



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

THE PRESIDENT'S MANAGEMENT AGENDA

FISCAL YEAR 2002

Table of Contents

	<i>Page</i>
President’s Message.....	1
Introduction—Improving Government Performance	3
Government-wide Initiatives	
1. Strategic Management of Human Capital.....	11
2. Competitive Sourcing	17
3. Improved Financial Performance.....	19
4. Expanded Electronic Government	23
5. Budget and Performance Integration.....	27
Program Initiatives	33
6. Faith-Based and Community Initiative	35
7. Privatization of Military Housing.....	39
8. Better Research and Development Investment Criteria	43
9. Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management.....	47
10. Housing and Urban Development Management and Performance	51
11. Broadened Health Insurance Coverage through State Initiatives.....	55
12. A “Right-Sized” Overseas Presence	59
13. Reform of Food Aid Programs	65
14. Coordination of Veterans Affairs and Defense Programs and Systems... ..	69

GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. Web address: *<http://www.whitehouse.gov/omb/budget>*

President's Message

I am pleased to send to the Congress a bold strategy for improving the management and performance of the federal government. Government likes to begin things—to declare grand new programs and causes. But good beginnings are not the measure of success. What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises. In my Administration, that will be the standard from the farthest regional office of government to the highest office in the land.

This Report focuses on fourteen areas of improvement where we can begin to deliver on our promises. The recommendations we have targeted address the most apparent deficiencies where the opportunity to improve performance is the greatest. These solutions are practical measures, well within our reach to implement.

These proposals will often require the cooperation of Congress. Congress' agenda is a crowded one, and there is an understandable temptation to ignore management reforms in favor of new policies and programs. However, what matters most is performance and results. In the long term, there are few items more urgent than ensuring that the federal government is well run and results-oriented.

This Administration is dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used. We owe that to the American people.

GEORGE W. BUSH

Improving Government Performance

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

Governor George W. Bush

To reform government, we must rethink government.

The need for reform is urgent. The General Accounting Office (GAO) “high-risk” list identifies areas throughout the federal government that are most vulnerable to fraud, waste, and abuse. Ten years ago, the GAO found eight such areas. Today it lists 22. Perhaps as significant, government programs too often deliver inadequate service at excessive cost.

New programs are frequently created with little review or assessment of the already-existing programs to address the same perceived problem. Over time, numerous programs with overlapping missions and competing agendas grow up alongside one another—wasting money and baffling citizens.

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

Comptroller General David M. Walker

Though reform is badly needed, the obstacles are daunting—as previous generations of would be reformers have repeatedly discovered. The work of reform is continually overwhelmed by the constant multiplication of hopeful new government programs, each of whose authors is certain that this particular idea will avoid the managerial problems to which all previous government programs have succumbed. Congress, the Executive Branch, and the media have all shown far greater interest in the launch of new initiatives than in following up to see if anything useful ever occurred.

So while the government needs to reform its operations—how it goes about its business and how it treats the people it serves, it also needs to rethink its purpose—how it defines what business is and what services it should provide.

The President's vision for government reform is guided by three principles. Government should be:

- Citizen-centered, not bureaucracy-centered;
- Results-oriented;
- Market-based, actively promoting rather than stifling innovation through competition.

The President has called for a government that is active but limited, that focuses on priorities and does them well. That same spirit should be brought to the work of reform. Rather than pursue an array of management initiatives, we have elected to identify the government's most glaring problems—and solve them. The President's Management Agenda is a starting point for management reform.

- The Agenda contains five government-wide and nine agency-specific goals to improve federal management and deliver results that matter to the American people.
- It reflects the Administration's commitment to achieve immediate, concrete, and measurable results in the near term.
- It focuses on remedies to problems generally agreed to be serious, and commits to implement them fully.
- The goals in this Agenda are being undertaken *in advance of*, not *instead of* other needed management improvements.
- Additional goals will be undertaken, as tangible improvements are made in this initial set of initiatives.

A COHERENT AND COORDINATED PLAN

The five government-wide goals are mutually reinforcing. For example,

- Workforce planning and restructuring undertaken as part of *Strategic Management of Human Capital* will be defined in terms of each agency's mission, goals, and objectives—a key element of *Budget and Performance Integration*.
- Agency restructuring is expected to incorporate organizational and staffing changes resulting from *Competitive Sourcing and Expanded E-government*.
- Likewise, efforts toward *Budget and Performance Integration* will reflect improved program performance and savings achieved from *Competitive Sourcing* and will benefit from financial and cost accounting and information systems which are part of efforts in *Improved Financial Management*.

IMPLEMENTING THE PLAN

The President has not only set an initial agenda, but is already implementing this plan.

- In July, the President directed Cabinet Secretaries and agency heads to designate a “chief operating officer” to have responsibility for day-to-day operations of departments and agencies.
- At the same time, the President re-established the President’s Management Council (PMC) consisting of the chief operating officers. The PMC provides an integrating mechanism for policy implementation within agencies and across government. Importantly, the PMC is a way for the departments and agencies to support the President’s government-wide priorities and to build a community of management leadership that learns, solves problems, and innovates together.
- First results have already been achieved in several reform categories. See *Competitive Sourcing*, *Privatization of Military Housing*, and *Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management* for examples.

Typically the department’s No. 2 official, its “chief operating officer,” has agency-wide authority and reports directly to the agency head. This assignment places “management” with Presidential appointed officials, primarily at the deputy secretary level, where policy and management meet.

FREEDOM TO MANAGE

Federal managers are greatly limited in how they can use available financial and human resources to manage programs; they lack much of the discretion given to their private sector counterparts to do what it takes to get the job done. Red tape still hinders the efficient operation of government organizations; excessive control and approval mechanisms afflict bureaucratic processes. Micro-management from various sources—Congressional, departmental, and bureau—imposes unnecessary operational rigidity.

The Administration will sponsor a three-part Freedom to Manage initiative to clear statutory impediments to efficient management:

- *Statutory cleanup.* As part of the 2003 budget process, OMB has asked departments and agencies to identify statutory impediments to good management. Agencies are reviewing government-wide statutory provisions which, if repealed, would remove barriers to efficient management.
- *Fast-track authority.* We will propose legislation to establish a procedure under which heads of departments and agencies could identify structural barriers imposed by law, and Congress would quickly and decisively consider and act to remove those obstacles.

- *Managerial flexibility and authority.* OMB will package affirmative legislation comprising proposals to free managers in areas such as personnel, budgeting, and property disposal.

- For years NASA was expressly prohibited by statute from relocating aircraft based east of the Mississippi River to the Dryden Flight Research Center in California for the purpose of the consolidation of such aircraft.
- The 2001 Defense Appropriations Act requires the U.S. military installations in Kaiserslauten, Germany to use U.S. coal as their energy source for heat. The same provision allows U.S. bases at Landstuhl and Ramstein to acquire their heat energy from any source, but they must consider U.S. coal as an energy source in making their selection. The provision restricts use of the most economical energy source and imposes higher costs on the Defense Department as a result.
- The Department of Agriculture is prohibited by statute from closing or relocating a state Rural Development Office.

As the barriers to more efficient management are removed, we will expect higher performance. With Freedom to Manage will come clear expectations of improved performance and accountability.

A SHARED RESPONSIBILITY

All too often Congress is a part of the government's managerial problems. Many members find it more rewarding to announce a new program rather than to fix (or terminate) an existing one that is failing. The Congressional practice of "earmarking" special projects in appropriations bills has exploded—growing more than six-fold in the last four years. Excessive earmarks lead to wasteful spending and hogtie executive decision-making, making it more difficult for agencies to fund higher priorities and accomplish larger goals as needed funds are diverted.

The President has made solving these problems a top priority. Congress can help in a number of important ways, among them:

- actively supporting government management reforms;
- using its oversight powers to insist that agencies fix their problems;
- providing the investments and the tools necessary;
- helping agencies remove barriers to change; and
- not placing limitations on reform efforts.

THE EXPECTED LONG-TERM RESULTS

The impetus for government reform comes, in part, as a reaction to chronic poor performance and continuing disclosure of intolerable waste. Agencies will take a disciplined and focused approach to address these long-standing and substantial challenges and begin the steps necessary to become high performing organizations in which:

- hierarchical, “command and control” bureaucracies will become flatter and more responsive;
- emphasis on process will be replaced by a focus on results;
- organizations burdened with overlapping functions, inefficiencies, and turf battles will function more harmoniously; and
- agencies will strengthen and make the most of the knowledge, skills, and abilities of their people; in order to meet the needs and expectations of their ultimate clients—the American people.

A MANAGEABLE GOVERNMENT

The most difficult, but most important, job of a good leader is to ask tough questions about the institution: Is this program needed? Is it a wise use of the organization’s finite resources? Could those resources be used better elsewhere? These are questions that the structure and incentives of government do not encourage. We need to:

- *Shift the burden of proof.* Today, those who propose to shift priorities or adjust funding levels are expected to demonstrate that a program or activity should be changed. It is time, instead, that program proponents bear the burden of proof to demonstrate that the programs they advocate actually accomplish their goals, and do so better than alternative ways of spending the same money.
- *Focus on the “base” not the “increment.”* Policy and budget debates focus on the marginal increase (or cut) in a program—failing to look at whether the program as a whole (the base) is working or achieving anything worthwhile. We need to reverse the presumption that this year’s funding level is the starting point for considering next year’s funding level.
- *Focus on results.* A mere desire to address a problem is not a sufficient justification for spending the public’s money. Performance-based budgeting would mean that money would be allocated not just on the basis of perceived needs, but also on the basis of what is actually being accomplished.
- *Impose consequences.* Underperforming agencies are sometimes given incentives to improve, but rarely face consequences for persistent failure. This all-carrot-no-stick approach is unlikely to elicit improvement from troubled organizations. Instead, we should identify mismanaged, wasteful or duplicative government programs, with an eye to cutting their funding, redesigning them, or eliminating them altogether.

- *Demand evidence.* Many agencies and programs lack rigorous data or evaluations to show that they work. Such evidence should be a prerequisite to continued funding.

Over the past three decades, reform initiatives have come and gone. Some genuine improvements have been made. But the record on the whole has been a disappointing one. That must change—and this report is a primer on how that change can be achieved.

GOVERNMENT-WIDE INITIATIVES

1. Strategic Management of Human Capital

"We must have a Government that thinks differently, so we need to recruit talented and imaginative people to public service. We can do this by reforming the civil service with a few simple measures. We'll establish a meaningful system to measure performance. Create awards for employees who surpass expectations. Tie pay increases to results. With a system of rewards and accountability, we can promote a culture of achievement throughout the Federal Government."

Governor George W. Bush

THE PROBLEM

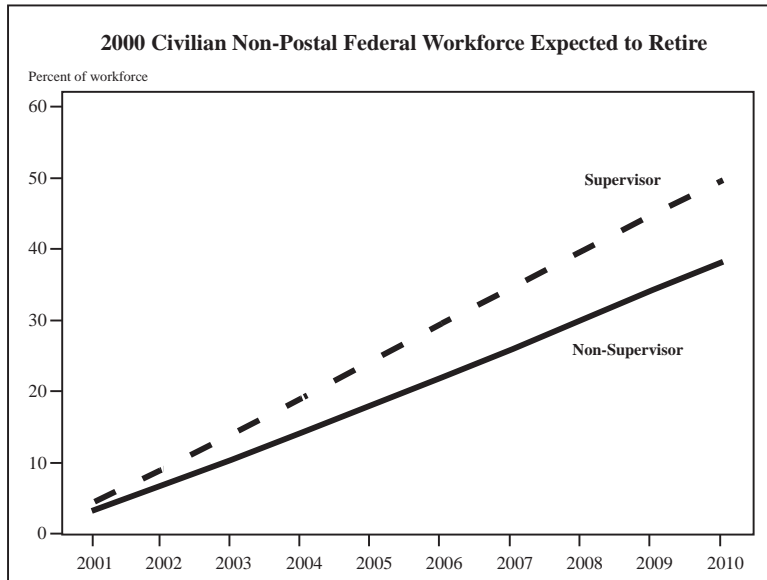
- The federal government has reduced its workforce by 324,580 full-time equivalent employees since 1993, with most of these reductions coming from the Department of Defense. At 1.8 million employees, the federal civilian payroll has been reduced to its lowest level since 1950. The bad news is that this downsizing was accomplished through across-the-board staff reductions and hiring freezes, rather than targeted reductions aligned with agency missions. A consequence is that the average age of the federal workforce has risen to 46 years, compared to 42 in 1990. And even as the workforce shrinks, the number of layers of hierarchy continues to increase, especially near the top. The paradoxical result: a workforce with steadily increasing numbers of supervisors and steadily declining accountability—a workforce that feels more and more overworked at the same time as its skills move further and further out of balance with the needs of the public it serves.
- The managerial revolution that has transformed the culture of almost every other large institution in American life seems to have bypassed the federal workforce. Federal personnel

Much of the downsizing was set in motion without sufficient planning for its effects on agencies' performance capacity. Across government, federal employers reduced or froze their hiring efforts for extended periods of time. This helped reduce their number of employees, but it also reduced the influx of people with new knowledge, new energy, and new ideas—the reservoir of future agency leaders and managers (GAO Report 01-263, 2000).

According to OPM, using the initiation of the improvement period as "notification" of poor performance, and assuming an average improvement period of three to four months plus a 30-day advance notice period, the time from notification to dismissal is about five to six months.

policies and compensation tend to take the same “one-size-fits-all” approach they took in 1945. Excellence goes unrewarded; mediocre performance carries few consequences; and it takes months to remove even the poorest performers. Federal pay systems do not reflect current labor market realities: under current law, the entire General Schedule that covers almost every kind of white-collar occupation must be adjusted by a single percentage in each of the 32 localities in the contiguous 48 states.

- In most agencies, human resources planning is weak. Workforce deficiencies will be exacerbated by the upcoming retirement wave of the baby-boom generation. Approximately 71 percent of the government’s current permanent employees will be eligible for either regular or early retirement by 2010, and then 40 percent of those employees are expected to retire. Without proper planning, the skill mix of the federal workforce will not reflect tomorrow’s changing missions.



- A survey of nearly 2,000 new employees by the Merit Systems Protection Board (MSPB) revealed that they encountered numerous problems during their job search. For example, 47 percent were not aware that federal job vacancies are posted on the Internet; 14 percent did not think that job announcements provided enough information to decide if they were interested in the position; and 25 percent did not think that hiring decisions were made within a reasonable period of time (MSPB, 2000).

- In February 2001, GAO added human capital management to the government-wide “high-risk list” of federal activities. Inspectors General at nine major federal agencies have listed workforce problems among the top 10 most serious management challenges that their agencies face.
- These realities contribute to the growing consensus that action is required. The federal government has a unique opportunity to redefine the way it manages human capital.

The Energy Department's staff lack project and contract management skills required to oversee large projects, such as the cleanup of radioactive and hazardous waste sites.

Downsizing at NASA over the last decade through attrition and buyouts has resulted in an imbalance in NASA's skill mix. Through a series of workforce reviews, NASA has identified these imbalances and developed a plan to meet future needs. NASA received extended buyout authority last year to specifically address skill mix imbalances by allowing targeted buyouts in skill areas that exceeded needs, then hiring an equal number in skill areas that needed strengthening for the future.

In a November 1999 report, the Overseas Presence Advisory Panel concluded that the State Department needed to reform its human resource practices because it did not have the flexibility, tools, or strategic organization required to support its mission.

THE INITIATIVE

- The first priority of the President's management reform initiative is to make government citizen-centered. The number of layers in government must be compressed to reduce the distance between citizens and decision-makers, and agencies should redistribute their allotted staff from higher-level positions to front-line service-delivery. Each agency has been asked to prepare a five-year restructuring plan as part of its 2003 budget request, based upon a workforce analysis, to accomplish this important goal.
- Agencies will reshape their organizations to meet a standard of excellence in attaining the outcomes important to the nation. Each agency will identify how it will reduce the number of managers, reduce the number of organizational layers, reduce the time it takes to make decisions, change the span of control, and increase the number of employees who provide services to citizens.
- The Administration will adopt information technology systems to capture some of the knowledge and skills of retiring employees. Knowledge management systems are just one part of an effective strategy that will help generate, capture, and disseminate knowledge and information that is relevant to the organization's mission.
- While the Administration will be seeking some targeted civil service reforms, agencies must make better use of the flexibilities currently in place to acquire and develop talent and leadership. Such authorities are largely underutilized across the federal sector because many agencies are unaware of the existence of such flexibilities. The Administration will assess agencies' use of existing authorities as well as the outcomes achieved under demonstration projects. This assessment will help us determine what statutory changes are needed to enhance management flexibility, permit more performance-oriented compensation, correct skills imbalances, and provide other tools to recruit, retain, and reward a high-quality workforce.

THE EXPECTED NEAR-TERM RESULTS

- Human capital strategies will be linked to organizational mission, vision, core values, goals, and objectives.
- Agencies will use strategic workforce planning and flexible tools to recruit, retrain, and reward employees and develop a high-performing workforce.
- Agencies will determine their “core competencies” and decide whether to build internal capacity, or contract for services from the private sector. This will maximize agencies’ flexibility in getting the job done effectively and efficiently.
- The statutory framework will be in place to make it easier to attract and retain the right people, in the right places, at the right time.

The State Department implemented a recruitment strategy for certain information technology workers using existing pay flexibilities. It pays retention allowances ranging from 5 to 15 percent of an employee’s base salary to certain information technology workers who obtain job-related degrees and certificates. After one year of operation, this program has helped to significantly reduce turnover and increase the skills base of State’s information technology workforce (GAO Report 01-565T).

The Bureau of the Census has used technology to significantly reduce hiring time. The agency has an electronic hiring system that provides managers with desk-top, web-based access to an electronic applicant tracking feature that allows managers to see images of applicant resumes and transcripts within twenty-four hours of receipt. The system has helped the Census Bureau reduce the time required to fill computer specialists, statisticians, and mathematical statistician positions from six months to as little as three days. Since September 1998, the agency has filled 1,000 vacancies using this process (GAO Report 01-357T, 2001).

THE EXPECTED LONG-TERM RESULTS

- Citizens will recognize improved service and performance and citizen satisfaction will increase.
- Agencies will build, sustain, and effectively deploy the skilled, knowledgeable, diverse, and high-performing workforce needed to meet the current and emerging needs of government and its citizens.
- The workforce will adapt quickly in size, composition, and competencies to accommodate changes in mission, technology, and labor markets.
- Government employee satisfaction will increase.

- High performance will become a way of life that defines the culture of the federal service.
 - The system will attract and retain talented people who will demand and deliver sustained excellence and high levels of performance.
 - The civil service will use clear and carefully aligned performance incentives for individual employees, for teams, and for its leadership. In turn, these incentives will be tied clearly to reaching their agency's mission objectives.
 - Agencies will meet and exceed established productivity and performance goals.
 - Accountability for results will be clear and meaningful, with positive rewards for success and real consequences for failure.

2. Competitive Sourcing

“Government should be market-based—we should not be afraid of competition, innovation, and choice. I will open government to the discipline of competition.”

Governor George W. Bush

THE PROBLEM

- Nearly half of all federal employees perform tasks that are readily available in the commercial marketplace—tasks like data collection, administrative support, and payroll services. Historically, the government has realized cost savings in a range of 20 to 50 percent when federal and private sector service providers compete to perform these functions. Unfortunately, competition between public and private sources remains an unfulfilled management promise. By rarely subjecting commercial tasks performed by the government to competition, agencies have insulated themselves from the pressures that produce quality service at reasonable cost.
- Because agencies do not maintain adequate records on work performed in-house, they have often taken three to four years to define the jobs being considered for competition.
- To compare the cost of in-house performance to private sector performance, detailed estimates of the full cost of government performance to the taxpayer have to be calculated. The development of these estimates has devolved into a contentious and rigid exercise in precision.

THE INITIATIVES

To achieve efficient and effective competition between public and private sources, the Administration has committed itself to simplifying and improving the procedures for evaluating public and private sources, to better publicizing the activities subject to competition, and to ensuring senior level agency attention to the promotion of competition.

- In accordance with the Federal Activities Inventory Reform (FAIR) Act, agencies are assessing the susceptibility to competition of the activities their workforces are performing. After review by OMB, the agencies will provide their inventories to Congress and make them available to the public. Interested parties may challenge the omission or inclusion of any particular activity.

- Agencies are developing specific performance plans to meet the 2002 goal of completing public-private or direct conversion competition on not less than five percent of the full-time equivalent employees listed on the FAIR Act inventories. The performance target will increase by 10 percent in 2003.
- The Administration will adopt procedures to improve and expand competition. As a first step, OMB has proposed that reimbursable (fee-for-service) work involving performance by a federal agency be recompeted every three to five years, similar to standard contract review, renewal, or solicitation procedures.
- The Administration will seek to implement findings of the Commercial Activities Panel, a commission created by Congress to examine the policies and procedures governing public-private competition.
- Finally, the Administration is pursuing administrative and legislative actions to incorporate the full costs of agency work into the daily budget and acquisition process. This will eliminate the complex, after-the-fact calculation of public-sector costs.

THE EXPECTED RESULTS

Increased competition consistently generates significant savings and noticeable performance improvements.

- Recent competitions under OMB Circular A-76¹ have resulted in savings of more than 20 percent for work that stays in-house and more than 30 percent for work outsourced to the private sector.
- From 1995 through 2000, the Department of Defense completed over 550 A-76 initiatives, which resulted in an average 34 percent reduction in cost. DoD expects to achieve \$11.7 billion in savings as a result of A-76 competition between 1997 and 2005.
- Numerous studies conducted by the GAO, the Center for Naval Analyses, and others confirm the magnitude of these savings.
- Competition promotes innovation, efficiency, and greater effectiveness. For many activities, citizens do not care whether the private or public sector provides the service or administers the program. The process of competition provides an imperative for the public sector to focus on continuous improvement and removing roadblocks to greater efficiency.
- By focusing on desired results and outcomes, the objective becomes identifying the most efficient means to accomplish the task.

¹ Public-private competition is governed by OMB Circular A-76. The Circular establishes federal policy for determining whether commercial activities should be provided through contract with commercial sources, use of in-house government personnel, or through interservice support agreements with other federal agencies.

3. Improved Financial Performance

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

Governor George W. Bush

THE PROBLEM

- Federal agencies recently identified \$20.7 billion in erroneous benefit and assistance payments associated with just 13 programs. That amount represents more than the total annual expenditures of seven states.
- Examples of erroneous payments:
 - The Medicare Fee-for-Service Program had estimated erroneous payments of \$11.9 billion (6.8 percent) in 2000. Erroneous payments included payments for medically unnecessary services, unsupported claims/services, and miscoded claims.
 - The Department of Agriculture estimates \$976 million in food stamp overissuances, and \$360 million in underissuances, for a total of \$1.34 billion in erroneous payments, representing a total error rate of approximately 8.9 percent in 2000.
 - Regional Veterans Benefits Administration offices made erroneous initial VA benefit decisions 32 percent of the time in 1999.
 - In 2000, the IRS reported that \$7.8 billion in unrecovered Earned Income Tax Credit claims were erroneously paid to taxpayers for tax year 1997.

“It takes the Federal Government 5 months to close our books...This is not the stuff of excellence.”

Paul H. O'Neill, Secretary of the Treasury

"...accurate and timely information to manage your financial program activities on a day-to-day basis are part of a core value set that world-class organizations have adopted."

Paul H. O'Neill, Secretary of the Treasury

- A clean financial audit is a basic prescription for any well-managed organization, yet the federal government has failed all four audits since 1997. Moreover, most federal agencies that obtain clean audits only do so after making extraordinary, labor-intensive assaults on financial records.
- Without accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

THE INITIATIVE

- The Administration will first establish a baseline of the extent of erroneous payments. Agencies will include in 2003 budget submissions information on erroneous payment rates, including actual and target rates, where available, for benefit and assistance programs over \$2 billion. Using this information, OMB will work with agencies to establish goals to reduce erroneous payments for each program.
- To ensure that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions, OMB will work with agencies to:
 - Improve timeliness by:
 - re-engineering reporting processes and expanding use of web-based technologies;
 - instituting quarterly financial statements;
 - accelerating end-of-year reporting; and
 - measuring systems compliance with agencies' ability to meet OMB and Treasury requirements accurately and timely.
 - Enhance usefulness by:
 - requiring comparative financial reporting;
 - reporting specific financial performance measurements; and
 - integrating financial and performance information.
 - Ensure reliability by obtaining and sustaining clean audit opinions for:
 - components of agencies;
 - agencies; and
 - the government as a whole.

- We will make changes to the budget process that will allow us to better measure the real cost and performance of programs.

THE EXPECTED RESULTS

- More accurate benefit and assistance payments to current recipients will enable programs to serve additional eligible recipients without increasing their budgets and will reduce program costs. For example:
 - Reducing erroneous payments in federal housing programs will result in being able to provide housing subsidies to currently eligible people who are not being served due to limited funding.
 - Reducing erroneous payments in entitlement programs, such as Food Stamps or Social Security, will decrease the cost of these programs to the American taxpayer. As an indication, with heightened scrutiny, the estimated erroneous payment rate for the Medicare program was reduced from 14 percent in 1996 to 6.8 percent in 2000.
 - Preliminary data from test matches between the Departments of Education and the Treasury suggest that the Pell Grant program is making over-awards of up to \$400 million each year because students or their parents do not report their income accurately on their student aid applications. If those erroneous overpayments were eliminated, the savings could be used to increase the maximum Pell Grant award by up to \$100, providing more grant assistance to low-income students to help them afford college.
- Improved accountability to the American people through audited financial reports.
 - Financial systems that routinely produce information that is:
 - timely, to measure and effect performance immediately;
 - useful, to make more informed operational and investing decisions; and
 - reliable, to ensure consistent and comparable trend analysis over time and to facilitate better performance measurement and decision making.

4. Expanded Electronic Government

"I will expand the use of the Internet to empower citizens, allowing them to request customized information from Washington when they need it, not just when Washington wants to give it to them. True reform involves not just giving people information, but giving citizens the freedom to act upon it."

Governor George W. Bush

The federal government can secure greater services at lower cost through electronic government (E-government), and can meet high public demand for E-government services. This administration's goal is to champion citizen-centered electronic government that will result in a major improvement in the federal government's value to the citizen.

THE PROBLEM

The federal government is the world's largest single consumer of information technology (IT). IT has contributed 40 percent of the increase in private-sector productivity growth, but the \$45 billion the U.S. government will spend on IT in 2002 has not produced measurable gains in public-sector worker productivity. At least four major causes for this failure can be discerned.

- Agencies typically evaluate their IT systems according to how well they serve the agency's needs—not the citizens' needs. Systems will often be evaluated by the percentage of time they are working rather than the performance gain they deliver to the programs they support. In general, agencies do not evaluate their IT systems by standards relevant to the work the agency is supposed to do.
- Just as private-sector companies in the 1980s tended to use computers merely as souped-up typewriters and calculators, so government agencies in the 1990s have used IT to automate pre-existing processes rather than create new and more efficient solutions.
- IT offers opportunities to break down obsolete bureaucratic divisions. Unfortunately, agencies often perceive this opportunity as a threat and instead make wasteful and redundant investments in order to preserve chains of command that lost their purpose years ago. Financial systems are often automated separately from procurement systems, which are in turn carefully segregated from human resources systems, significantly increasing costs and minimizing potential savings. Likewise, with rare exceptions—the Department of Defense's Finance and Accounting System being one—agencies shun opportunities to work together to consolidate functions like payroll.

Many agencies do not take care to ensure that their IT systems can communicate with one another. The Department of Veterans Affairs (VA), for example, built a new online form for veterans in one office and then discovered they had to print out the information and mail it to another office of VA because the two systems were not interoperable. VA is now devoted to interoperability—but not all agencies are as zealous.

THE INITIATIVES

The Administration will advance E-government strategy by supporting projects that offer performance gains across agency boundaries, such as e-procurement, e-grants, e-regulation, and e-signatures. It will manage E-government projects more effectively by using the budget process to insist on more effective planning of IT investments by government agencies. A task force of agency personnel in coordination with OMB and the President's Management Council will identify E-government projects that can deliver significant productivity and performance gains across government. The task force will also identify the systematic barriers that have blocked the deployment of E-government advances. The task force will work to:

- Create easy-to-find single points of access to government services for individuals.
- Reduce the reporting burden on businesses—businesses should not have to file the same information over and over because government fails to reuse the data appropriately or fails to take advantage of commercial electronic transaction protocols.
- Share information more quickly and conveniently between the federal and state, local, and tribal governments. We must also do a better job of collaborating with foreign governments and institutions.
- Automate internal processes to reduce costs internally, within the federal government, by disseminating best practices across agencies.

To support the task force's work, OMB will scrutinize federal IT investments to ensure that they maximize interoperability and minimize redundancy. The President's Budget proposes a \$20 million E-government fund for 2002 (\$100 million over the three years 2002 through 2004) to pay for collaborative E-government activities across agency lines.

The Administration will also improve the federal government's use of the Web.

- It will expand and improve the FirstGov (*www.FirstGov.gov*) web site to offer citizens a convenient entry to government services. OMB will engage the agencies and state and local governments in this venture, to help citizens find information and obtain services organized according to their needs, and not according to the divisions created by the government's organizational chart.
- Agencies will undertake a Federal Public Key Infrastructure (PKI) to promote digital signatures for transactions within the federal government, between government and businesses and between government and citizens. The digital

signature initiative should be coordinated with state and local governments as well as the private sector.

- By the end of 2002, all agencies will use a single e-procurement portal, *www.FedBizOpps.gov*, to provide access to notices of solicitations over \$25,000. A fully operational government-wide entry point on the Internet represents a first step in capitalizing on electronic business processes and making e-procurement the government-wide standard. The next step: agencies will make use of the single portal to consolidate procurement on the way to the broader E-government goal of supply chain management.
- Agencies will allow applicants for federal grants to apply for and ultimately manage grant funds online through a common web site, simplifying grant management and eliminating redundancies in the same way as the single procurement portal will simplify purchasing.
- Major regulatory agencies will use the Web to inform citizens of the cases before them, allow access to the development of rules, and make more transparent the decisions they make, as the Department of Transportation already does through its Docket Management System.

THE EXPECTED RESULTS

The E-government initiative will make it simpler for citizens to receive high-quality service from the federal government, while reducing the cost of delivering those services. The PKI effort will ensure that electronic transactions with and within government are private and secure. The e-procurement and grant-management portals will make transactions with the government—or obtaining financial assistance from the government—easier, cheaper, quicker and more comprehensible. The work on supply chain management will enable agencies to eliminate redundant processes and save resources. And putting the federal regulatory process on-line will offer citizens easier access to some of the most important policy decisions: better informing the citizenry and holding government more effectively to account. In short, by improving information-technology management, simplifying business processes, and unifying information flows across lines of business agencies will:

- provide high quality customer service regardless of whether the citizen contacts the agency by phone, in person, or on the Web;
- reduce the expense and difficulty of doing business with the government;
- cut government operating costs;
- provide citizens with readier access to government services;
- increase access for persons with disabilities to agency web sites and E-government applications; and
- make government more transparent and accountable.

5. Budget and Performance Integration

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

Governor George W. Bush

THE PROBLEM

- Improvements in the management of human capital, competitive sourcing, improved financial performance, and expanding electronic government will matter little if they are not linked to better results.
- Everyone agrees that scarce federal resources should be allocated to programs and managers that deliver results. Yet in practice, this is seldom done because agencies rarely offer convincing accounts of the results their allocations will purchase. There

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

is little reward, in budgets or in compensation, for running programs efficiently. And once money is allocated to a program, there is no requirement to revisit the question of whether the results obtained are solving problems the American people care about.

- In 1993, Congress enacted the Government Performance and Results Act (GPRA) to get the federal government to focus federal programs on performance. After eight years of experience, progress toward the use of performance information for program management has been discouraging. According to a General Accounting Office (GAO) survey of federal managers, agencies may, in fact, be losing ground in their efforts to building organizational cultures that support a focus on results.
- Agency performance measures tend to be ill defined and not properly integrated into agency budget submissions and the management and operation of agencies. Performance measures are insufficiently used to monitor and reward staff, or to hold program managers accountable.

- The single goal for Department of Defense (DoD) procurement is the percentage of procurement funds requested and appropriated by Congress compared to DoD identified needs. This is a measure of inputs and lobbying success, but talks nothing about results achieved.
- The U.S. Fire Administration exists to reduce the loss of life from fire-related incidents. One of the performance indicators used is the quantity of information to constituents and to those who can have a positive impact of targeted populations. This is a description of activity and an input measure.
- The Health Resources and Services Administration provides grants to increase the number of primary care providers, encourage better distribution of health professionals, and increase the number of minorities in the health professions. Program performance has been measured not by the number or distribution of health care professionals, but rather by the number of grants made to academic institutions, hospitals or students.

Managers responsible for producing public services often do not have control over the resources they use or flexibility to use them efficiently; authority is not aligned with accountability. In the GAO survey cited above, in 22 agencies more than half the managers reported they were held accountable for the results of their programs. But only in one agency did more than half the managers report that they had the decision making authority to help the agency accomplish its goals to the same extent.

- Managers do not have timely and complete information with which to monitor and improve their results. Information is collected and filed away for use “somewhere else.”
- The structure of the federal budget makes it impossible to identify the full cost associated with individual programs. Because the budget does not identify full cost, competition for services has been forced to substitute a separate process governed by complex, artificial rules for cost measurement—and this, in turn, has acted as a barrier to competition and a source of constant confusion.
- The American people should be able to see how government programs are performing and compare performance and cost across programs. The lack of a consistent information and reporting framework for performance, budgeting, and accounting obscures this necessary transparency.

About the time GPRA was signed into law, President Clinton requested information on the impact of a proposed increase in funding for a children’s program. Neither the agency nor OMB was able to calculate this impact.

In the mid-1990’s, the government could not determine the environmental changes that had resulted from the spending of billions of dollars in federal monies over two decades.

- Public Housing Drug Elimination Program: This program has shown little or no impact on drug activity, is less effective than other approaches in reducing drug traffic, and goes beyond the Department of Housing and Urban Development's (HUD's) core mission by adding a law enforcement role.
- Amtrak is a private company that receives substantial government funding to provide national passenger rail service throughout the country. Amtrak's precarious financial state is well-known; the corporation holds over \$3 billion in debt, has never made a profit in its 30 year history, and has extensive long-term capital needs. Many analysts and oversight agencies predict that it will not meet the statutory deadline of December 2002 to be operationally self-sufficient.
- The Department of Labor's (DOL's) current process for certifying foreign workers as eligible for permanent employment in the United States is duplicative, labor-intensive, and unnecessarily complex. It can take up to six years for DOL to complete the certification process that allows the immigrant to petition for a work-based visa.

THE INITIATIVE

- To provide a greater focus on performance, the Administration plans to formally integrate performance review with budget decisions. This integration is designed to begin to produce performance-based budgets starting with the 2003 Budget submission.
- Initially, OMB will work with agencies to select objectives for a few important programs, assess what programs do to achieve these objectives, how much that costs, and how effectiveness could be improved.
- Over time, agencies will be expected to identify high quality outcome measures, accurately monitor the performance of programs, and begin integrating this presentation with associated cost. Using this information, high performing programs will be reinforced and non-performing activities reformed or terminated.
- The Administration is also transmitting legislative changes that will make budgeting and management in the Executive Branch more performance-oriented and improve accountability. The Administration will propose a bill to fully fund employee retirement benefits, taking a step toward simplifying the rules for opening government support services to more competition by substituting a budgetary cost measure for the current complex cost comparison. A second bill will align other costs with results, and provide a framework for a more transparent budget presentation.
- Ultimately, the Administration will attempt to integrate more completely information about costs and programs performance in a single oversight process. This would include budgeting for the full cost of resources where they are used, making budget program and activity lines more parallel with outputs, and, where useful, improving alignment of budget accounts.

THE EXPECTED NEAR-TERM RESULTS

- Starting in 2003, the President's Budget will shift budgetary resources among programs devoted to similar goals to emphasize those that are more effective.
- In the 2003 Budget, the Administration will set performance targets for selected programs along with funding levels.
- In the 2003 Budget, agencies and programs will budget for the full costs of retirement and health care programs that are currently budgeted centrally.
- The 2003 Budget will present to the American people the objectives the Administration seeks to achieve in the coming year and provide better information on the linkage between objectives and the matching cost.

THE EXPECTED LONG-TERM RESULTS

- Better performance, based on an assessment of the expected outcomes relative to what is actually being achieved, including results expected from the President's electronic government initiative.
- Better control over resources used and accountability for results by program managers. This is consistent with the President's strategic management of the human capital initiative, which increases staff and responsibility at the "front line" of service delivery and links rewards to performance.
- Better service as a result of more competition based on full costing of resources used by working capital funds and other support service providers, and a simpler competitive process consistent with the President's competitive sourcing initiative.
- Standard, integrated budgeting, performance, and accounting information systems at the program level that would provide timely feedback for management and could be uploaded and consolidated at the agency and government levels. This would facilitate the goals of the President's initiative to improve financial performance.
- Eventual integration of existing segregated and burdensome paperwork requirements for measuring the government's performance and competitive practices with budget reporting.

PROGRAM INITIATIVES

Program Initiatives

In addition to the five government-wide management initiatives, this Report presents nine agency-specific reforms. While there is a long list of critical management and performance problems facing agencies of the federal government, we have chosen these to begin the effort, based on several criteria:

- severity of the problem and the importance of the problem to those served;
- direct and demonstrable benefit to citizens;
- opportunity to make a dramatic and material difference in program performance; and
- probability of achieving improvements in the near term.

As stated in the introduction, this is the beginning of a comprehensive effort, and these reforms will provide significant improvements. As we begin to see the results, we will focus our attention on additional reform opportunities.

6. Faith-Based and Community Initiative

“The paramount goal is compassionate results, and private and charitable groups, including religious ones, should have the fullest opportunity permitted by law to compete on a level playing field, so long as they achieve valid public purposes, like curbing crime, conquering addiction, strengthening families and overcoming poverty.”

President George W. Bush

THE PROBLEM

- Despite a multitude of programs and renewed commitments from federal and state governments to battle social distress, too many of our neighbors still suffer poverty and despair amidst our abundance.
- Traditional social programs are often too bureaucratic, inflexible, and impersonal to meet the acute and complex needs of the poor.
- The federal government too often ignores or impedes the efforts of faith-based and community groups to address social problems by imposing an unnecessarily and improperly restrictive view of their appropriate role. In some programs, year after year the same providers get the bulk of the funds, even though there is little or no evidence of results.
- Despite heartening exceptions, officials seem generally to doubt the full legitimacy of explicitly faith-based groups as partners, whether or not statutes or regulations include restrictive language. In some cases, organizations that officials deem “too religious” are not even permitted to apply for funding. The Department of Housing and Urban Development, for example, has categorized some faith-based organizations as “primarily religious” thereby excluding them from receiving Community Block Grant Development Funds, even when the services provided by such organizations meet program requirements for providing social services. In other cases, restrictions are placed on religious expression that go beyond what the Constitution requires. Although religious organizations have a Title VII exemption

- About 1.5 million children have a father or mother in prison.
- Over half a million children are in foster care, more than one fifth of whom are awaiting adoption.
- In 1997, more than one million babies were born to unwed mothers, many of whom are barely past their teen years.

that allows them to take religion into account in their employment policies, the Department of Justice requires all providers to agree not to discriminate on a religious basis in hiring—even when the pertinent statutes make no such requirement.

- Community-based organizations and all newcomers to federal funding have great difficulty understanding the federal grants system and how federal funds are often distributed through state and local agencies. The Department of Justice’s Weed and Seed Grant Program application kit for new applicants is 74 pages and it references some 1,300 pages of federal statutes.
- Agencies often create requirements that go well beyond what the law defines. Even though statutes often require providers only to incorporate as a nonprofit group, agencies often require them to gain 501(c)(3) status, which can be expensive and time-consuming. Some programs require applicants to demonstrate past receipt of government funds or to gain the cooperation or approval of public entities that are likely to see them as competitors. For example, the Department of Labor’s Susan Harwood Training Grant Program requires applicants to prove past receipt of government funding or a firm commitment from an organization that has managed government funds in the past. The Department of Health and Human Services (HHS) requires applicants for the National Caregivers Support Program to gain the support of the local area Agency on Aging, which is competing for the same pot of funds.
- Charitable Choice legislation, first enacted into law as part of the 1996 federal welfare reform law, provides explicitly that community-serving faith-based organizations may seek direct or indirect federal support for the provision of certain social services on the same basis as any other non-governmental providers without having to strip themselves of every vestige of faith. Nearly five years after enactment, however, Charitable Choice has not been well or fully implemented, as evidenced by the fact that in most States no new faith-based organizations have become service providers with access to federal funds. In addition, HHS has not given any guidance or encouragement to State and local authorities to comply with Charitable Choice as adopted in 1998 to cover the Community Services Block Grant. As little as seven percent of urban faith-based organization leaders know about Charitable Choice.

THE INITIATIVE

The Faith-Based and Community Initiative will identify and remove the inexcusable barriers that thwart the work of faith-based and community organizations. Legislatively, it builds upon existing Charitable Choice legislation, which safeguards both the religious character of providers and the religious liberty of beneficiaries. It does so while simultaneously affirming that no public grants or contracts shall be expended for “sectarian worship, instruction or proselytization.”

The President initiated action on the Faith-Based and Community Initiative by issuing two executive orders on January 29, 2001 creating the White House Office of Faith-Based and Community Initiative and parallel offices at five key Departments: Health and Human Services, Justice, Housing and Urban Development, Labor, and Education.

The Initiative has three goals:

- Identify and work to eliminate improper federal barriers to effective faith-based and community-serving programs through legislative, regulatory, and programmatic reform.
- Stimulate an outpouring of private giving to nonprofits, faith-based programs, and community groups by expanding tax deductions and through other initiatives.
- Pioneer a new model of cooperation through federal initiatives that expand the involvement of faith-based and community groups in after-school and literary services, help the children of prisoners, and support other children in need.

Opinion surveys consistently show that wide and diverse majorities of Americans favor government collaborating with qualified faith-based organizations that supply social services, although there is significant disagreement about the specific terms and conditions of such collaboration, and that most citizens rate local community-serving congregations as the country's top problem-solving non-profit organizations.

*Rallying the Armies of Compassion,
The White House, January 2001*

The White House Office for Faith-Based and Community Initiatives has the lead in promoting a policy of respect for, and cooperation with, religious and grassroots organizations. It will establish policies, priorities and objectives for the federal government's comprehensive efforts to enlist, equip, enable, empower, and expand the work of faith-based and community organizations. The White House office will work to increase the capacity of faith-based and community groups to effectively deliver federally-funded social services through executive action, legislation, federal, and private funding and regulatory relief.

THE EXPECTED RESULTS

- Greater participation by faith-based and community groups in delivering social services because of regulatory and statutory reform, streamlined contracting procedures, and improved coordination and outreach activities to disseminate information more effectively at the grassroots level to faith-based and community organizations.
- Improved participant outcomes by placing a greater emphasis on accountability and by making federal assistance better tailored to local needs through the use of faith-based and community groups. Devolution of services should not stop at state and

"The delivery of social services must be results oriented and should value the bedrock principles of pluralism, nondiscrimination, evenhandedness, and neutrality."

President George W. Bush

local governments, but should move to support neighborhood-based caregivers, where appropriate.

THE NEAR-TERM RESULTS

Centers for Faith-Based and Community Initiatives established in key Cabinet agencies have conducted a comprehensive review that will result in the removal of unnecessary and counterproductive regulatory or administrative barriers to full participation by faith-based and secular grassroots organizations. This will ensure that:

- Community-serving faith-based leaders, who decide in good faith to attempt to collaborate with government for the purposes of administering social service delivery programs, will be treated fairly.
- The religious character of these institutions will not be treated as a stigma. The institutions will not be made to remove all religious symbols before so much as getting a fair chance to demonstrate how they might qualify to administer programs in partnership with government and achieve measurable civic results.
- Existing Charitable Choice laws are fully implemented. Survey data show that once faith-based organizations learn about Charitable Choice, 60 percent express an interest in entering into public-private partnerships to deliver social services.¹
- Community-based organizations, which are deeply rooted and often have strong ties with people in need, will be utilized more extensively to provide federally-funded services, as their administrative and service capacity is expanded and unneeded federal requirements are relaxed.
- The ongoing process of streamlining the federal grants process will take into account the specific concerns and needs of grassroots groups and faith-based organizations.

¹ Amy L. Sherman, *The Growing Impact of Charitable Choice A Catalogue of New Collaborations Between Government and Faith-Based Organizations in Nine States*, the Center for Public Justice, March 2000.

7. Privatization of Military Housing

Department of Defense

“Two-thirds of military family housing units are now substandard, and they must be renovated.”

Governor George W. Bush

THE PROBLEM

About 20 percent of the nation’s military families live in inadequate housing.

- *Inadequate Military Family Housing.* Last year the military services identified about 177,000 of the Department of Defense’s (DoD’s) 290,000 military family housing units as inadequate. DoD estimates that fixing this problem with traditional military construction funding would cost about \$16 billion and take over 20 years.
- *Excess Military Family Housing Units.* Last year, the military services identified that they maintain 9,000 out of 290,000 housing units that they do not need, and indications are that there are even more excess units in DoD’s inventory. Building and maintaining unneeded housing units diverts funding from higher priority defense needs.

THE INITIATIVE

The Administration’s military housing initiative has four components:

- increased reliance on public-private partnerships;
- increased funding for housing construction and public-private partnerships;
- increased funding for housing allowances to eliminate out-of-pocket expenses by service members; and
- increased reliance on private-sector housing as the primary source of housing.

1. *The Public-Private Partnership Opportunity.* Public-private partnerships provide private-sector capital and expertise to build and manage housing for America’s military families. DoD is using temporary authority to enter into arrangements with private developers to renovate and construct more modern housing for military families. These

arrangements can be formal public-private partnerships with direct government investment or more informal partnerships with government loans or loan guarantees. Experience to date shows that with such public-private partnerships, it is possible to construct and renovate many more “privatized” housing units, quickly, at substantially reduced costs to the government than through normal military construction. To assess customer satisfaction with these projects, DoD plans to do an annual tenant survey.

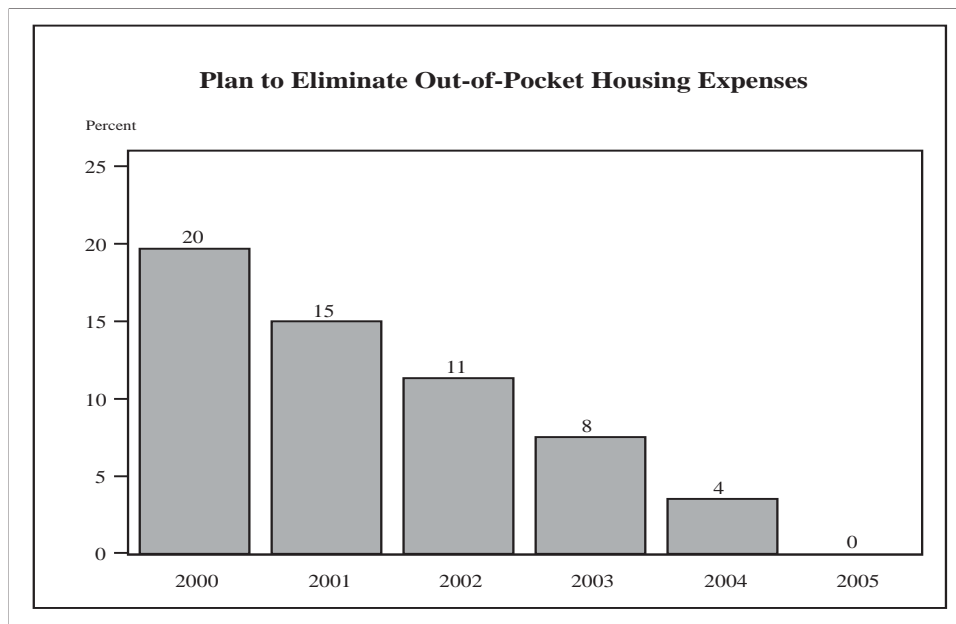
- At Fort Carson, CO, the Army has obtained 210 of the 840 new housing units and 177 of the 1,823 renovated units from the private sector. The renovation and construction is projected to be completed by the end of 2004. Based on limited customer response, the Army indicates personnel are pleased with the new and renovated housing. The cost to the Army to privatize the housing is \$10 million to guarantee a loan. Using traditional military construction funding, it would take 12 years or more and cost \$229 million (23 times the cost of privatization) to upgrade these same housing units.
- At the Naval Station Everett, WA, the Navy entered into a 30-year limited partnership with a private developer to construct 288 housing units off base, of which 40 are expected to be completed by October 2001. Construction is expected to be completed by July 2002. The Navy invested \$12 million in the partnership and provided \$6.7 million in differential lease payments to make the housing more affordable. Using traditional military construction funding, the project would have cost \$53 million (three times the cost of privatization) to upgrade these same housing units.
- At Camp Pendleton, CA, the Marine Corps is providing land and a direct loan to a private developer to renovate 512 existing units and construct 200 new units. The project is expected to be completed by January 2002. The cost to the Marine Corps is \$19 million. Using traditional military construction funding it would take six years or more and cost \$87 million (4 1/2 times the cost of privatization) to upgrade these same housing units.
- On March 15, 2001, the Air Force awarded a contract at its base in Elmendorf, AK for the construction of 420 new housing units, renovation of 200 existing units, and conveyance of another 208 units. The Air Force is providing \$23 million to guarantee a private-sector loan and provide a government direct loan to help finance the development. Using traditional military construction funding, it would take \$128 million (5 1/2 times the cost of privatization) to upgrade these same housing units.

2. *Increased Funding for Housing Construction and Partnerships.* The President included an extra \$400 million in the 2002 budget to improve the quality of housing available to military personnel and their families.

At Fort Hood, TX, the Army is preparing to sign a contract for the construction of 973 housing units and the renovation of 4,939 existing units. This will be DoD's largest housing public-private partnership project to date.

- \$195 million, almost half of the \$400 million, will be used for public-private partnerships to privatize about 14,675 housing units.
- \$107 million will be used to construct Bachelor Enlisted Quarters for 1,396 sailors and marines.
- \$98 million will go toward construction or renovation of 900 family housing units, (predominantly) overseas.

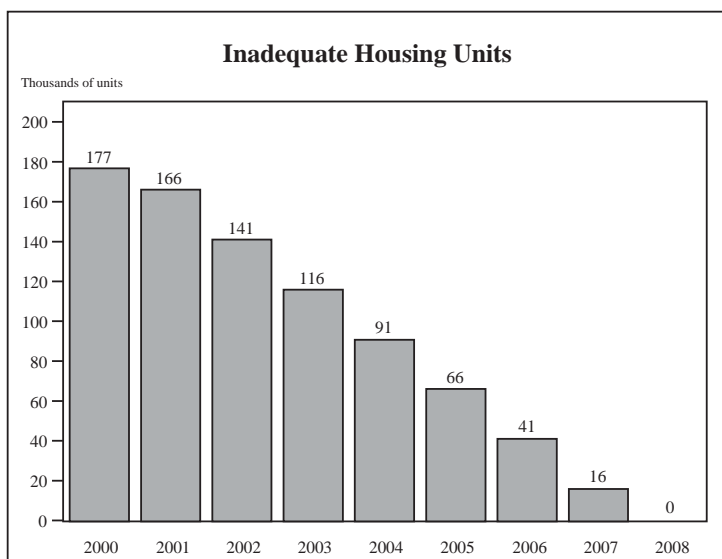
3. *The Housing Allowance Opportunity.* The Administration is committed to reducing to zero by 2005, the average out-of-pocket expense of military families living in private housing in local communities. This will enable more military families to leave inadequate government housing and rent quality private-sector housing in the local communities around DoD's installations.



4. *Reliance on Private-Sector Housing.* As private housing becomes more affordable to military families, DoD needs to fully implement its longstanding policy to rely first on private-sector housing in local communities for housing military families. DoD's process for determining on-base housing requirements needs to be updated, standardized, and implemented. Savings realized from not building or renovating unneeded housing units can be used for more pressing defense priorities.

THE EXPECTED NEAR-TERM RESULTS

- DoD is executing the 2001 enacted appropriations that provided funding to support eliminating 11,000 inadequate housing units through new construction, renovation, and public-private partnerships (“privatization”), more than double the total units privatized between 1996 and 2000.



- DoD reports current lifecycle costs for private-public partnerships are five to ten percent less than the traditional construction projects.

- The 2002 amended DoD budget funds construction and renovation of 6,363 housing units and privatization of 28,174 units, of which about 18,600 are currently inadequate. So in all, with the 2002 budget, about 25,000 inadequate units will be upgraded.
- DoD should issue an updated housing requirements process to ensure that DoD relies on private-sector housing first for its housing needs.

THE EXPECTED LONG-TERM RESULTS

- If DoD continues using public-private partnerships to privatize housing at the rate in the 2002 budget, DoD should be able to eliminate all inadequate military family housing units by 2008, two years before its original goal of 2010. Increased use of public-private partnerships could accelerate progress even more.
- Secretary Rumsfeld has observed that housing is not a core military competency and “can be performed more efficiently in the private sector.” To move in that direction, the percentage of military families living in private housing should be increased, thereby reducing the government-owned housing requirement.

8. Better R&D Investment Criteria

Department of Energy

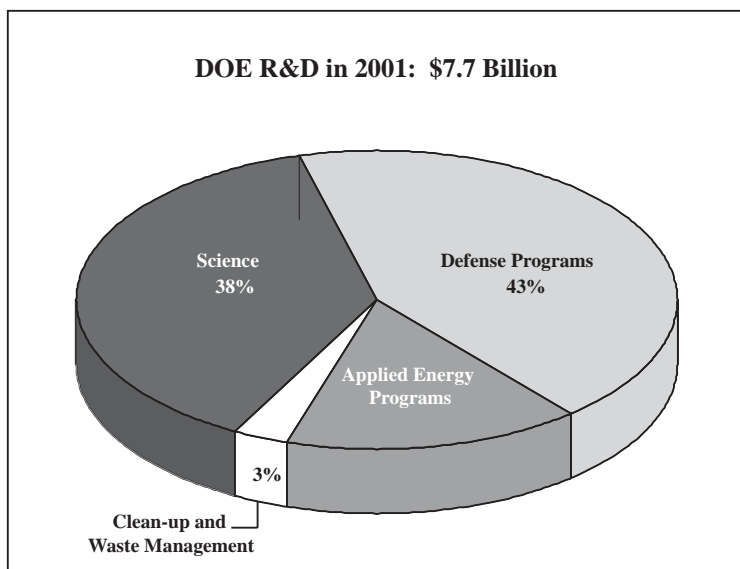
Science and technology are critically important to keeping our nation's economy competitive and for addressing challenges we face in health care, defense, energy production and use, and the environment. As a result, every federal research and development (R&D) dollar must be invested as effectively as possible.

THE PROBLEM

- The federal government will spend approximately \$90 billion in 2001 on R&D, an investment representing 14 percent of all discretionary spending. The ultimate goals of this research need to be clear. For instance, the objective of NASA's space science program is to "chart our destiny in the solar system," and the goal of the U.S. Geological Survey is to "provide science for a changing world." Vague goals lead to perpetual programs achieving poor results.
- The federal government needs to measure whether its R&D investments are effective. We can rarely show what our R&D investments have produced, and we do not link information about performance to our decisions about funding. Without this information, decisions about programs tend to be made on the basis of anecdotes, last year's funding level, and the political clout of local interest groups.
- Many R&D projects have ended up stepping beyond the legitimate purposes of government to compete with—or unnecessarily subsidize—commercial ventures. Last year, the Department of Energy (DOE) funded a midsize turbine development project at a rate of more than \$30 million a year—even though the market had advanced to the point where all manufacturers had backlogs of orders. Unwisely invested federal dollars merely replace private research dollars, without increasing the nation's total commitment to research. In the worst case, misguided research funding merely inflates the cost of doing research by bidding up the price of human and capital resources. Federal R&D should not compete with or supplant private investments.
- Finally, many R&D projects directly benefit corporations that could fund their own R&D projects without federal assistance. For instance, DOE continues to fund gas-to-liquid conversion research even though the process has been commercialized to the point that one multinational oil company is considering investing up to \$6 billion for new plants based upon this technology.

THE INITIATIVE

- The Administration is developing objective investment criteria for federal R&D projects. These criteria will also be used to assess the performance of research programs. A well directed R&D portfolio should demonstrate progress towards the portfolio's strategic goals, without necessarily expecting success from each and every project.
- DOE, which will spend more than \$7.7 billion (more than 40 percent) of its 2001 budget on a broad range of research activities, will pilot this initiative. DOE supports diverse R&D activities (see figure at right).
- DOE and OMB are developing performance criteria for applied research and development programs. OMB and DOE will use these criteria to guide funding for the 2003 Budget for the Department's Solar and Renewable Energy, Nuclear Energy, Clean Coal, Fossil Energy, and Energy Conservation programs.
- DOE and OMB are coordinating this effort with other White House offices and are soliciting input from other R&D agencies, experts in research management, and groups with an interest in the federal R&D portfolio to improve investment criteria and their implementation.
- After our initial effort in applying uniform investment criteria to the applied energy technology programs, OMB will assist in the transfer of investment criteria to the rest of DOE, and other Departments and applicable agencies with applied R&D programs in time to assist in the formulation of the President's 2004 Budget. OMB and the Office of Science and Technology Policy will also work with NASA, the National Science Foundation, the Department of Defense, the National Institutes of Health, and DOE to develop separate criteria, to be issued in Spring 2002, for evaluating basic research during formulation of the 2004 Budget.



The Expected Near-term Results

- The 2003 Budget will increase the expected efficiency of applied research and development programs in DOE by no less than 10 percent.¹
- The 2003 Budget will reduce programs that directly benefit individual firms, (instead of entire sectors) by no less than 50 percent.
- New applied research and development proposed in the 2003 Budget will be expected to perform in the top 25 percent of the program's existing R&D, with the goal of improving the quality of the research portfolio.²
- Application of the criteria will provide a benchmark for future performance assessments that will inform funding beyond 2003.

THE EXPECTED LONG-TERM RESULTS

- The Administration expects that these investment criteria will better focus the government's research programs on performance. The effectiveness of the U.S. government's R&D investment will be measurably improved over a period ending three years from initial benchmarking. Applied research programs will be better focused on achieving well-defined practical outcomes. Basic research programs will better target improving the quality and relevance of their research. These investment criteria will promote our nation's leadership in important science and technology areas.

¹ Efficiency will be measured by expected dollar per barrel of oil avoided/produced and dollar per ton of pollution reduced. (These metrics would be tailored to the specific objective of the research.)

² Program performance will be measured in terms of the appropriateness of the federal role, research quality, thoroughness of management, level and nature of industry involvement in project planning, size of investment required for the program, and objective measures of how the program is expected to decrease energy demand, increase energy supply, or reduce pollution.

9. Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management

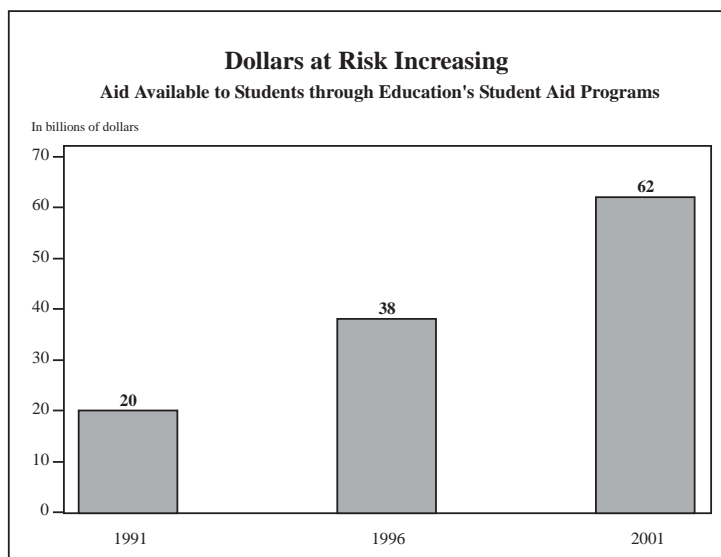
Department of Education

"[Student] assistance has allowed [Texans] to expand their minds and improve their job prospects. [Student aid] enhances individual lives and ensures a brighter future for our state."

Governor George W. Bush

THE PROBLEM

- Federal student aid programs help nearly nine million students afford college each year. Better management of these programs is necessary to maximize the advantages provided to these recipients and protect taxpayer dollars from being wasted.



- Through the Department of Education (ED), the federal government supports approximately \$60 billion in student financial aid annually, in loans, loan guarantees, grants, and work-study opportunities. ED manages the delivery of student aid benefits to students in approximately 5,300 postsecondary schools, and oversees the direct and guaranteed loan systems affecting 37 million individuals, 4,100 lenders, and 36 guarantee agencies.

The amount of college aid available through ED's student assistance programs has tripled in the last decade.

- Financial statement audits during the past five years have exposed numerous management problems at ED, including an unreliable financial management system and inadequate technology security. Since its first audit in 1995, ED has received only one unqualified, or “clean,” opinion on its financial statements.

Basic Accounting Deficiencies

A recent independent audit review revealed that basic accounting functions often have been ignored at ED. For example, the review discovered 31,000 unreconciled items—or differences—between ED’s financial records and the cash transactions recorded by the Treasury. ED has allowed these items to pile up over the years.

- Because of these deficiencies, the General Accounting Office (GAO) has, since 1990, classified the student financial assistance programs at ED among the federal programs at highest risk of fraud, waste, error, and mismanagement. In its most recent report, GAO noted that the Department lacks the financial and management information needed to manage these programs effectively and the internal controls needed to maintain the integrity of their operations.

GAO also has cited ED’s inability to verify students’ income effectively as a weakness in the student aid programs that leaves them vulnerable to fraud and error. Students are awarded Pell Grants and loans based on the financial resources they report on their aid applications. ED currently verifies

the income information on applications by asking 30 percent of applicants to provide copies of their tax returns to their schools’ financial aid offices. This process is vulnerable to fraud and error because students can easily change their returns or claim they did not file. The process is also burdensome

GAO 2001 “high risk” series update: A...Continued weaknesses in information systems controls increase the risk of disruption in services and make the Department’s loan data vulnerable to unauthorized access, inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without detection.

to students and schools and raises privacy issues by giving school officials access to complete tax returns belonging to students and their parents.

- A test match between ED and Treasury compared the income students reported on their aid applications to IRS income data. Preliminary results of that test estimate that the Pell Grant program made overawards of up to \$400 million in 2000–2001 (and underawards of over \$100 million) because students or their parents misreported their income on their student aid applications. The Administration does not expect that 100 percent of the benefits of an income verification program could be achieved when the program is first implemented, but past experience indicates that immediate benefits could be substantial and additional benefits would accrue over time.

THE INITIATIVE

- The Secretary of Education has launched a major effort to address these financial and management issues. The goals are to resolve issues preventing ED from achieving an unqualified audit opinion on its financial statements and to have student financial assistance programs removed from GAO's high-risk list by successfully addressing management deficiencies. When these goals are accomplished, ED will have a reliable financial management system that minimizes vulnerability to fraud, waste, and abuse, and produces accurate and timely data for oversight and decision-making purposes.
- In order to accomplish these goals, the Administration has established a Management Improvement Team (MIT) within ED. The MIT, comprised of nearly a dozen senior-level managers, is responsible for identifying, tracking, cataloguing, and resolving all audit issues and management items. Through the beginning of June 2001, the MIT had successfully resolved or closed more than three-fourths of the major audit issues. Concurrently, ED is implementing a new financial management system. Through these efforts, the Administration expects to significantly improve ED's financial management capacity.
- The Administration is analyzing options for improving income verification of student financial assistance programs while providing for security and protecting taxpayer privacy. ED and Treasury recently conducted statistical test matches to estimate the savings that might result from ED's use of tax data to prevent overpayments to student aid applicants. The Administration will review the results and weigh the possible benefits against the risks of a match before deciding whether to proceed with implementation of an income verification system with IRS.

THE EXPECTED RESULTS

- Erroneous payments to students will be reduced, ensuring that aid is targeted to the neediest students and increasing public confidence in the programs' integrity.
- The student aid programs will be removed from GAO's "high risk" list by 2002, reflecting financial management and program improvements that significantly reduce their vulnerability to waste, fraud, abuse, and mismanagement.
- ED will receive an unqualified opinion on its financial statements, indicating a robust and reliable financial management system that will enable ED to produce accurate financial and management information. This data can be used to improve daily oversight of operations, better measure program performance, and inform policy decisions.

10. Management and Performance

Department of Housing and Urban Development

THE PROBLEM

- The Department of Housing and Urban Development's (HUD's) chronic management weaknesses harm the people and communities it was created to serve. Subsidized families are sometimes trapped in substandard, poorly maintained housing; home buyers are exposed to fraudulent practices; and some families receive excessive subsidies that could have been used to aid others in need.
- Many overlapping, complicated, and poorly designed programs burden HUD. The Agency must work through thousands of intermediaries, with limited recourse when the intermediaries perform poorly, and it has a legacy of troubled real estate that strains administrative resources. Weak information systems and controls, staff misallocation, and the retirement of many experienced employees complicate HUD's problems.

GAO still considers much of what the Department does to be high risk. The 2001 update of the GAO high-risk list included two of the Department's major program areas - Single Family Mortgage Insurance and Rental Housing Assistance. The programs account for about two-thirds of all the funds for which the Department is responsible. GAO also reports that the Department continues to suffer from department-wide weaknesses in staffing as well as information and financial management.

Government at the Brink, Committee on Governmental Affairs, United States Senate (June 2001)

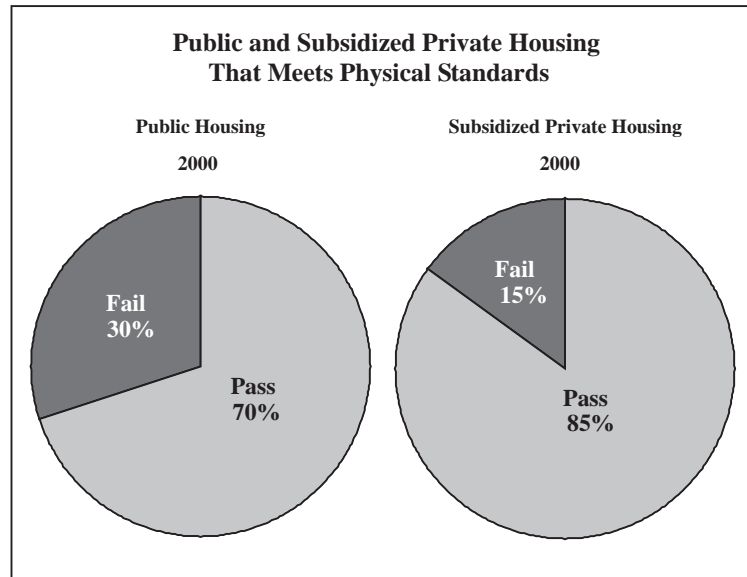
THE INITIATIVES AND EXPECTED RESULTS

- *Improve the performance of housing intermediaries.* HUD is no longer willing to subsidize substandard housing. HUD will strengthen oversight of housing intermediaries using a new database and management rating system to hold them responsible for results. Using existing statutory authority, HUD will promptly replace the management of public housing authorities and sanction private owners of subsidized projects when these intermediaries are in substantial default of their contractual obligations, to maintain clean, safe housing units.

The Expected Results—The percentage of units meeting HUD's physical standards for public housing will rise to 74 percent in 2002 and 84 percent by 2005. For private housing that is subsidized by HUD, the percent of units meeting physical standards will increase to 89 percent in 2002 and 92 percent by 2005. HUD's goal for the near future

is to expand housing choices for those who reside in housing that fails to meet physical standards. HUD will work with Congress on ways to ensure that families are not required to live in substandard housing as a condition for retaining their subsidy.

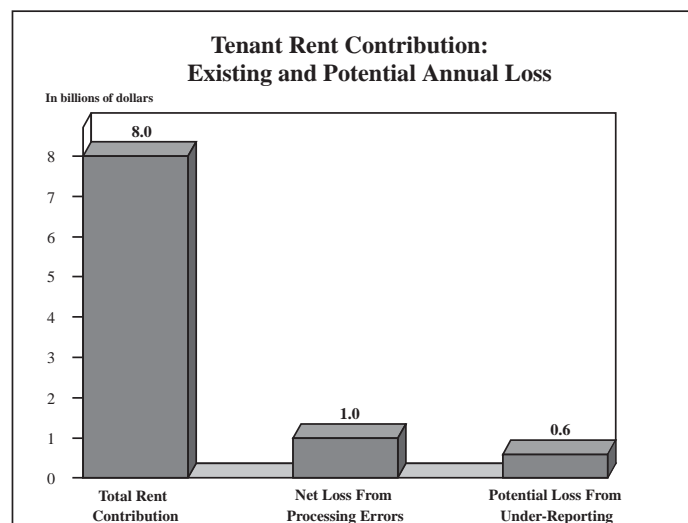
- *Reduce overpaid rent subsidies.* HUD will ensure fairness to all rent-subsidized



households by reducing more than \$1 billion in overpaid rent subsidy annually. Regulatory changes and new administrative controls will correct long-standing problems, including errors in calculating rents and inaccurate reporting of income.

Based on computer matching with 1998 federal income tax data, HUD estimates that tenants who under-reported their income received \$617 million in unwarranted rent subsidies. In addition, over 60 percent of subsidized rent calculations contain some type of error.

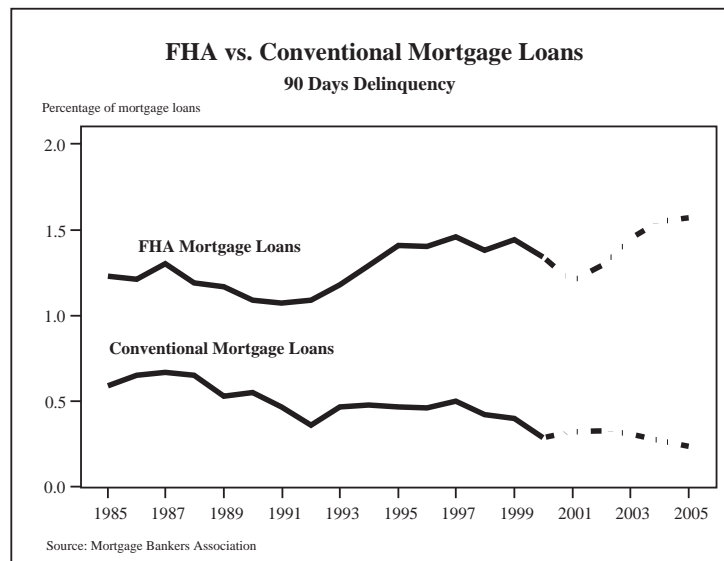
The Expected Results—Working with its stakeholders, HUD will reduce the high incidence of tenants’ under-reporting of income through a combination of expert systems, simplification where necessary, and accountability. By 2005, HUD will cut the processing error rate by at least half, from 60 percent to 30 percent. As a result of this and better income verification, the overpayment of rent subsidies will be cut by at least half.



- *Improve Federal Housing Administration (FHA) risk management.* HUD's FHA will improve its procedures and systems to better control risks at all stages of the mortgage insurance process, from oversight of underwriting, to monitoring loan servicing, to reforming the way it manages defaulted loans.

FHA borrowers have been exposed to fraud, with some lenders and appraisers scheming to acquire FHA insurance on properties with falsely inflated prices. These schemes harm both FHA and the borrowers it serves. HUD's Inspector General reports indictments and convictions in FHA fraud schemes in Los Angeles, Baltimore, Chicago, Brooklyn, and Long Island. These fraudulent activities are occurring at the same time that FHA delinquencies are rising, even as delinquencies of conventional loans gradually decline.

The Expected Results—Improving the early stages of the mortgage insurance process, HUD will prevent fraud by holding lenders accountable for the performance of brokers



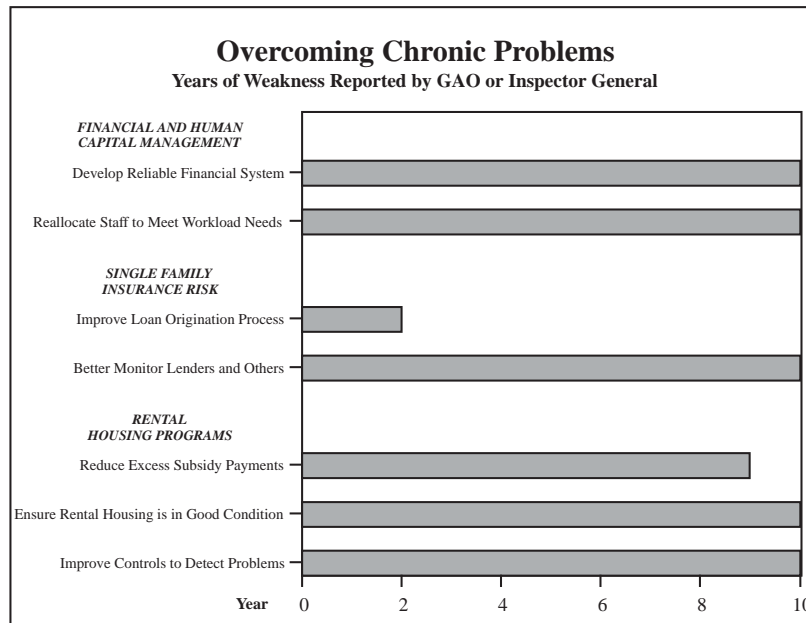
and appraisers by 2002. By 2004, HUD will eliminate most, if not all, falsely inflated appraisals. It will take strong action against those found culpable of fraud. Improving the last stage of the mortgage insurance process, HUD will increase amounts recovered from disposition of its foreclosed properties. By 2003, HUD will move out of the property management business by implementing its statutory authority to accelerate the mortgage insurance claim process, helping FHA manage its business more like the private sector.

- *Strengthen program controls.* To address long-standing management control weaknesses—including those in the above-discussed FHA single-family and low-income rental assistance programs—HUD must improve its human capital and information technology resource management. With the help of its new workforce evaluation tools and a rethinking of work processes and assignments, staff and workload will be realigned to bolster critical oversight and analysis functions.

Information systems and controls will be strengthened through investments in integrated financial systems and new performance reporting systems.

The Expected Results—HUD will eliminate the specific control weaknesses and inefficiencies that have caused GAO to place its major programs on the high risk list, with the goal of removing all HUD programs from that list by 2005 and improving the lives of the people and communities HUD was created to serve.

- *Reduce meaningless compliance burdens.* The current consolidated planning process contributes little of value. States and communities spend millions of their block grant dollars to produce Consolidated Plans (many of more than 200 pages) that are hardly looked at by HUD and not useful to communities. Dollars invested in meaningless paperwork could be used instead to measure the progress communities are making in revitalizing low-income areas.



The Expected Results—By 2003, HUD will work with local stakeholders to streamline the Consolidated Plan, making it more results-oriented and useful to communities in assessing their own progress toward addressing the problems of low-income areas.

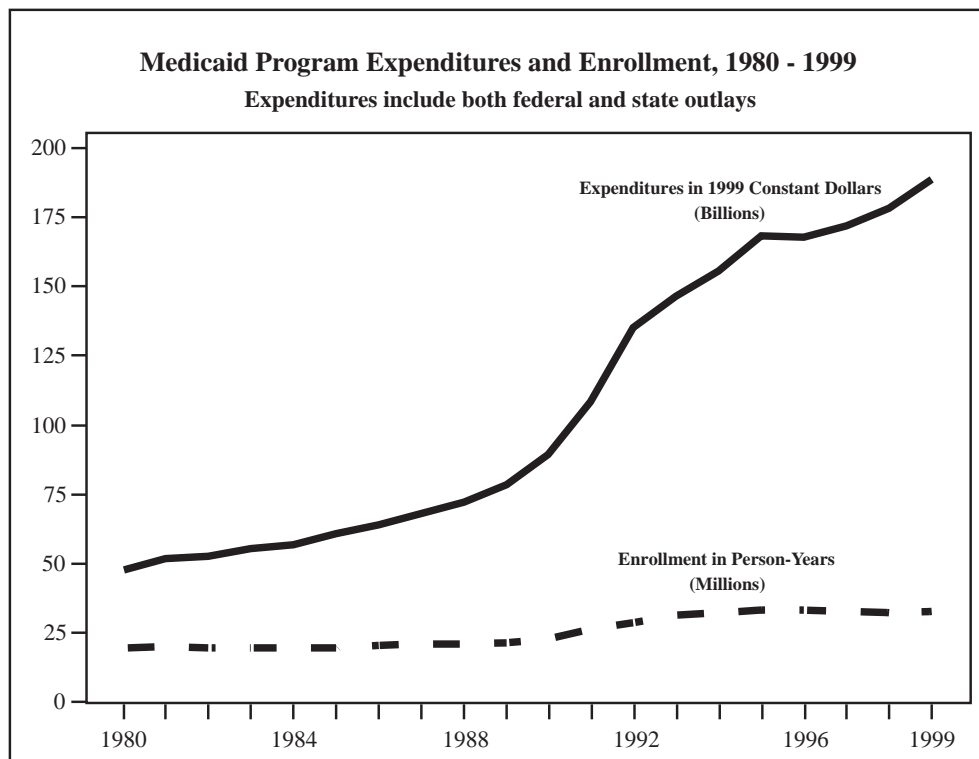
11. Broadened Health Insurance Coverage Through State Initiatives

Department of Health and Human Services

On August 4, 2001, President Bush announced the Health Insurance Flexibility and Accountability Demonstration Initiative. This initiative is designed to improve health insurance coverage for low-income Americans through comprehensive state-based approaches under Medicaid and the State Children's Health Insurance Program.

THE PROBLEM

- The federal government will spend an estimated \$143 billion in 2002 on the Medicaid program. Recent annual growth in the Medicaid program is the highest it has been since the mid-1990s. Between 1999 and 2002, Medicaid expenditures are projected to grow almost 10 percent per year in comparison to the less than six percent average annual growth between 1994 and 1999. Overall national health expenditures are projected to follow a similar pattern.



- In recent years, the number of people receiving health insurance under the Medicaid program has remained constant and the rate of insurance coverage among low-income Americans has not improved. Medicaid program enrollee growth is projected to increase only 1.2 percent per year between 2002 and 2006. Census Bureau estimates indicate that although the number of low-income individuals has decreased since the mid-1990s, those who remain low-income were no more likely to have insurance in 1999 than they were in 1995.
- The Administration believes that the complex framework of federal Medicaid requirements restricts states from tailoring their Medicaid programs to effectively provide low-income individuals with affordable health insurance options.
- The Administration believes that Medicaid and the State Children's Health Insurance Program (SCHIP) should support, rather than undermine, the private health insurance market, where two-thirds of nonelderly Americans purchase health insurance coverage. The Medicaid program currently does not provide states with the flexibility or incentive to develop programs that are supportive of the private health insurance market, such as premium assistance programs. As a result, few states have successfully implemented such programs.
- The Administration believes that Medicaid funding is not always being used to provide health insurance to low-income individuals. Recent studies by the Department of Health and Human Services (HHS) Inspector General have identified provider payment policies that have allowed billions of dollars in federal Medicaid funding to be used for purposes other than purchasing health insurance.
- In the past, little federal guidance existed for states on how to develop comprehensive demonstrations seeking to improve health insurance coverage. Additionally, substantial federal effort is expended reviewing demonstration proposals that do not seek to improve health insurance coverage. Through guidance to states, the Administration will clarify the goals and the application process for federal Medicaid demonstrations.

THE INITIATIVE

- On August 4, 2001, the Administration announced the Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative. This innovative approach is designed to give states more flexibility to provide health insurance to low-income individuals. The Administration is seeking to strike a balance between increasing state flexibility and ensuring the prudent management of federal Medicaid and SCHIP funds.
- The HIFA initiative:
 - Encourages states to develop comprehensive health insurance approaches that utilize available Medicaid and SCHIP funding to increase insurance coverage for low-income individuals.
 - Simplifies the application process by providing clear guidance on the information states should include in their demonstration proposals.

- Gives states greater flexibility in designing benefit packages and cost sharing in exchange for increasing health insurance coverage, particularly in support of private health insurance.
 - Establishes a firm requirement of budget neutrality requirements and provides a simplified option for states wishing to minimize the federal/state negotiations.
 - Increases accountability in the state and federal partnership by ensuring that Medicaid and SCHIP funds are effectively being used to increase health insurance coverage. At the outset of each HIFA demonstration, the state will set a goal for reducing the number of low-income uninsured and will be asked to systematically track the impact of their HIFA demonstration on the uninsured.
 - Gives priority review to state proposals that meet the general guidelines of the HIFA demonstration project.
- The Administration also is looking at ways to improve the availability of reliable and timely national data on insurance coverage.

THE EXPECTED RESULTS

- Increase the number of individuals with access to affordable health insurance without increasing Medicaid costs. We are already making progress on the number of Americans with access to health insurance. In the first six months of the Bush Administration, HHS estimates that an additional 800,000 people have obtained health insurance through the approval of state requests for Medicaid and SCHIP waivers and state plan amendments.
- Increase the number of comprehensive state-based Medicaid and SCHIP initiatives addressing the problem of the uninsured.
- Increase the number of Medicaid and SCHIP approaches that support coverage in the private health insurance market.
- Improve the federal review process of state demonstration requests by streamlining the paperwork required and reducing the time period required for federal review.

12. A “Right-Sized” Overseas Presence

Departments of State, Defense, Justice, Commerce, Agriculture, the Treasury, Agency for International Development, and Other Agencies operating overseas

“Functions that can be performed by personnel based in the United States or at regional offices overseas should not be performed at post. In your review, should you find staffing to be either excessive or inadequate to the performance of priority Mission goals and objectives, I urge you to initiate staffing changes in accordance with established procedures.”

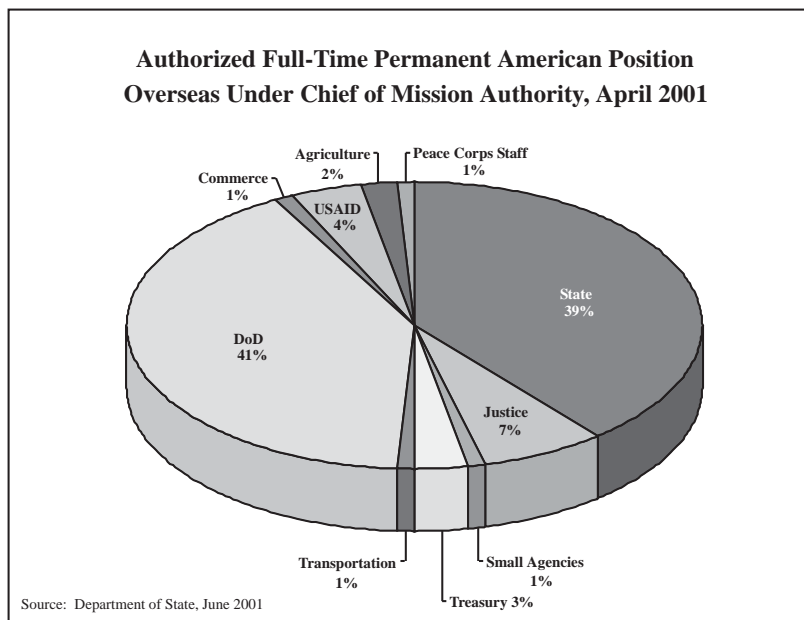
President Bush’s Guidance to all United States Ambassadors overseas.
May 9, 2001

THE PROBLEM

- The U.S. overseas presence is costly, increasingly complex, and of growing security concern. U.S. national security interests are best served by deploying the right number of people at the right posts with the right expertise.

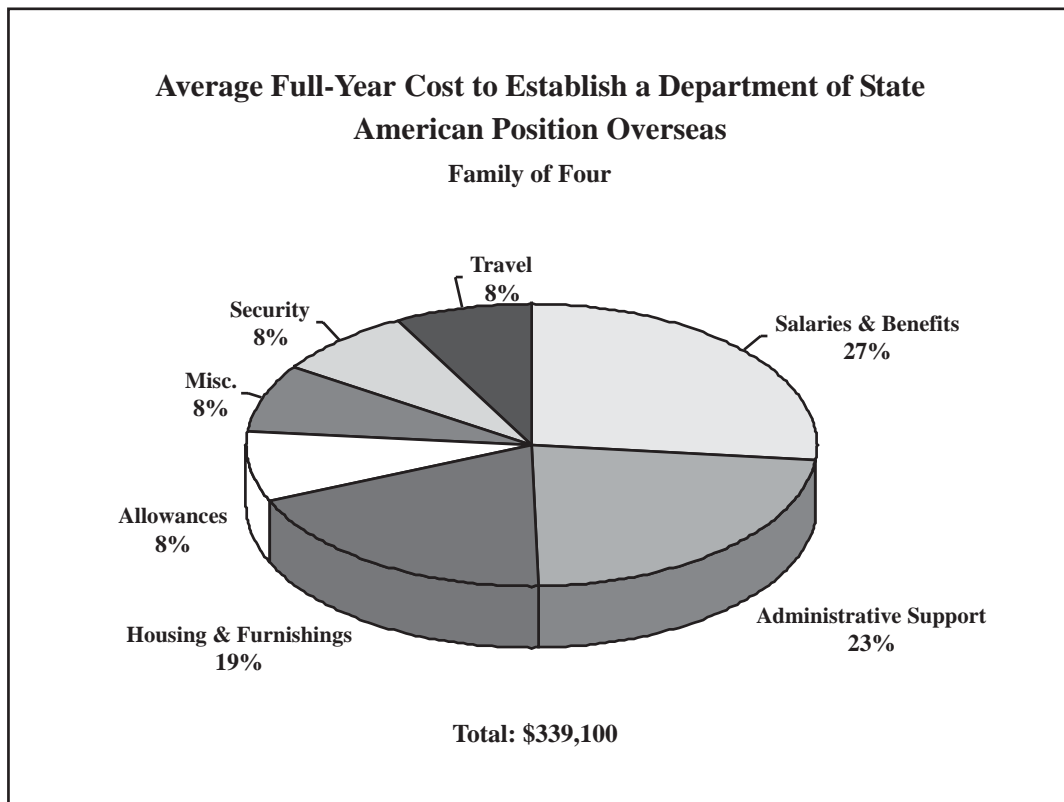


- Currently, the principal mechanism to assess the rational deployment of U.S. government personnel overseas is the ambassador's authority to manage staffing at each particular post. We need to have a more systematic decision making process to create proper incentives and procedures to manage U.S. government staff operating overseas.
- No one U.S. government agency can determine with any certainty the total number of U.S. government Executive Branch personnel under the authority of each ambassador and other chiefs of mission. Estimates run as high as 60,000 with people representing over 30 agencies. There is no mechanism to assess the overall rationale and effectiveness of where and how U.S. employees are deployed.
- Moreover, as there is no common accounting system that captures all costs, agencies do not know the true costs of sending staff to overseas posts. Agencies are not bearing the full costs of sending their staffs abroad.
- While Chiefs of Mission have legal authority to manage assignments of other agencies to their embassies, in practice, this authority has not been used to significantly alter patterns of deployment of U.S. government staff overseas.
- Following the embassy bombings in Nairobi and Dar es Salaam in 1998, the Overseas Presence Advisory Panel (OPAP) was formed to assess America's overseas presence and to develop recommendations to make it better managed and more effective. The OPAP report concluded that the distribution of U.S. government personnel overseas is shaped more by historical legacy or bureaucratic inertia than by actual long-term foreign policy goals. It criticized staffing at overseas posts for too often failing to match an embassy's requirements, called the interagency coordination on overseas staffing poor and inadequate, and found that decisions regarding the size and location of U.S. embassies, are "made on an apparently ad hoc basis without adequate formal planning." As a result of these findings, the



report recommended an interagency review process to determine the size, shape, and goals of U.S. presence overseas. This present effort intends to follow through on the OPAP recommendations and ensure that U.S. presence overseas is properly coordinated and managed.

- As the bombings in Africa have shown, every embassy in the world is a potential target from terrorist groups. To ensure that all U.S. government personnel work in secure posts abroad, the Department of State has embarked on an expansive construction program for embassies and consulates. The construction program is expected to require a commitment of approximately \$15 billion over the next 10 years. This costly program demands that staffing decisions underlying facility construction be based on a thorough understanding of U.S. government needs in each country and a matching of staff with requisite skills and abilities to achieve mission goals. Faulty staff planning means that the U.S. government may be building embassies larger or smaller than needed.
- The average full-year cost to the U.S. government of an American official at a post overseas ranges from post to post but can cost upwards of several hundred thousand dollars a year, not including salary. The cost of new overseas positions can range up to \$600,000 for certain agencies in certain areas, including all support costs. Security and cost considerations demand that the overseas staffing process be improved. The State Department estimates that the full-year cost is \$339,100 on average to establish a new State Department position overseas.



Approximate Average Full-Year Cost (New Position Family of Four)

American Salaries and Benefits (FO-02 Step 2/3).....	\$88,100
International Cooperative Administrative Support Services (ICASS).....	\$59,30 0
Office Furnishings/Equipmentand IRM (classified networks).....	\$16,000
Housing (lease cost).....	\$22,000
Residential Furnishings/Equipment.....	\$40,000
Educational Allowance (two children).....	\$19,000
Danger Pay (in selected posts).....	\$800
Language Incentive Pay.....	\$3,100
Post Allowance (COLA).....	\$4,100
Post Differential	\$8,70 0
Field Travel	\$2, 300
Post Assignment Travel.....	\$20,400
R&R Travel.....	\$3,0 00
Miscellaneous Expenses (supplies, utilities maintenance).....	\$24,000
Representation (estimate).....	\$1,000
Diplomatic Security (local, guards, alarms).....	\$25,900
	<hr/>
Total.....	\$339,100

THE INITIATIVE

- The Administration will analyze and review overall U.S. government presence and develop a credible and comprehensive overseas staffing allocation process. This process will provide the Administration with a means to link overseas assignment with overall U.S. government policy, funding, and agency construction planning.

THE EXPECTED RESULTS

- Reconfigure U.S. government overseas staff allocation to the minimum necessary to meet U.S. foreign policy goals.
- Have a government-wide, comprehensive accounting of total overseas personnel costs and accurate mission, budget, and staffing information.
- Use staffing patterns to determine embassy construction needs.

THE NEAR-TERM RESULTS

- Develop accurate staffing projections for new construction projects with planning levels out to 2010.
- Integrate “right-sizing” into the workforce plans of the State Department and other agencies as part of the 2003 budget process.

- Improve the process for establishing new U.S. government positions overseas.
- Develop cost saving tools or models in such areas as: management, hiring practices, decreasing post size, regional centers, revising the Mission Performance Planning process, increasing overseas administrative efficiency, or relocating certain functions to the United States.
- Improve cost accounting mechanisms for overseas presence.
- Establish new, and improved, mechanisms to better coordinate all U.S. government agency policies relating to overseas presence.

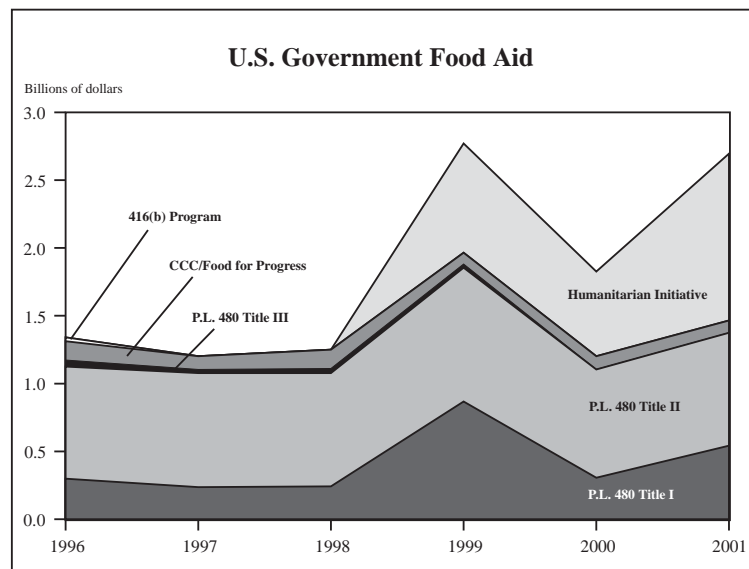
13. Reform of Food Aid Programs

Agency for International Development, Department of State, Department of Agriculture

The President strongly supports aid that feeds hungry people overseas and helps U.S. farm income. However, we must also avoid adverse commercial or trade impacts. Food aid saves many lives, and recently averted a famine in the Horn of Africa. But its humanitarian purpose is being eroded by other uses having little to do with food. To better meet the President's objectives, and strengthen U.S. food aid, the Administration is committed to reforming food aid programs to ensure that overseas food donation programs target food aid to the genuinely hungry and avoid waste and adverse impacts.

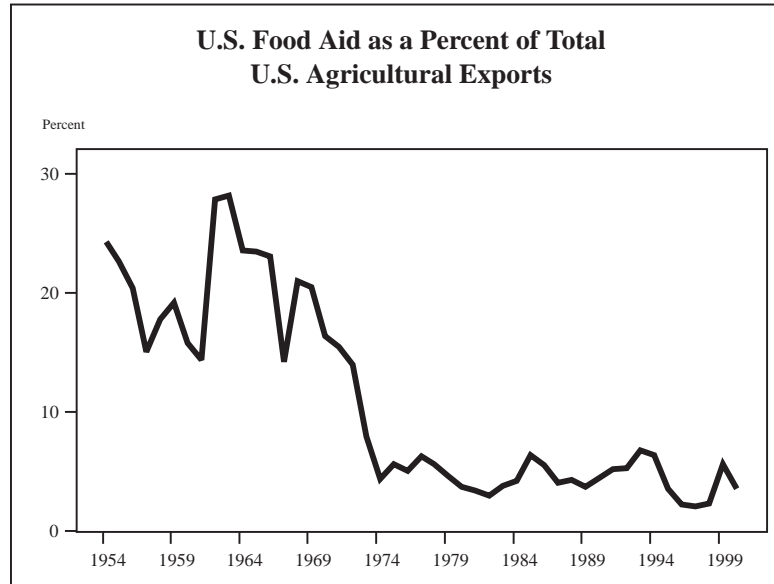
THE PROBLEM

- Six different programs run by two government agencies provide international food aid. They sometimes duplicate each other. For instance, Indonesia received food aid under four of these programs in a single year. The Department of Agriculture (USDA) and the Agency for International Development both have created similar bureaucracies to administer food aid.
- Food aid programs are afflicted by waste and questionable spending. For instance, proposed food aid expenditures have included projects such as building a noodle factory and providing trucks that were promptly confiscated by the recipient country's government. There are other cases of U.S. commodities being discarded because the recipient country rejected U.S. food standards and implementing partners did not handle the commodities properly. In addition, food donations to Angola and Central American countries were discarded because of damage that occurred during shipping. It is quite common for donated food to be sold for cash in disaster areas while more efficient cash relief was also available.



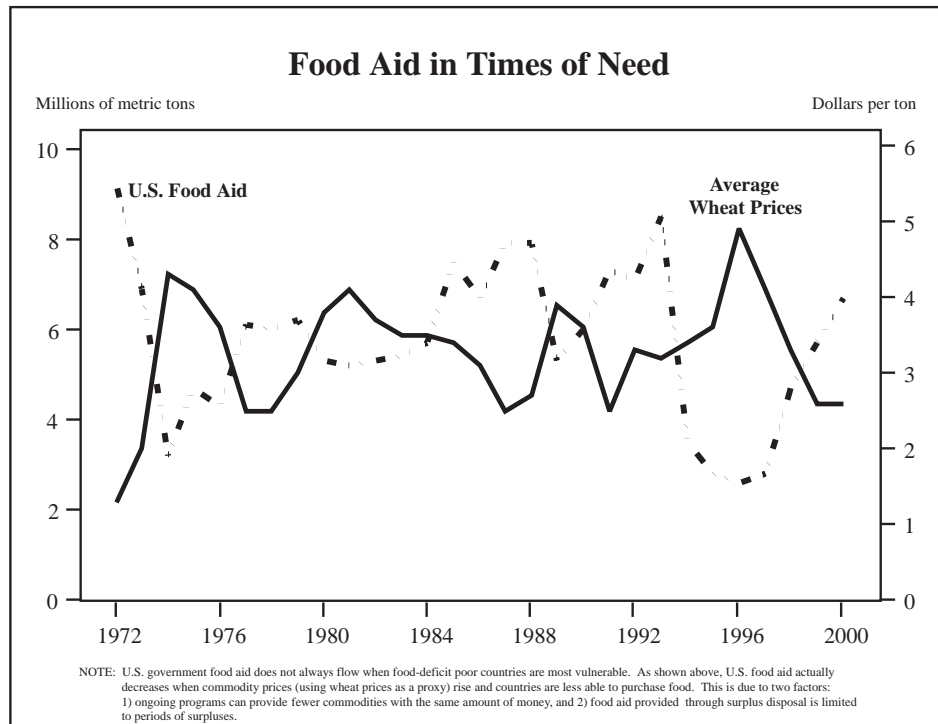
- Some of this aid is inefficient. For instance, the General Accounting Office (GAO) noted that, of the nearly \$250 million the United States spent to send wheat to Russia in 1999, the intended recipients, Russian pensioners, only realized \$64 million in benefits because of high administrative and transportation costs.

- Some of the aid may be counterproductive, a condition agencies strive to avoid. For instance, sending food to a country that does not need it for serious humanitarian purposes may undermine local farmers and efforts to privatize the agricultural sector in transition countries. Likewise, large food aid shipments through state-owned distribution enterprises in a



number of former Soviet republics in the early 1990s may have inhibited efforts in those countries to privatize these enterprises.

- Aid may not always help U.S. farmers. First, farm income is much less affected by food aid than in the past. For instance, the previous Administration used 416(b) and the Commodity Credit Corporation Charter Act authorities to donate food when U.S. market prices were very low—precisely the time when USDA already was paying farms the difference between the market price and a higher price floor. In addition, food aid has become less important as an export mechanism as commercial exports have grown. Finally, evidence suggests food aid may displace commercial sales or substitute for USDA programs intended to boost farm income.
- The sale of U.S. donations in overseas markets to generate cash, a practice known as monetization, can impede U.S. commercial exports, lower market prices, induce black market activity, and thwart market development for U.S. farm products. Theft is also an issue. For example, employees of an organization delivering food aid were prosecuted for stealing commodities in Haiti. Though praised for its flexibility, monetization is economically inefficient because the sale price generally does not cover the cost of providing the commodities, especially when the additional shipping cost of the U.S. cargo preference requirement are added.
- Some food aid programs are charged by members of the World Trade Organization as conflicting with U.S. goals of liberalized trade to the extent that aid displaces commercial sales. U.S. food aid has tended to rise in volume when prices are low,



and drop when prices are high—precisely the time when food-deficit countries are least able to buy food. However, the United States has committed in the Food Aid Convention to supply a minimum of 2.5 million tons annually, regardless of U.S. prices or supplies, and the United States has resisted other nations’ support for lower aid levels when prices are high. The Ad Hoc Humanitarian Food Aid Initiative, authorized to operate since 1998 when prices were low, unfortunately enabled some trade partners to misleadingly criticize U.S. food aid policy goals.

THE INITIATIVE

- The Administration is developing proposals that will be consistent with the following principles:
 - direct feeding of the genuinely hungry populations will be the primary goal;
 - foreign policy and economic development programs will be subject to analysis of benefits, costs, and performance to determine their priorities;
 - bureaucratic duplication and inefficiency in Washington, D.C. and overseas will be minimized; and
 - program authorities and guidelines will be followed more consistently than in the past.
- The Administration will complete the Ad Hoc Humanitarian Food Aid Initiative and review funding for other aid programs—such as cash grants and direct feeding programs—that reduce waste and inefficiency in meeting domestic and foreign aid goals. Funding for such programs could be increased.

- Resources for other programs that promote foreign purchase of domestic agricultural products may be restructured and/or increased.
- The President's 2003 Budget request will incorporate proposals reflecting the principles outlined above and the results of an interagency review of all U.S. food aid activities, authorities, and programs.

THE EXPECTED RESULTS

- More reliable levels of food aid, allowing recipient countries, cooperating sponsors, and U.S. administrators to plan for their needs. The proportion of the total food aid program that relies on unpredictable surplus commodity availability will not exceed 10 percent.
- More food security for hungry people, through better-focused programs, clear and consistent policy objectives, and more efficient use of budget resources.
- Improved safeguards to avoid any potential displacement of United States or third country commercial sales, leading to more effective impact of food aid on U.S. farm income.
- Greater efficiency and transparency in the management and implementation of U.S. food aid programs.

14. Coordination of VA and DoD Programs and Systems

Department of Defense Department of Veterans Affairs

THE PROBLEM

The Department of Veterans Affairs (VA) and the Department of Defense (DoD) operate comprehensive medical care systems for a combined cost of \$40 billion a year. While the missions differ, there is overlap. It is estimated that 600,000 military retirees eligible for DoD TRICARE are also enrolled in VA Medical Care. In addition, many DoD and VA facilities are located close to each other.

— DoD's health care system, originally designed to treat primarily younger active-duty personnel plus some under-65 retirees, has evolved to cover more beneficiaries over 65. DoD's patient demographics are thus becoming increasingly similar to those of VA, which has been treating the over 65 population for many years. These emerging similarities present opportunities for cooperation between the two health systems, including buying and selling services, shared staffing, advanced technology, education and training, consolidated procurement, TRICARE, pharmaceuticals and medical/surgical supplies, and joint facility agreements. So far, few of these opportunities have been put to use.

THE INITIATIVE

- *Enhance coordination and delivery of veterans benefits and services by implementing recommendations of the Task Force to Improve Health Care Delivery to Veterans.* This task force, announced by the President on Memorial Day this year, is co-chaired by former Congressman Gerald Solomon and Gail Wilensky, former Administrator of the Center for Medicare and Medicaid Services, previously known as the Health Care Financing Administration.
- *Enact authority with the goal of having military retirees, who are also eligible for VA medical care, select a health care program through annual open enrollment seasons.* This legislative proposal was included in the 2002 President's Budget.
 - Quality involves not only the standard of care provided by a health care program, but also the coordination of all health care services when multiple doctors or pharmacies serve one patient. Military retirees may obtain health care from both agencies at any time.

- *Improve VA's health care enrollment data system.* VA developed a temporary system three years ago in response to their new enrollment requirement. Currently, the Department is implementing a redesigned health care enrollment database and has initiated a process to develop a One-VA Registration and Eligibility System. However, these new efforts are in the early stages. DoD has offered in the past to provide the Defense Enrollment/Eligibility Reporting System (DEERS) software solution to VA or to incorporate VA beneficiaries and data requirements into DEERS. VA should consider the feasibility of using DEERS as an enrollment system for health care and the other benefits available to veterans.
 - Improving VA's Registration and Eligibility system and the Veterans Health Administration's Enrollment system are the first steps toward having one integrated system for all beneficiaries. For over 20 years the DoD has operated a centralized automated system to enroll and track individuals having entitlements to DoD benefits and services. DEERS, is a large database that accurately records the benefits eligibility information for over 20 million beneficiaries in multiple government agencies and could be expanded to include VA. DEERS is uniquely positioned to bridge the gap between the two Departments, and already supports a modest level of data sharing. Starting in November of 2000, DoD implemented a real-time exchange of information on veterans from DEERS. This information exchange sets the stage for even closer cooperation.
 - The transition from active-duty to veteran status involves the veteran enrolling at a VA regional office for benefits and his local VA medical center for health care. An active-duty member on one day is in a system that tracks all his data, and on the next he is separated and must report and document his information to VA in order to obtain VA benefits and services, despite the fact that most of it is electronically stored in the DoD system. In addition to the current lack of full DoD/VA interface, duplicative information must be collected and entered into separate enrollment systems at VA each time a veteran applies for different benefits such as home loan guarantees, disability compensation, education, vocational rehabilitation, and health care. Transition should be seamless from the veteran's perspective and could be made seamless through data sharing between VA and DoD, as well as within VA.
- *Improve coordination of health care and eliminate potentially duplicative budgeting by sharing data between VA and DoD.* These agencies have been working together for some time to share data on areas of concern and are pursuing a variety of joint activities under a reinvigorated VA/DoD Executive Council. However, there are still many unresolved issues that require further data sharing.

The Expected Results

- A seamless transition from active duty to veteran status, allowing both the veteran and VA to save time and money.
- Continuity of care for each patient by a single agency's health care system.

- Greater accuracy in forecasting the patient population and budget for both the DoD and VA health programs.
- Increased sharing of services that will lead to reduced cost and increased quality of care.

