, all 161 non-critical systems have completed renovation, validation and implementation and have been put into production.

The Department's Year 2000 progress has been confirmed by Congressman Steven Horn's Subcommittee on Government Management, Information, and Technology, which on February 22 gave the Department a grade of "A minus," and by the Office of Management and Budget, which has placed the Department in its highest Y2K readiness tier. The GAO and Inspector General are also reviewing our systems to help us ensure that they are Y2K compliant.

We are proud of this achievement, but we are taking nothing for granted when it comes to Year 2000 readiness. With the renovation of our systems now complete, we are focusing on contingency planning and continued testing.

The Department has undertaken a thorough business continuity and contingency planning effort based on guidelines provided by the GAO. Contingency planning teams representing key offices and functions across the Department began work in September 1998. We drafted our initial contingency plans for individual systems in early 1998, and have posted these plans on the Department's web site for comment by the education community. We expect to complete detailed contingency plans for all core business processes by the end of March; these plans will also be posted to our web site for further comment.

Our contingency planning effort has included extensive consultation with the education community. In addition to soliciting the community's comments on our initial contingency plans, last month our student aid team met with a focus group of college student aid administrators, business officers, and student loan industry leaders to obtain reactions to a draft report on our business impact analyses and preliminary risk mitigation and contingency plans.

We are continuing to test data exchanges with other Federal agencies and with our many non-Federal partners, such as postsecondary institutions. The Department is well into a series of tests with our sister Federal agencies, and we have developed a plan for extensive testing with postsecondary institutions and other external data exchange partners during 1999. This testing has been scheduled for the spring and summer of this year to coincide with completion of Year 2000 renovations by both the Department and its partners. The testing schedule has been posted to the Department's Year 2000 web site, and we will work closely with the education community to provide as many testing opportunities as necessary.

The Department also is continuing outreach efforts to encourage and help our partners throughout the

education community to address the Year 2000 issue. In December, for example, the Department held a live, interactive video teleconference on Year 2000 that was co-hosted by Secretary Riley and John Koskinen, the Chairman of the President's Council on Year 2000 Conversion. The teleconference was broadcast to over 1,400 registered sites across the country, and the Department has made videos of the teleconference available to the education community.

Our outreach efforts include ongoing assessments of the Year 2000 readiness of school districts, the higher education community, and key service providers. For example, the Department has worked with the Council of Great City Schools to assess the readiness of the Nation's 50 largest school districts. The Department and the National School Boards Association are preparing to launch a similar survey of all school districts nationwide.

Year 2000 readiness assessments of the higher education community have included surveys of the 1,300 members of the American Association of Community Colleges, 1,474 direct loan schools, the 36 guaranty agencies, and the Department's 18 debt collection contractors. We plan to continue our assessment efforts by surveying all 7,000 postsecondary institutions at the end of March.

Our data exchange testing and outreach efforts reflect our ongoing commitment to do everything we can to keep Federal assistance to States, schools, and students flowing without a hitch when the year 2000 arrives.

STUDENT FINANCIAL ASSISTANCE AND THE PBO

I'm proud that we have surmounted the Year 2000 problem. Over the past few years, we have faced other pressing, high-visibility challenges in administering the federal student aid programs. For example, three years ago, we experienced disruptions in our processing of student aid applications. This year we are processing aid applications promptly for the third year in a row and expect one application in four to be filed electronically, the most ever. And although the Direct Consolidation Loan program faced serious

management problems 18 months ago, today it is smoothly processing consolidations well within 60 days with a workload as much as ten times larger than it was last spring.

We have stabilized the student aid programs and are ready to move forward with a comprehensive strategy to modernize and integrate our systems. Last fall, Congress helped catalyze this change by establishing a performance-based organization (PBO) to administer the student aid programs. The PBO is designed with greater flexibility in managing its personnel and procuring goods and services, new incentives for high performance, and accountability for results.

Secretary Riley and I were very pleased that Greg Woods agreed to become the first Chief Operating Officer of the PBO. We believe Mr. Woods has the right mix of experience, including eight years as CEO of a software company and five years at the Reinventing Government initiative, to make the PBO a success.

The PBO has been working to develop an interim performance plan and management priorities for the rest of this fiscal year. These priorities will include (1) promoting customer service, (2) integrating the student aid delivery systems, and (3) strengthening our financial management system. I would like to say a word about each of these areas.

First, the PBO is making great strides in improving customer service. For example, applications for student aid submitted via the Internet are not only quicker and easier for students to file and the Department to process, but are also less than one-tenth as likely to be returned to the student due to an error. We also use the Internet to accept applications for loan consolidations and to distribute information to financial aid professionals.

The PBO recently formed a Customer Service Task Force-comprised of senior managers, key staff, and front-line employees-to identify opportunities to enhance customer satisfaction. The Task Force plans to make recommendations in July on ways we can work more effectively with our partners-including schools, lenders, guaranty agencies, and others-to meet student needs and improve operations.

Second, the statute requires the PBO to implement an open, common, and integrated system for delivering student aid. A recent GAO report on the Department's management challenges focused our need for us to integrate our systems, as well as strengthen financial management. In my view, this report was generally fair but did not reflect the quantifiable progress we have made in these two areas.

In the area of systems integration, we have laid the groundwork over the past several years. We have consolidated operations for four data systems into one data center with common hardware and software, improving service while saving more than $30 million over five years. We have also established a single electronic identifier for each organization involved in student aid delivery to reduce administrative burdens and improve data quality. And through Project EASI (Easy Access for Students and Institutions), we have collaborated with our customers and partners to document current processes and determine how they could be reengineered to take advantage of new technologies.

We are now ready to pursue the next stage in this effort. Mr. Woods is overseeing the design of a single systems architecture for all the Title IV systems, building upon the work of Project EASI and our other modernization efforts. By early April, the PBO will develop a modernization budget and share it with Congress. By the end of this fiscal year, we will have a clear picture of where our systems are today, where they should be within five years, and the sequence of steps needed to get there. The PBO will seek the support of the financial aid community for this modernization blueprint, which will rely on a modular approach and use existing commercial systems whenever appropriate.

Finally, we are also making progress improving the financial management of the student aid programs. Our efforts to strengthen the student loan programs are paying dividends, as evidenced by the clean opinion on the Department's fiscal year 1997 financial statement. We have also aggressively worked to reduce student loan defaults, with the help of a strong economy and tools provided by Congress

in 1992. The fiscal year 1996 default rate-the latest available-is a record-low 9.6 percent, less than half the 22.4 percent rate when President Clinton took office. At the same time, collections on defaulted loans have more than doubled, from $1 billion in fiscal year 1993 to $2.2 billion in fiscal year 1998. And by improving the quality of data in the National Student Loan Data System, we have prevented the disbursement of as much as $1 billion in grants and loans to ineligible students.

To build on our progress in this area, the PBO will invest in high-end financial management software and systems now in use in the private sector, move from manual systems to more automated ones, and reduce errors and administrative costs for both the Department and our partners.

DRAWING FROM THE LESSONS OF EDUCATION REFORM

I began with the Year 2000 problem and the student aid programs because they are among the Department's most visible challenges. In turning now to some of the broader management reforms that we are implementing across the Department, I want to highlight the striking connection between these efforts and the standards-based reforms that are doing so much to improve our elementary and secondary schools. We have found that the same principles driving effective education reform at the State and local levels also provide a solid foundation for restructuring the Department of Education to better support those reforms.

For example, States engaged in successful education reform have set clear goals in the form of high standards for all students. The obvious parallel to that process at the Department of Education is the development and implementation of our Strategic Plan, which sets forth our goals and objectives.

Second, States and districts have pursued their achievement goals by aligning their resources to support those high standards and by empowering educators through intense professional development to lead reform at the local and school level. Similarly, we are pursuing our Strategic Plan objectives by empowering Department employees through a combination of training and technology to make the

changes in how we do business that are required to reach our Strategic Plan goals. We are investing in human capital, and we are encouraging all Department employees to take advantage of computer and Internet-based technologies to better meet the needs of our customers.

Third, States are holding schools and principals and teachers accountable for improving student achievement. The blend of greater local empowerment with accountability for results is the driving concept behind the popular "Ed-Flex" legislation, as well as a centerpiece of President Clinton's proposal to reauthorize the Elementary and Secondary Education Act. Greater accountability for results is also a critical part of our management improvement efforts within the Department of Education, including the development of annual performance plans, individual and organizational assessments, and a variety of other means.

I would like to briefly describe our work in each of these areas: defining our management objectives, aligning our resources and empowering employees to support reform, and holding ourselves accountable for results.

GOVERNMENT PERFORMANCE AND RESULTS ACT

The Department's vision is defined by its Strategic Plan and Annual Performance Plans. These plans, created in response to the Government Performance and Results Act (GPRA), reflect our strong commitment to providing high-quality services and making effective use of taxpayer dollars to improve our education system.

Our Fiscal Year 1999 Annual Performance Plan received high marks from Congress. This year we worked to build on that success by providing strengthened performance indicators and expanded baseline data. The Fiscal Year 2000 Annual Plan includes 98 indicators for our 22 performance objectives, as well as baseline performance data for 90 percent of those indicators, or about twice as much baseline data as last year. Most of the cases where baseline data is unavailable involve new programs or activities. The 2000 Annual Plan also includes baseline data for about 85 percent of the 94

performance plans for individual or closely-related programs. Much of this information has been integrated into our Congressional budget justifications.

We have also developed better links between strategic plan objectives and program performance plans to address a key concern raised by Congressional reviewers last year. Each program performance plan now states the program's relationship to our overall strategic goals. We have established incentives to incorporate the strategic plan objectives into program management by including the objectives in the individual performance plans of our senior officers.

To further improve our plan and guide indicator development, we have added a section on limitations of data, as well as draft standards on data quality. We are working with State agencies to pursue a two-pronged strategy to improve data quality: (1) ensuring that current GPRA data collection systems meet data quality standards, and (2) developing a new electronic, integrated performance and benchmarking system to bring Federal education data systems into the 21st century.

We recognize that the development and collection of reliable performance data on Department programs is taking longer than some would like. In particular, I know that Members of this Subcommittee are eager for information to help them make difficult decisions about the allocation of scarce Federal resources. We share this desire, but I can tell you after spending 30 years working with education research that bad data are worse than no data. The undertaking mandated by GPRA is a complex one that cannot be achieved overnight. We are working very hard to set up systems for collecting reliable and valid data on Department and program performance as soon as possible, and our Annual Plan provides a sound blueprint toward that goal.

In the meantime, I believe there is considerable information available to help the Subcommittee assess the Department's performance. We are pleased at the clear successes in meeting goals, including internal management goals such as year 2000 compliance; program goals, such as the recent released assessment of Title I; and macro goals, like

the latest reading scores on the National Assessment of Educational Progress.

INVESTING IN HUMAN CAPITAL AND TECHNOLOGY

To reach the goals and objectives outlined in our Strategic and Annual Plans, the 4,700 employees of the Department-the smallest Cabinet-level agency in the Federal government-must have an impact far in excess of their numbers. To achieve this impact, we must carefully consider how we can use our limited resources to build the skills and morale of our workforce and use technology to support our strategic goals.

We are rethinking the way we provide professional development to our employees to encompass a wide range of opportunities in addition to traditional training. For example, a recently launched mobility assignment program is designed to encourage staff, who often work for many years on the same assignment in the same office, to seek out and accept new challenges in other areas of the Department. This new program not only helps satisfy individual career goals but also brings new perspectives to our day-to-day work. The Department also has launched a mentoring program and is experimenting with a wide range of technology-assisted learning techniques.

Our performance assessment system is based on a 360-degree feedback model widely used in the private sector to encourage useful input to employees about their performance, strengths, and weaknesses. We are also encouraging staff to collaborate and cooperate across offices and functions..To expand effective application of technology across the Department, for example, we have created an IT investment review group for technology governance issues, an Internet working group for building our web presence, and a technology review group for day-to-day technology implementation. We also are bringing members of the Senior Executive Service together more often to talk about the management challenges facing the Department. And we recently launched an annual skill-building program for senior Department leaders and managers.

Building a first-class workforce goes beyond professional development and networks. It also includes continuing the progress of the President's Initiative on Race, strengthening our labor-management partnership, emphasizing the importance of diversity in our decision-making processes, and enhancing our workplace to provide the best possible environment for our employees. In all of these areas, I believe we have made substantial progress in the last year.

Effective educators realize that technology should not be used for its own sake, but should be focused on improving student achievement. Likewise, the Department has marshaled its investments in technology to support its strategic goals, particularly in the area of improving customer service.

There was a dramatic increase in customer contact with the Department through our web site and major call centers in 1998. The ED Home Page was viewed an average of 5 million times each month in 1998-twice as often as in 1997-and reached 9 million page views in January 1999. Total call volume on our postsecondary student financial aid information line (1-800-4FED-AID) grew by more than 50 percent in 1998, to over two million. And we are receiving about 1,000 requests a day-both by phone and on-line-through the ED Pubs system.

ED Pubs is a terrific example of how the Department is using technology to improve customer access to the information they need, when they need it. The Education Publications Center, or ED Pubs, is a consolidated product distribution center that began providing one-stop shopping services to Department customers in May of 1998. The center disseminates the Department's information products-including publications, videos, CD-ROMs, posters, bookmarks and other products-free of charge to teachers, parents, students, librarians, administrators, policymakers, researchers, and anyone else with an interest in education.

ED Pubs also provides an accurate inventory of all its products on-line, and even more important, helps us determine the kinds of information our customers value most. The ED Pubs on-line ordering system includes extensive search capabilities as well as

links to full-text electronic copies of most publications.

One measure of our initial success in using the Internet to provide useful information to our customers is a 1998 survey by Quality Education Data. In this survey, teachers named the ED web site and the ED-sponsored Educational Resources Information Center (ERIC) web site as their first and second most frequently visited sites, respectively.

In addition to increasing direct contacts between the Department and its customers, we continually look for ways to improve customer service and implement programs in flexible, customer-friendly ways. One recent example of this ongoing effort is an accelerated discretionary grant award schedule that promises to deliver awards much earlier in fiscal year 1999 than in previous years. The accelerated schedule will give schools and districts more time to carefully allocate their resources for the coming school year. In fiscal year 1998, the Department awarded 90 percent of all discretionary grants by August 31. The goal in fiscal year 1999 is to award a majority of new grants by May 31 and continuations by July 31. In addition, the Department developed and implemented new "expanded authorities" regulations intended to increase flexibility for grantees and improve customer service by streamlining administrative requirements.

BLENDING ACCOUNTABILITY AND FLEXIBILITY

One of the most difficult challenges we face in our efforts to put customers first is the need to balance the flexibility our customers need with the accountability Congress demands on behalf of American taxpayers. A key to meeting this challenge is our continuing investment in financial management systems. Our new core financial system, the Education Central Automated Processing System (EDCAPS), became operational in fiscal year 1998. EDCAPS combines payment, grants and contracts, and accounting functions into one integrated system that supports a streamlined grant process, facilitates improved procurement processes, and enables the Department to conduct business electronically.

In May 1998, the Department implemented the final

phase of the Grants Administration and Payments System (GAPS), a key component of EDCAPS. GAPS supports grants management through the entire life-cycle of each grant by simplifying reporting, providing Internet access to the system, allowing modifications to payment requests prior to receipt of funds, and ensuring access to more timely and accurate financial information.

Also during 1998, the Department established policies and procedures that provided for the monthly reconciliation and reporting of financial data. This data was made available through EDCAPS for program and other managers to use in their day-to-day operations for decision-making and funds control.

The Department is committed to improving performance and accountability through performance-based contracting. We are now reviewing every contract for the maximum use of effective performance objectives, ensuring that each contract is stated in terms of results that support the Department's Strategic Plan. In 1996, the Department identified 66 contracts for conversion to performance-based service contracts. To date, the Department has converted 45 of those existing contracts. In addition, 16 new performance-based contracts were awarded. The average annual cost of these performance-based contracts combined is over $200 million.

Our emphasis on accountability extends to all senior Department officials and staff. We are the ones, after all, who are charged with implementing our Strategic and Annual Performance Plans. This is why, as Acting Deputy Secretary, I have insisted on annual performance agreements linked to measurable objectives for all senior officers. This is also why we have implemented a new performance assessment system for all employees that uses 360-degree review to assess performance against standards and goals that are revised annually.

A VISION FOR THE FUTURE

Meeting the enormous challenge facing American education today requires thinking differently about how we do our work. The ubiquity of the Internet and other technological changes provide an

unprecedented opportunity to redefine the role of the Department of Education in a way that serves our customer better than ever before. We now have the capacity for direct, real-time contact with educators, parents and students; in short, to provide our millions of customers with the information they need when they need it. Internally, technology will help us to simplify and reengineer our routine business processes, and the resulting change will allow more staff to provide direct service to our customers.

We are using technology to serve customers today in ways that were barely imaginable 10 years ago. Thousands of publications and research reports from the Department are now available on the desktop of anyone with access to the Internet, and we are adding new publications every week. Online forums allow thousands of teachers and others to share ideas on key education challenges.

A growing number of our programs are using technology to strengthen their work. For example, a web site maintained by the 21st Century Community Learning Centers program features examples of winning proposals from last year's competition. The Comprehensive School Reform Demonstration program provides grantees with regular email updates and also a searchable database of award recipients, so that schools adopting a particular reform model may contact each other.

These are glimpses of where we are going, what we are becoming. We are becoming a learning organization. We are using technology to create a constant and nearly instantaneous feedback loop that teaches us how to serve our customers better, faster, and more directly. As a result, our customers spend less time looking for information and more time using it to improve the performance of their schools and students.

With your help, we will continue this learning process and create a high-performance agency that successfully blends flexibility and accountability to meet the needs of all its customers.

I will be happy to take any questions you may have.

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