

103  
**FEDERAL PERFORMANCE: GETTING RESULTS**

**Y 4. G 74/9: S. HRG. 103-194**

**Federal Performance: Getting Result...**

**HEARING**

BEFORE THE

SUBCOMMITTEE ON FEDERAL SERVICES,  
POST OFFICE, AND CIVIL SERVICE

OF THE

COMMITTEE ON  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

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JULY 14, 1993  
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Printed for the use of the Committee on Governmental Affairs



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# FEDERAL PERFORMANCE: GETTING RESULTS

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WEDNESDAY, JULY 14, 1993

U.S. SENATE,  
SUBCOMMITTEE ON FEDERAL SERVICES, POST OFFICE,  
AND CIVIL SERVICE, COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:05 a.m., in room SD-342, Dirksen Senate Office Building, Hon. David Pryor, Chairman of the Subcommittee, presiding.

Present: Senator Pryor.

## OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Ladies and gentlemen, good morning. I want to apologize. The reconciliation conference process has already started and I had to go to a meeting earlier this morning and it went a little longer than we had anticipated. I do apologize to all of you who have been so patient.

I first want to announce that, due to a conflict, the representative from the National Performance Review is going to be unable to be with us for this hearing. We are very sorry about that. I do look forward to working with the NPR. I am hopeful that their work is going to greatly improve the performance of our Federal Government. We do have some excellent witnesses this morning who are going to share with us some first hand experience and thoughts on how we might make Government perform just a little bit better.

Since we have started a little bit late, we are going to attempt to get done in a reasonable time. So I hope that all the witnesses might summarize their statements and their full statement will be printed in the record. We are going to let each witness speak for approximately 7 or 8 minutes and then ask some questions.

President Clinton has, as all of us know, appointed Vice President Gore to take charge of the National Performance Review. I would like to note that the Vice President served on this Subcommittee as a member of the Senate and he has a history of interest in this particular issue. We are very proud to be working with him and the Administration.

The American people are demanding today better Government service and they would like to pay less money for it, and that is a tall order. While this is a difficult task, I think it is not impossible. In fact, it is our duty as public servants to deliver the very best possible service to the American taxpayer. To get the best information to help us in this reform effort, we need to listen more than ever before to our present Federal employees.

We have creative, hard working, effective employees in each and every agency throughout the Federal system and we need to learn from their collective experience. Too often, I think, they get a bum wrap.

Four of our witnesses today are going to speak about ideas they have had or efforts they have made to help the Federal Government effectively perform its mission better. I have been very interested watching Vice President Gore tour in recent weeks many of the Federal agencies engaging in a dialogue with the Federal workers. This hearing this morning is, in fact, a similar dialogue with Federal employees about the ways that the Federal Government is currently getting its job done right and sometimes wrong and suggestions on how this system could be improved.

I have asked the Subcommittee staff this morning to review some of the efforts employees are making to improve service throughout the Government. The staff has compiled a report. I think you will find it very interesting. It will be made a part of this hearing record. It highlights a variety of initiatives that are today underway through the Federal system across the country.

In addition to learning from current employees, we also need a broad and well informed understanding of the history and inner workings of Government. To reform our extremely complicated system, we must first understand it. To help us do that, Professor Harold Seidman, who began working in the Federal Government under the Eisenhower Administration, is going to place our present day efforts in a larger context.

For example, Professor Seidman has written about the problems created when we turned over the basic work of Government to private contractors or grant recipients. This is an issue near and dear to my heart to which I have devoted a lot of time and effort to reform. I share the concern that we have changed the nature of our Government, which raises serious questions of accountability by creating an invisible bureaucracy of contractors. If we want to improve the performance of the Federal system, we must understand that much of the performing today is being done by private contractors. This should not be.

Finally, let me extend a special welcome to Mr. Asa Whitaker from Batesville, Arkansas. Mr. Whitaker is with Eastman Chemical. He was asked by then Governor Clinton to draft a proposal on improving the performance of the Arkansas State Government through the use of quality management. We will hear some of his thoughts on quality management. They also might be applied to the Federal system of Government here in Washington and throughout the country.

We look forward to listening to our witnesses this morning and we deeply appreciate them coming. They have come from a long way some of them. We were hopeful that Senator Stevens would have been here by now. He is, we think, planning to attend our hearing this morning. But we will go forward with our witnesses.

#### PREPARED STATEMENT OF SENATOR PRYOR

The purpose of today's hearing is to explore ways to improve the performance of the Federal Government. President Clinton has placed Vice President Al Gore in charge of the National Performance Review. I have great confidence in the ability



and energy of the Vice President and await the outcome of his efforts. I am pleased that Dr. Elaine Kamarck and Mr. Bob Stone are here to bring us up to date on the efforts of the National Performance Review. I would like to note that the Vice President served on this subcommittee and has a history of interest in this issue.

The American people are demanding better government service for less money. While this is a difficult task, it is not impossible. In fact, it is our duty as public servants to deliver the best possible service to the taxpayers.

To get the best information to help us in this reform effort, we need to listen to and learn from our present Federal employees. We have creative, hard-working, and effective employees in each and every agency and we need to learn from their collective experience. Four of our witnesses today will speak about ideas they have or efforts they have made to help the Federal Government effectively perform its mission. I have been very interested watching Vice President Gore tour many of the Federal agencies and engage in a dialogue with the Federal workers. In a similar manner, this hearing is a dialogue with Federal employees about ways the Federal Government is currently getting its job done right or ways that we could improve our system. I hope this hearing will also begin a productive relationship between the National Performance Review and Congress.

I asked the subcommittee staff to review some of the efforts employees are making to improve service throughout the government. The staff has compiled a report, that will be made part of the hearing record, which highlights a variety of initiatives underway across the country.

In addition to learning from our current employees, we need a broad and well informed understanding of the history and inner workings of our government. To reform our extremely complicated system, we must first understand it. To help us, Professor Harold Seidman, who began working in the Federal Government under the Eisenhower Administration, will place our present day efforts in a larger context. For example, Professor Seidman has written about the problems created when we turn over the basic work of government to private contractors or grant recipients. This is a matter that I have devoted much time and effort to reforming and I share the concern that we have changed the nature of our government and raised serious questions of accountability by creating an invisible bureaucracy of contractors. If we want to improve the performance of the Federal Government, we must understand that much of the "performing" is now done by private contractors. This should not be.

Finally, I want to extend a special welcome to Mr. Asa Whitaker, from Batesville, Arkansas. Mr. Whitaker will be speaking about his experience in helping then Governor Bill Clinton improve the performance of the Arkansas state government through the use of quality management.

I look forward to hearing from our witnesses and learning how to improve the performance of the Federal Government.

Senator PRYOR. One of our witnesses has requested, and that request certainly has been granted, that he be moved up to the first slot, and that is Mr. Bernard Kulik who is the Assistant Administrator for Disaster Assistance of the Small Business Administration. We will let him tell you why he would like to go first and we will call Mr. Kulik to the table at this time.

Mr. Kulik, we appreciate it. We understand you were up late last night and should you desire, you might tell the audience what you were doing. I think they would be interested.

Mr. KULIK. Thank you, very much, Mr. Chairman. I was in Missouri and Iowa for the last few days overseeing SBA's part of recovery in the flood damage that obviously has been in the news quite a bit. The problem, of course, as everyone knows is that it is still raining. And until this front or the combination of fronts moves off and the rain stops, we do not know how high the water is going to get nor how much damage, actual damage, will result.

Senator PRYOR. I understand that you flew back in very late last evening with Vice President Gore.

Mr. KULIK. Yes, sir.

Senator PRYOR. We appreciate that fine service you are rendering and look forward to your statement. Then I will follow with a couple of questions.

**TESTIMONY OF BERNARD KULIK,<sup>1</sup> ASSISTANT ADMINISTRATOR FOR DISASTER ASSISTANCE, SMALL BUSINESS ADMINISTRATION**

Mr. KULIK. Mr. Chairman, I would like to thank the Subcommittee for the opportunity to testify today. As I say, it is not often that a career employee gets to tell it like it is, even though it might ruffle some feathers. And I certainly trust that your invitation carries with it a grant to Congressional immunity.

Second, I have to say that the testimony that I give here today is strictly my own. It is not representative of the Administration or the Small Business Administration.

Senator PRYOR. Mr. Kulik, we are having a little hard time hearing you. Once again, if you could just pull that mike right up. Thank you.

Mr. KULIK. Mr. Chairman, a frequent cry is heard that Government should operate more as a business. But do all of us, the Administration, Congress, public, Federal employees really want that to happen? And if so, why did we evolve a system that is almost guaranteed to fail?

For example, what successful business operates on the year to year budget and cash flow with no thought of future expenditures, commitments, depreciation, future capital investments, spend or lose or similar matters. And this does not even consider the problems that are caused by the almost biannual exercises in appropriations that result in many agencies of the Government not having a final budget until a good portion of the fiscal year is over.

Government appropriations, accounting and budgeting is neither practical nor efficient. It is part of the problem, not the solution. How many businesses could survive if their planning was restricted in this fashion?

And what corporation do you know that has the equivalent of a 536 member board of directors—535 members of Congress and the President? Remember also that all members of the board have their own constituencies, their own priorities, their own agenda, and for the most part, they may not agree with each other.

What business has to be concerned about the requirements of that size board, most of whom are rarely heard from unless they have a constituent complaint and most of whom do not know the details of the business itself?

Now consider the obstacles we put in the way of our top departmental or agency staff. First, at least every 8 years, sometimes every 4 years and in our instance, quite a bit sooner, the entire top staff of the department or agency is going to disappear. Every job, the equivalent to a vice president or a senior vice president of the business on up will be declared vacant and the business will be left on its own under a caretaker. Some months later a new CEO will be appointed and confirmed, many times without any prior experience in the field in which the agency specializes and without any

<sup>1</sup> The prepared statement of Mr. Kulik appears on page 36.

experience in managing either an organization as large or as circumscribed by rules and regulations.

Somehow we get over these hurdles. Some fairly easily; some with much wasted effort, wheels spinning; and unfortunately reinventing of flat wheels. Then both the agency, both new appointees and career staff, have to operate with the hand that we have been dealt which can be the equivalent of a straight jacket. There are too many restrictive laws, Executive orders, rules and regulations on the books. We are not free to provide our programs in practical ways. We must do it within the restrictive Government manner.

I have already mentioned some of the budget and fiscal considerations. But there are other troublesome requirements with personnel, procurement and many areas that the public is not even aware of. For example, everybody agreed with the concept of reducing Government paperwork and regulatory flexibility, but the method we have taken to cure these ills can prove to be worse than the disease itself.

Reducing paperwork has had absolutely the opposite effect on Government. It has created its own bureaucracy, spawned interminable regulations and requirements, created many new forums and probably is responsible for the loss of another forest to create the additional paperwork required from Governmental agencies.

Reg flex has had much the same result. Unfortunately, Congress, the Administration and the public lose sight of the fact that these well-meaning efforts can, and in these cases did, require Government agencies to invest additional resources which had to be taken from program delivery to meet these new requirements. Can we really afford this use of scarce resources in these days of reduced budgets?

You mentioned the NPR. In my time in Government, I have lived through many commissions and studies. I was all set to write-off the current NPR under Vice President Gore as another well-meaning but misguided attempt. However, I read some of the works of Messrs. Osborne and Gaebler and their basic premise of reinventing Government and I am very enthused by their approach. I believe their ideas make sense and can provide a basic prescription to help cure what many consider to be the disease of big and unresponsive Government.

But, big if, if the Administration and Congress follow the basic outlines of the program, the results could be a real directional change in the way Government operates. But again I raise the question of whether we, all of us, are really serious about the idea of reform or are we merely paying it lip service? Osborne and Gaebler laid out the plan and we cannot really pick those elements that are politically pleasant and ignore the others.

For example, a basic tenet of the reform is to restructure incentives that drive public managers, including performance awards and savings sharing. Yet the House of Representatives in dealing with the President's budget proposal has recommended exactly the opposite. The elimination of all performance bonuses and awards. Furthermore, is Congress really ready to give the agencies the budgetary and accounting flexibility they need to become more efficient? And are Government employees really ready to change parts

of the current civil service system to recognize outcomes, rather than longevity and size? Only time will tell.

But this is not only a doom and gloom picture, Mr. Chairman. In spite of these frustrations, the Government and the system work. The Government's managers and its dedicated employees have made it work. And I would like to emphasize, despite what politicians may say during their campaigns, present company accepted, of course, the fact that the Government works is due to the dedication and hard work of its employees, the much maligned civil servants.

We are proud of the job we do and the fact that we keep the Government working and keep the production of services flowing to the public and that we have helped build the strongest and the most prosperous Nation in the world. The fact that the system has worked certainly does not mean it cannot be improved. The size of our Federal deficit makes improvement mandatory.

All Government employees and certainly all career senior executives recognize the need and desirability of making Government more effective and efficient. In this regard, I would like to make the following seven points:

First, I encourage the efforts of the NPR and urge you to follow the precepts set by Osborne and Gaebler. If we are serious about reform, each interest group will have to give up some existing rights. Logical and reasonable priorities of programs are far more preferable to keeping all current programs at reduced levels or the impossibility of keeping these programs at current levels with reduced resources.

Second, no meaningful changes will occur without changes in Government funding appropriation and budgeting process. The entire Credit Reform Act of 1990 should not apply across the board to all agencies. Multi-year appropriations, performance based, rather than line item budget, and greater transfer authority among separate accounts are among the items that should be considered.

Third, I urge a greater reliance in all departments and agencies of the career civil service and less on non-career appointees. Have fewer non-career appointments, certainly fewer at the top levels where an in and out policy can have a substantial adverse effect on the organization. Career employees are not the enemy. They too are aware of election results and realize that new Administration wants to and will make program changes. The careerists will assist in making these changes, if given half a chance.

Fourth, more sunset legislation is needed, especially for restrictive laws or regulations. Remember that the Government is subject to choking on red tape and paperwork, and at times more than our constituents. Perhaps this will permit Government to put more resources into program and service delivery and less into Governmental overhead.

Fifth, I would urge giving serious consideration to a national civil service academy. The academy of graduate level caliber would offer an intensive, in-residence course to mid-level Federal managers, perhaps leading to a Master's degree in public administration. This will also help remind Government employees who their constituencies are.

Sixth, I would urge simplifying civil service employment, recognition and disciplinary requirements to the point where they become useful tools, rather than an impediment to good management.

And finally, Congress should avoid micro-managing Government agencies. Anyone who has ever struggled in trying to downsize an office or program located in the district of a subcommittee chairperson will instantly recognize the wisdom of this recommendation.

To summarize, Mr. Chairman, as a long-time career employee, I am proud of what the Government has been able to accomplish through the hard work of its dedicated employees. But frustrated at the time and effort that we have to spend to accomplish our good work because of legislative and regulatory walls that surround our every action. I am encouraged by the signs of progress that are now apparent by the actions of this Subcommittee and the Administration's emphasis on national performance review.

But having survived as a civil servant for these many years, I cannot help but being skeptical as to whether we, all of us, have the collective will to really do what is needed to make the Government more effective and efficient. I hope we do and I will be waiting to see. Thank you, Mr. Chairman. I will be pleased to answer any questions.

Senator PRYOR. Mr. Kulik, thank you very much. I think all of these are very constructive suggestions. You mentioned micro-managing, sometimes I feel that the Congress authorizes programs, funds programs, and then just leaves them to fend and swim for themselves and we do not have very good oversight. Is there difference between micro-managing and sufficient oversight to make them productive and constructive or to have results that are constructive?

Mr. KULIK. Yes, sir, I believe there is. Oversight is, I believe, a very necessary function of Congress and a necessary review, if you will, of how the agency is implementing what Congress has asked it to do. Micromanagement on the other hand takes such forms as appropriations bills with amendments tacked on that the number of employees in a certain State should not be reduced below X or that there shall be a certain office in a particular State or a certain officer in a particular State; things that do not reflect on oversight but are rather before the fact and after the fact.

Senator PRYOR. I was very interested in what you said about our effort to reduce paperwork. You said, in fact, we have increased paperwork. I wish you would explain that a little more.

Mr. KULIK. You have increased paperwork to the Government agencies. Every form that I use now has to now be approved and go through an approval process. That approval is good for 3 years. I am talking about forms that we use in the disaster program.

Senator PRYOR. You are going through right now in Iowa and Missouri and those States and communities must use certain forms that—

Mr. KULIK. We have application forms, for example. We make loans.

Senator PRYOR. All right.

Mr. KULIK. And we have application forms. Every 3 years that form has to be approved by OMB. In order to get that form approved by OMB, I have to go through a laborious process, submit

about a half an inch of material to OMB when nothing, in fact, has changed from the last time round. But we have to start it all over again. I have to worry about the paperwork burden, the burden hours that are required, et cetera, when really I cannot tell how many burden hours are going to be required by the public because I do not know how many disasters there will be or how many applications we will, in fact, hand out.

Senator PRYOR. Did the Congress enact such legislation as to require that or is that an OMB or Executive determination?

Mr. KULIK. Congress enacted the Paperwork Reduction Acts and it's OMB's implementation of those Acts that have created this. It is a combination of both.

Senator PRYOR. How long does that process take, let us say, to get a form approved?

Mr. KULIK. Depending upon the form and upon the review that OMB will give it at any given time, it can take as little as 10 days and as long as 6 months.

Senator PRYOR. I remember some earlier hearings I held in the Finance Committee on IRS oversight. Some of the forms there became so technical that most taxpayers are totally afraid to even begin to fill one out. The process by which IRS works their forms out, is that the same process that you have to use in SBA?

Mr. KULIK. Yes, sir. We have to clear the forms through the same group in OMB that IRS does. Again, Mr. Chairman, I am not saying that the Paperwork Reduction Act should not be, what I am saying is that perhaps it should not be applied across the board to all agencies in exactly the same fashion. The requirements perhaps should be different for IRS than for disaster relief.

The same thing with the Credit Reform Act—the Credit Reform Act had a very laudable purpose and a laudable mission. But its effect on my program was very, very adverse.

Senator PRYOR. You have been in Government now how many years?

Mr. KULIK. 35.

Senator PRYOR. Thirty-five years and you stated, you had a disclaimer at the beginning that these were only your opinions. Are you under any pressure about testifying today?

Mr. KULIK. Not at all. My agency was extremely helpful and cooperative.

Senator PRYOR. Good. I think that is a refreshing departure. Many times in the past, we found that not to be the case and I am glad that your agency does approve of this and, in fact, encourage it. I really think that Vice President Gore and his team are doing a good thing, going around from agency to agency. I know that sometimes at the end of those meetings—sort of like some of the town meetings that we have—we wonder why we actually held that meeting because sometimes they can get pretty rough. But it's democracy and it's our system of Government, I think, we have got to reach out and listen to some of the suggestions and concerns of those who deliver those services.

Mr. KULIK. With respect to my particular agency, Mr. Chairman, as a courtesy I did submit my statement to them after it had been written, and no suggestion of any kind was made. As a matter of fact, a number of people told me they thought it was pretty good.

Senator PRYOR. Good. I will also say it is pretty good. I think it is very good.

Mr. KULIK. Thank you.

Senator PRYOR. I have a few more questions that I am going to put in writing. I think we are going to have a vote on the Senate floor and I may have to be gone for about 10 minutes. It looks like this hearing is, as we say, sort of snake-bit. I really thank you. You are a fine public servant and we thank you very much.

Mr. KULIK. Thank you for the opportunity, Mr. Chairman, and my apologies to those whose time I preempted.

Senator PRYOR. I am sure they understand. You have been doing very fine work and necessary work and we appreciate it. Thank you, sir.

I am going to call at this time Professor Seidman and Mr. Whitaker. If they would please come to the witness table. Professor, you are certainly a man who is no stranger around these parts. You have written a lot and you have made a lot of statements about how our system can work better. We are very, very honored that you are before our Committee this morning. Mr. Whitaker, I believe you came to our last hearing and we had to cancel it. Is that correct?

Mr. WHITAKER. That is correct.

Senator PRYOR. All the way from Batesville, Arkansas.

Mr. WHITAKER. That is correct.

Senator PRYOR. We look forward to your statement in a moment. Once again, I want to apologize. We may have a vote shortly. If we do, we will hear the bells. I will run over there and run right back, and hopefully, I can do that in 8 or so minutes. We will try to have as little disruption as possible. Professor Seidman, we look forward to your statement.

**TESTIMONY OF PROFESSOR HAROLD SEIDMAN,<sup>1</sup> CENTER FOR THE STUDY OF AMERICAN GOVERNMENT, JOHNS HOPKINS UNIVERSITY**

Mr. SEIDMAN. Thank you, Mr. Chairman. I did spend a good deal of my life in this very room testifying and I commenced my Government career under President Roosevelt, and the first President with whom I dealt with directly was Harry Truman. So I am complimented that you took a few years off my age.

Senator PRYOR. I heard it was Eisenhower, but if you dealt with Harry Truman, you dealt with a good man.

Mr. SEIDMAN. I dealt with Harry Truman. He was the first President I actually met. This was the days when the management side of the Budget Bureau dealt directly with the White House.

Senator PRYOR. I think we need to put things in perspective, those were the days when all the Senators were in one building, in the Russell Building. Each Senator was allocated two offices, one for himself and one for his staff. I think they had two telephones. Computers were not heard of. They got about four letters a week, I think. People did not fly up here to see them, and they did not expect them to.

<sup>1</sup> The prepared statement of Mr. Seidman appears on page 39.

They got on the train, by the way, in Little Rock. I remember our whole delegation back during that period would meet in January, right after the first of the year. They would all meet at the train station. They would get on the train with their children and their parakeets and dogs and cats and whatever, and they would come up here and stay till the Congress ended. They did the work and then they went back home. Usually sometime during the summer or fall, they would come home. They were almost citizen legislators which I wish we could move back to a little bit. I do not know if we ever will. Things were very different then.

Mr. SEIDMAN. We were all housed in the Old Executive Office Building. The White House staff was very small. Our offices and the White House staff were right next to each other. We were not in competition with each other. It was a very different world.

Senator PRYOR. Yes, it was.

Mr. SEIDMAN. Mr. Chairman, if we are to redesign our administrative system and body of laws and regulations that have evolved over 200 years to meet the challenges of the 21st century, it will take sustained effort and willingness by the President and Congress to risk a significant amount of a political capital. There are those in executive agencies and Congress who have a vested interest in the status quo and who will oppose change as a potential threat to their power.

As Machiavelli advised the prince, it must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders and those who would gain by the new ones.

Administrative reform is seen as a no win political issue. Political appointees whose attention span rarely succeeds 18 to 24 months cannot be expected to undertake long-term commitments which do not yield immediate payoffs. All too often White House support of administrative reform has begun and ended with a press release announcing creation of a commission or task group to conduct a comprehensive and ambitious effort to improve management and reduce cost.

Ad hoc groups can be useful in identifying problems, proposing solutions, and building pressure for reform. But they cannot compensate for the failure to maintain within the Executive Office of the President, the institutional capacity or professional competence to assure that organization structures and administrative systems are adapted to changes in technology and the Government's role and mission.

Administrative reform to be effective must be a continuing process. The first Hoover Commission was successful where others have produced at best marginal results, because at the time the Bureau of the Budget's management staff was able to collaborate with the Commission in developing a workable set of administrative doctrines and in seeing to it that the Commission's recommendations were systemically reviewed and acted upon.

Whether the National Performance Review launched by President Clinton can accomplish its ambitious goals and make a positive contribution will depend on the reestablishment of the Execu-



tive Office's institutional capacity to follow through on the reviews, findings and recommendations. The reviews, principles and objectives are sound, and merit support. But it is unrealistic to expect that can we do more than to make a start in 6 months. It is very easy to set out the principles. It is very difficult to carry them out.

Since its creation in 1970, the M in OMB has been vanishing before our eyes like the Cheshire cat till it has been almost totally eclipsed by the B. The staff concerned with organization, policy and planning which acted as the principal professional advisor to the President on organization and management was abolished. Other management functions were transferred to the General Services Administration. OMB management staff lost 42 percent of its personnel between 1981 and 1988. And those that were left concentrated exclusively on improvement of financial management.

Without the kind of counterweight that should have been provided by OMB, political expediency and budgetary gamesmanship at times have dictated organization and program design and imposition of controls without regard for their potentially adverse effects on program performance. The marked increase during this period of the number of senior management positions held by short-term political appointees is by no means a coincidence.

If the Clinton Administration wants to achieve its goal of reinventing Government, first priority should be given to rebuilding within OMB or a separate Executive Office agency with the professional capacity to advise the President on organization and management issues, redesign or central management systems, reevaluation of established public administration doctrines, and proposed solutions to current and anticipated management problems.

The office's role should be to offer incentives and positive support for agency management improvement programs, but it should not attempt centrally to direct and take credit for such efforts. The expressed intent of the Chief Financial Officer's Act of 1990 was significantly to enhance and upgrade the status of OMB's general management function. The Act provides for a deputy OMB director for management, but its functions as enumerated by the Act clearly accord precedence to financial, not general management.

Organizational studies, long-range planning, program evaluation and productivity improvement are lumped together in a miscellaneous subsection. It is the final subsection under other management functions. OMB will be unable to supply the needed leadership if financial management remains its overriding priority. Program progress will depend on a change in an administrative philosophy that accents the negative and equates management with control. Emphasis is on observance of rules and regulations, not results.

Consequently, some officials are reluctant to exploit fully that degree of discretion which is available to them. Full-time equivalent ceilings (FTEs) on personnel is a classic case of a regulation that makes no rational administrative sense while providing debatable political benefits. Instead of doing the hard work necessary to reform an archaic system, we have chosen to bypass it. Approaches to administrative reform have failed to take into account the silent revolution that has taken place in the way the Federal Government conducts its business.

There has been a massive shift from direct to indirect or a third party Government with increasing dependence on contractors, captive nonprofits and State and local governments to perform management and support functions and deliver services. The Federal Government, according to the General Accounting Office, currently grants over a \$180 billion annually to third parties and contracts for another \$190 billion in goods and services.

Theories positing the establishment of clear lines of authority and accountability from the President down through department heads to every employee are not applicable to third parties whose relationship to the Government is contractual. The Government's authority is limited by contract terms and disputes ultimately must be settled by the court.

Contracting does not reduce the size of Government or the scope of Government responsibility. The assumption that competition and market discipline are all that are required to produce optimum performance is an illusion. Success or failure of many contractors may depend more on their skill in manipulating the political system than competition in the marketplace.

The implications of third party Government for the organization staffing and management of Federal programs have yet to be adequately analyzed and fully understood. Up till now contracting has been treated as if it were a routine procurement problem. The most important challenge faced by administrative reformers is to find the ways and means of effectively managing in the public interest the relationships with organizations that have their own incentives and authority structures.

Most disturbing is the increasing establishment of quasi-government institutions outside the Executive Branch and mislabeling of Government agencies as mixed ownership or private corporations for the purpose of bypassing controls or evading budget limitations.

The Resolution Trust Corporation is an example of a wholly owned Government corporation which the law incorrectly defines as mixed ownership. These quasi-institutions include the Corporation for Public Broadcasting, Legal Services Corporation, federally funded research and development centers, and so-called Government sponsored enterprises.

This Committee warned in a 1981 report on a bill to establish a commission on Government organization, "The erosion of accountability in Government which stems from new patterns of administration is possibly the gravest threat to the health of our system. Fragmented authority and ill-defined responsibility forces the sense that Government is out of control. We should stop scapegoating career civil servants for deficiencies for which they are not responsible and over which they have no control. Given the constraints posed by the present system, many programs are administered remarkably well. Government needs to be deregulated, not reinvented."

Thank you, Mr. Chairman.

Senator PRYOR. Thank you, sir, Professor Seidman, we appreciate this. With the understanding and patience of our witnesses, I am going to excuse myself now for a period of about 10 minutes. I will come back as quickly as I can. We will ask a few questions to Pro-

fessor Seidman and then we will hear the statement of Mr. Whitaker. Thank you, very much.

[Recess.]

Senator PRYOR. The Committee will now reconvene. Once again, my apologies to all. I had to make a vote on the floor and I hope I did not detain all of you too much.

We had just finished the statement of Professor Seidman. I am going to ask Mr. Whitaker, if he would, to proceed with his statement and then I will have some questions for both of you. Mr. Whitaker.

#### TESTIMONY OF ASA WHITAKER,<sup>1</sup> EASTMAN CHEMICAL COMPANY

Mr. WHITAKER. Thank you, Mr. Chairman. I certainly wish to express my appreciation for the opportunity of sharing a bit of the vision that I have for quality management in Federal Government. Coming from the private sector and having the opportunity of working as a loaned executive to then Governor Clinton, I had the opportunity of seeing both sides of the fence at the same time. It was very unique and enlightening.

I believe that in today's highly, competitive environment Government must face the challenge of continually improving the quality and value of its services. The quality movement in this country has raised a level of expectations. It does not allow complacency in Government without some degree of backlash.

I was once approached by a prominent individual in State Government in Arkansas and he said, "I do not know about this improvement business. After all, what are they going to do if they do not like our services? Are they going to move?" Well, he had missed the point. And thank heavens, he is a very, very small minority of the individuals who understand the issues. Most enlightened Government managers understand full well the huge cost that is associated with answering the numerous complaints that come in from their constituents around the country.

Certainly I am sure that you have to deal with that on a very regular basis. The number of complaints that come into the White House, to Capitol Hill, and to agency offices require a great deal of manpower. As if this were not enough, the rebellion in our country in opposition to more taxes can only be prescribed in my thought to a constituency who believes Government is not good value and more and more tax dollars will only result in good money going after bad.

Introduction of total quality into Government has been met with the same level of cautious enthusiasm that I have seen in private sector. Individual contributors have been working in the Government for a long time and have seen programs come and go. And although quality management seems to make good sense, it really sounds like another flavor of the month, if you please.

So because of this we see quite a bit of skepticism occasionally arising. A few months ago a young lady approached me after a session. She was very excited about what she had heard. She says, you know, this really sounds good, but I believe this is going to happen

<sup>1</sup> The prepared statement of Mr. Whitaker appears on page 49.

when I see it with my own two eyes. Well, I've heard the same thing in industry and business as well. This skepticism is merited because for years and years they have been working, in a nightmare of bureaucratic processes, trying to do things, being frustrated time and time again, when they try to effect some change in the way work is done.

However, even with the skepticism, our experience in Arkansas State Government says that they are ready and anxious to be a part of this. When we implemented the quality management process in State Government in Arkansas. The employees were so anxious to become part of this that they were going to the supervisors asking to be part of this new vision. They wanted to be on these improvement teams. Two weeks after we began, 68 teams had been formed. It almost overwhelmed us as far as the training effort was concerned. That is now risen, by the way, to over 200. Two hundred are currently underway at all times.

A few months ago I was asked to describe quality management in Government. And I was tempted to give the definition that my colleagues and I normally give when we are asked what is quality management? What does it mean? But I decided to reply in this way, and I would like to use that now. Quality management in Government is reducing the process of handling mail-in driver's license applications from 2 to 3 weeks to 2 to 3 days. Quality management in Government is clearly defining for those incarcerated in our State's penal system what footwear is actually needed resulting in a cost savings of \$85,000 a year, just for footwear. It is redesigning paperwork process for handling pay increases and reducing 20,000 pieces of paper a year. Developing a new process for handling bulk mailing in our State Department of Education. We reduced postage cost by \$27,000 a year. And on it goes.

I guess the most interesting one of all, the one that has been noticed the most by our citizens, has been the reduction in time in the local revenue office. The governor used to say it required an engineering degree to get a driver's license in the State of Arkansas. It is a bit easier now. That has been reduced from 2 to 3 hours to 5 to 10 minutes. These are anecdotes surely. But they describe what quality management does; what it is when we apply it to Government processes.

Now quality management requires adopting a customer focused philosophy of management. "Customer focused" is extremely important because, frankly, in my experience with Government, when we talk about customers in Government, that becomes sort of alien type of notion in day to day operation. We find that clients, recipients, taxpayers, citizens and constituents somehow slip through the net of logic as being customers. And quite often we look at these people as those we govern, take care of, control, regulate in some way.

After several hours of quality training in Arkansas, a deputy director came up to me and he shared his newest revelation. He said I have never thought of my clients as customers. This brings on a whole new line of thinking. More often than not, Government agencies adopt a line of logic which places their customers more in the category of children. That is, taking care of their constituencies

because they are unable to do it for themselves. Responsible? Yes. Responsive? No.

In fact, such an approach to service often develops an acute case of supplier arrogance. The agencies become so entranced with their own knowledge and skills and expertise, and they have it. There is no doubt about it. They become so sure they know best what their client needs, they begin to put services together. They design them; they produce them; they package them; and present them, only to have them met with criticism and less than enthusiastic success. This is often quite puzzling and disappointing. The problem is we have not had the customer's input into the process.

To come back to this situation in Arkansas State Government, we have identified expectations for all of our Government agencies. These are: (1) identify and meet all customer needs; (2) involve all employees at every level in decision-making and problem solving; (3) enable employees to change and succeed through proper education and training; and (4) improve the processes we use to provide service, and remove barriers between departments that prevent us from doing that, and then achieve and assume a posture of continuous improvement.

Now that whole notion will bring about a real shift in a paradigm of the way we think about managing Government. As a matter of fact, I believe it requires a definite change in the way we measure success. Success for Government managers has often been measured by the number of people in the organization and/or the size of their budget. Success must be redefined. It must be redefined as a manager's ability to reduce cost and improve the quality of service to his or her customers. The road to change is challenging in the Government bureaucracy, but certainly attainable.

We continue our journey in the State of Arkansas and we do that principally by focusing on two things with which I will close. One is to shift our focus from what we want to do to what our customers need for us to do. And number two is to focus on the processes and the way that we provide those services so that we can restore value to Government. Thank you.

Senator PRYOR. Mr. Whitaker, thank you. Once again, thank you for coming a very long way up here today, and also for your trip. You did not get to testify at our previously scheduled meeting time. I am sorry that was delayed. But I do thank you very much.

Professor, let me, if I might ask you this question. Mr. Whitaker talks about success or what is success in Government management. How might you put a tag on success? What does it mean in terms of the area that you look at and study constantly?

Mr. SEIDMAN. I think the first criterion of success is effective performance of the tasks that are assigned to an agency by the Congress, by law, and is the effective accomplishment of the purposes that were intended by the Congress. This should be done with the most effective use of available resources.

I might say in listening to the previous statement on total quality management which, I think, most of which one could agree with. But there is one caveat in measuring success. Can you rely totally on satisfaction to the customer as a measure? There are not customers as such for many programs. For many there is no buyer-seller relationship.

I appeared before one of the congressional committees some years ago about the farm credit banks. They had had very happy customers because the banks were lending money to them at lower interest rates than they were borrowing. And I told the committee, I said, you know, who do you think is going to pay for this? So one effect of this is how this carries out the National interest. And there are times where there is a conflict between what, I think, serves the customers and what would please them and what are the broader considerations. I am sure that people who advocate total quality management recognize this.

Senator PRYOR. Mr. Whitaker, you performed a very, very constructive chore for then Governor Clinton in our State. Can you apply those same principles to the Federal system? Here we are with a relatively small State Government. You analyzed that Government. You gave suggestions on what we could do to improve efficiency and to achieve a higher "success rate." How can we do that on the Federal level using your model?

Mr. WHITAKER. Senator, I think, without a doubt, the answer to the question is yes. The reason that I can say that so clearly is because when you look at Federal Government you certainly have the world's largest employer here. But at the same time this Government is broken down into manageable components with defined units. And more importantly, it is made up of a group of people that we normally refer to as Federal employees. It is the involvement of all of those people working on the things that they know best with the guidance and the leadership of what we are trying to do as a Government that make it successful. Without that, it would be impossible.

Senator PRYOR. Professor Seidman discussed an issue that I think is really one of concern with me and a lot of the members of this Committee, the disappearance of the M from OMB. The management division of OMB basically has just been disappearing over the years. Why is that? What has happened there, Professor Seidman?

Mr. SEIDMAN. In the years when I was the assistant director, there was always a conflict, frankly, between the budget side and the management side, because they considered that we did not get out the budget document, therefore we're not doing the Budget Bureau's work. We also had a different sense of values which often created a clash with the budget side.

Increasingly, because of the preoccupation with the deficits, directors are unable to give much attention to the management side. We had deputy directors, however, some like Elmer Staats and Roger Jones who came out of the career service who did take an interest in the management side.

The other factor was President Carter's reorganization program which resulted in disenchantment with management. The focus is now on control. What has survived is a small group concerned basically with financial management, fraud waste and abuse.

We had a small staff which was concerned with organization and policy and planning. It was not dealing exclusively with reorganization. I was also responsible for procurement policy, personnel management and managerial rewards.

We were central in designing and bringing in management concepts in the design of legislation. How you design the legislation in the first place determines how well it will work. If you do a bad job to begin with, you cannot really do much later by reorganizing it. That staff was never more than 12 to 15 people. We are not talking large numbers. You need highly qualified specialists who know the Government as a whole; and work with the committees of the Congress. We were backed up and given pretty much a free hand by the White House.

We did not have a large staff and the White House competing with us. Frankly up on the Hill here, we had kind of a close collaborative work with the staff of the committees who were also professional which made a great deal of difference in how you design programs and what legislation you wrote. Now a lot of management issues are politically sensitive. I do not have to explain that.

Frankly, we went up and tried to separate the Federal Savings and Loan Insurance Corporation from the Home Loan Bank Board in the 1950's. We saw some of the problems that later developed. And that was contrary, the culture of the old Budget Bureau, the examiners did not deal with the Hill.

It is often argued that you need to include management in the Office of Management and Budget to provide the clout. And I would say that to clout people to get them to improve their management is just the wrong approach.

You provide incentives. You design a system which builds in incentives for proper performance. You do not try and go and direct them. Centrally directed management improvement programs all too often ended up with the White House and the Executive Office taking credit for things that the agencies did. This had an adverse effect on obtaining constructive improvement.

So I think there is a real problem really of institutional culture of trying to combine the budget function and the management function within a single agency.

Senator PRYOR. Speaking of the institutional culture, what has happened over the last 10 or even 20 years to cause the growing dependency upon private contractors and consultants? Why has this happened?

Mr. SEIDMAN. This I pointed out in my testimony. In part, one of the major factors is personnel ceilings. We used to argue that it made no sense to provide money in the budget to perform a program and then say you cannot hire the people to do it. The agencies say we have no choice. If we are going to carry out this program we have to go outside and contract. Really we do not have any option.

On pay, for example, going outside, you are not limited by the pay system under the Classification Act. You get out from under a lot of the other regulations that apply to Government agencies and Government employees. But there is another factor, Mr. Chairman, here. It is an easy way of avoiding responsibility.

Senator PRYOR. I think you just put your finger on one.

Mr. SEIDMAN. I can say in my own case, when I entered into a contract what was I responsible for? I was responsible for the fact that I had taken all the steps that are required by the procurement regulations for getting competitive bidding and selecting a qualified

contractor. Once the contract was entered into, there was very little I could do about it. The job might be done very badly and it often was.

If I were doing it myself, I had to take responsibility. I would have to change the people and even do it myself if need be. Dealing with a contractor, I could not do it. I could not tell them, you have got to fire those people and replace them. In one instance, it was a very reputable firm, well known consulting company firm. It was a very poor job. I went to our General Counsel and said I do not want to pay for this. And he said, well did they meet the terms of the contract? Did they provide a report nicely bound, in a nice leather binding with a cover? I said, yes. It is a matter of quality. He said, do you expect us to go into court and fight something on the basis of quality? Go away.

It is very easy, once you hire a contractor to shift the responsibility. A major problem, Mr. Chairman, I have is the persistence in dealing with—contracting as a procurement problem. It is a management problem and we have not looked at what it takes to manage government by contract. This is one of the major areas which the present review by Vice President Gore does not cover.

Senator PRYOR. It is hard for the bureaucracy and Government generally to accept change or even to admit that we need change. Mr. Whitaker knows that in our little State we have, frankly, I think a very creative, innovative budget system. It is called the Revenue Stabilization Act. We put all of our funding needs into three categories, A, B, and C. C is never funded unless A and B are. B is never funded unless A is. Money spills over into the construction fund, for example, for higher education which is contained in the C category. We do not do any construction until we have fulfilled the other obligations of Government.

I tried to talk to some people 10 years ago or so here about implementing that system within the Federal Government and they said, well it is impossible. You cannot do it. Too many trust funds, too complicated, what have you. There was an inertia that I could not penetrate, and I am sure Professor Seidman has seen that same inertia and fear of change throughout his long career. Regardless, we do appreciate the efforts that you have made.

One thing that jumped out at me, Professor, was the 42 percent figure that you mentioned in your opening statement. Did OMB lose 42 percent or changed that many staff positions?

Mr. SEIDMAN. They changed it. They reallocated it to the budget side. That was the other pressure which we kept having when I was there is to try to take the positions away from the management side and assign them to budget. Or to try to combine the management and budget functions which just did not work. They tried that about three times.

The other one has been the complete turnover. In the time I was there, we had, over a period of some 20 years, about three or four assistant directors for management and organization. Now these are non-career positions. They turn over very rapidly. They have had—I do not know the number—these were in a hearing we had before Senator Graham's Committee about a year or two ago which this was out. And the then deputy director of OMB admitted that they were not doing the job any more.



Senator PRYOR. Have you followed the work thus far of the Joint Committee on Reform in Congress? Have you been involved in that in any way or as an observer?

Mr. SEIDMAN. I was not involved not in this one. I was involved in the previous efforts with Congressman Bolling and I remember some of the problems we got in. The committee reports could not even be printed after it was issued.

Senator PRYOR. I was appointed as one of the committee members and we had a very good retreat 2 weeks ago in Annapolis. I thought we made some pretty constructive—I think we are making, let me say, some pretty constructive recommendations. They are not going to end all of our problems by any means, but at least, I think, it is time for the Congress to sit and think about how we can become more efficient.

Mr. Whitaker, we have at the White House, talking about how things have changed, now they are calling on volunteers to come down and just help them open the mail. They do not have enough people physically to sit there and open and sort the mail in the various categories. I talked to one of the Capitol policeman yesterday morning and he was so proud that his Sunday school class has been invited down to the White House this Saturday to help them open the mail. It is a badge of honor that they are going to be there and be a part of sorting the mail. I am not saying they are responding to the constituents who write, but at least they are opening it and sorting it into categories. We are seeing major changes.

Is the model that you worked on for then Governor Clinton, was it based on, lets us say, a business model? Was it based on say an Eastman Kodak corporate model or was it what you thought would fit in a governmental situation?

Mr. WHITAKER. When we began the process, and actually it was designed in the fall of 1989, there was no model to follow. There were no paths that we could go down, if you please, other than what we saw in industry. Also, when you look at the real founding fathers, if you please, or this methodology people like Joe Juran, Dr. Deming and others, you could bring all of these philosophies together.

That model is actually specially designed for State Government. It has a blending of many different thoughts together. There is a heavy influence, because my background from Kodak, there is a heavy Kodak influence there obviously. I surely was affected by that. But the model itself actually allows us to move forward on two fronts. That is that we can develop leadership and understanding of what we need to do, working with the senior management group of a particular agency.

And the second stream allows us to get people involved from the very beginning. That is where the excitement comes from. People get excited about making improvements and doing things. They are proud of that. They like to have the opportunity to do that. The comments that I heard from those individuals are just priceless. "And finally, I get to work on this." "I have known we needed to do it for years," those types of things. So that model came together in that way and is reflected really of a lot of different lines of thought.

Senator PRYOR. Not only do we appreciate your contribution, I know that the former Governor and now President does. Maybe he can call on you to help him on some issues up here right now. I think that would be very, very helpful.

We are very indebted to each of you. Other members of the Committee may like to submit questions for the record and we would very much appreciate your cooperation in responding to them. You are both very well thought of in your fields and we are very grateful for you sharing your thoughts with us today.

Mr. SEIDMAN. Any assistance we can give the Committee, we would be delighted to do so, Mr. Chairman.

Mr. WHITAKER. Absolutely.

Senator PRYOR. Thank you, sir. Thank you, very much. We are now going to call on Mr. Michael Schaffner, the Manager of Classification Division of the Pension Benefit Guaranty Corporation, and Mr. Gerald Carson, Analyst for the Internal Revenue Service.

Mr. Carson and Mr. Schaffner, we appreciate your being here. I remember one morning I was reading the *Washington Post* and I read a letter to the editor written by you, Mr. Schaffner. I was so appreciative of it, I said I would love to not only meet this person, I would like to have him before the Committee and tell us about some of the things that you expressed in your letter.

I would, at this point, like to call on you to make your statement and then I will have a few questions to follow on. And then we will ask for Mr. Carson's statement.

#### TESTIMONY OF MICHAEL SCHAFFNER,<sup>1</sup> MANAGER, CLASSIFICATION DIVISION, PENSION BENEFIT GUARANTY CORPORATION

Mr. SCHAFFNER. Thank you, Mr. Chairman. A lot of people read that letter and the reaction was mixed. My name is Michael Schaffner. I have worked for the Federal Government for over 16 years. I came here today to argue that based on my observations, an agency can accomplish its mission at less cost by using its own employees, rather than contractors.

I wrote to the *Washington Post*, the Federal page, when they solicited ideas from employees about how to save the taxpayers money. I wrote that because contractors generally cost more than civil servants. We could save a lot by actually increasing Federal personnel ceilings to take over work now contracted out. These are my views, not necessarily those of my agency. I thank you for having read that letter and then giving me this opportunity to expand on my views.

I have two reasons for believing that agencies should use their own employees rather than contractors. First, contractors tend to cost more, both immediately and through the loss of institutional knowledge. Second, using contractors tends to hide the real size of the Federal work force.

On the first point, the professional services provided by contractors cost much more than equivalent Federal positions. We may pay four times as much for actuaries; three to four times as much for attorneys; twice as much for auditors; and substantially more

<sup>1</sup> The prepared statement of Mr. Schaffner appears on page 41.

for management consultants. This may seem unbelievable to those who think that the private sector always does things less expensively than Government. But that thought owes more to ideology than logic.

When agencies face emergencies, it does not leave them time to write highly detailed specifications and performance criteria. If their functions are so highly specialized that few contractors can do the work, or managers are pressed out quickly with little consideration for cost, then contracting can get very expensive indeed.

You might also find that, as skilled as contracting firms are at doing their technical job, they are even better at negotiating contracts and charging billable hours. A PBGC manager recently told me that if an employee says "that is not in my position description", you can amend it. If a contractor says the same thing, you have got real problems.

When it comes to the bottom line, contracting companies must consider profits over public service. The hidden nature of contractor operations also may contribute to cost. We have reports that show how many Federal employees work in each office. If we want to know what they do, we can look at their job descriptions and mission and function statements.

But to find out how many contractors we have and what they are doing, sometimes you have to examine individual contracts and invoices. It is not always clear where that money is going. Nor do Federal managers have much incentive for closely examining contracts. Under our line item budget process, the only reward a manager gets for the very difficult work of hard-nose negotiation is to probably see the savings go somewhere else. They can't easily use the money another way this year or hold on to it for projects in the next fiscal year. So if OMB ceilings mean they cannot get Federal positions to do their work, they will pay what they have to for contractors.

How much will they have to pay? In the case of PBGC and other agencies with the specialized professional function, they are going to pay a lot. Unlike garbage collection or janitorial services, it is not easy to get a lot of competition for something like actuarial calculations.

I have heard of hourly fees of \$90, \$120 and more, that even with overhead would cost a fraction of that amount for a Federal employee. We also know that the contract employee costs only a fraction of that amount. How do we know that? This brings me to a possible objection in our argument. Some may claim that the Government cannot hire qualified professionals because we do not pay enough. And that we, therefore, have no choice but to pay even more to contract out. Some say the comparability gap may reach nearly 30 percent.

But this comparability gap is elusive if not illusory. When agencies conduct their own surveys, the number is often far less. I do not want to run on with too many details, but common sense would tell you that if Federal employees really could find equivalent positions at 20 to 30 percent more, we would not stay where we are. We are neither that loyal nor that stupid.

So we know from a variety of surveys that a bill of \$100 an hour for professional services represents a considerable markup of the

contract employee's actual pay. The difference is in overhead that greatly exceeds that for civil servants. We can hire the people we need to do our work. Full-time equivalent or FTE ceilings keep us from doing that. Contractors charge us steep rates and budget and procurement practices discourage us much from haggling over the cost.

On the issue of hiding the real size of Government, I think we should talk about the deception involved in substituting contractors for FTE. Many people talk about 3 million Federal employees. But this ignores private employees on Government work who may number 3.4 million in DOD alone. I estimated that contractors accounted for 40 percent of the real total employment of PBGC and over half its budget. Yet we continue to talk about civil servants as if they were the only people working for the Federal Government.

When we leave these private employees out of our discussions about the Federal work force, we undercut our democracy by obscuring basic information voters need to review and react to our decisions. We also deceive ourselves if we think we can expect to achieve significant savings by cutting back on Federal workers, when civil servants just might form a smaller and less expensive part of overall Government employment than we commonly admit.

We may also lessen people's responsibility when we contract out. When we contract the performance of the Government function, we no longer have one employee or office charged with getting the job done. Instead we have a contractor charged with fulfilling the letter of a contract and an employee who reviews invoices. In these cases, I believe, nominal compliance with the document takes precedence over the actual work.

Given all the above, I repeat the bottom line of my letter to the Post. We can save a lot of money if we admit how many people really work for the Government and hire those who do.

How do we fix this? First, OMB should let agencies set their own personnel ceilings. In my letter to the Post, I suggested that OMB allow agencies to come back and buy FTE at 100 percent markup. Let us hire as many civil servants as we want and we will give OMB an amount equal to their salaries from what we save by not contracting out.

More simply, OMB may wish to offer to trade agencies an unlimited FTE amount in return for a decrease in overall expenditures. I think Congress should allow budget demonstration projects. For example, let agencies that can develop a good plan with tangible performance criteria escape line item budgeting and keep their savings from year to year.

Finally, whatever else we do, we should demand that agencies report on the number of contract workers they employ and that we all consider these numbers whenever we talk about the Federal work force.

With these changes, I believe we can have a much more effective civil service than one constrained by artificial limits on FTE and weakened by over reliance on contractors. Thank you.

Senator PRYOR. Thank you, sir. Thank you very much, Mr. Schaffner. I am going to be asking you a few questions in just a moment. I am going to call on Mr. Carson now for his statement.

TESTIMONY OF GERALD CARSON,<sup>1</sup> ANALYST, INTERNAL  
REVENUE SERVICE

Mr. CARSON. Mr. Chairman, members of the Subcommittee and staff, distinguished guests, I am Gerald Carson, Analyst for a civilian agency. I was formerly with the Department of Defense where I headed a cost analysis branch at White Sands Missile Range, New Mexico. My comments today reflect exclusively on my past experiences with the DOD.

I want to outline an approach I developed at White Sands Missile Range that significantly reduced costs of service contracts. In my opinion, this approach can be applied to service contracts throughout the Federal Government.

I should explain how it came about that I am before you today. An article appeared in the Washington Times reporting your Subcommittee's focus on costs of service contracts. This article was interesting to me for two reasons. Firstly, I led a contingent within DOD to develop management tools to control costs of service contracts. The second reason was your belief that service contracting could be cut 20 percent.

Mr. Chairman, my group found that service contracts include wasteful cost elements adding about 20 percent. I contacted your office and asked whether you might be interested in knowing one technique for eliminating this wasteful spending.

The present way of writing new service contract requirements results in fat and friendly awards, rather than lean and mean awards. An organization needing contract services, which I shall refer to as the program office writes its own needs for services called a purchase request or PR. However, the program office people emphasize mission needs and put cost second priority. The purchase requests typically contain scope beyond the mission of the organization, tasks outside this scope, unnecessary tasks, inflated skill levels, and inflated salaries. These faulty requests are then forwarded to the agency procurement office.

We cannot rely on the agency procurement office to fix up the flawed purchase request. Procurement offices do not have the expertise to appraise the program office's stated need, for example, say 100 full-time contractor persons and determine that really only 80 persons are needed. We cannot rely on contract review boards to fix up the request either. In reality, review boards are typically toothless tigers.

So who fixes the flawed product? The answer is no one. The request for proposal goes out for bid containing wasteful cost specifications. An important message here is that the Government itself could do a much better job of containing costs before looking externally to the contractor for wasteful practices.

I was formerly chairman of service contracts at annual DOD Cost Analysis Symposiums. I had knowledge of the entire DOD cost analysis establishment. There was virtually no interest at the upper echelons in service contracts. The comptroller at White Sands Missile Range believed that cost of service contracts could be controlled if there were cost management tools available designed

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<sup>1</sup> The prepared statement of Mr. Carson appears on page 43.

for service contracts. The way we proceeded was to borrow good ideas from management of hardware contracts and adapt them to the peculiarities of service contracts.

One idea we borrowed was from a method called "should costing." It is an approach that aims to prevent wasteful costs from being included in a new hardware contract. We took this idea, tailored it for service contracts and called it Service Contract Cost Engineering, SCCE, pronounced ski. SCCE aims to prevent program offices from including wasteful costs in purchase requests. The SCCE approach wrings excesses out of new purchase requests. It strips away improper scope, unjustifiable tasks, inflated skills and salaries, and excessive staff loading.

The SCCE approach calls for a team of knowledgeable, functional experts to visit the program office and facilities and determine (1) what services are justifiable, and (2) what they should cost. A key factor in the SCCE method is that team members come from the program office and from outside the program office. The team thus combines crucial insider knowledge with organizational independence. Nothing is simply extrapolated from an expiring contract. We have written the standing operating procedure that details the steps necessary to conduct a SCCE study of a prospective contract. This SOP is too voluminous to be placed in record, but it is available.

SCCE enabled White Sands Missile Range to reduce planned award amounts 20 percent. The chart to your left, Mr. Chairman, shows results from three SCCE studies. The first SCCE study was of a planned new contract to support a strategic defense initiative laser test facility. The SCCE team identified an unnecessary task and avoided costs totaling \$10 million, lowering the cost of the contract 8 percent.

The second SCCE study was of a planned contract to collect data from missile test firings. The team found inflated labor grades and salaries being carried forward from an expiring contract. This study enabled avoiding costs totalling \$9 million, lowering the cost by 15 percent.

The third SCCE study shown there was of a planned operations and maintenance contract. The team found a pool of unjustifiable staff loading in the purchase request. SCCE led to cost avoidance totally \$36 million, lowering the cost 36 percent.

This SCCE technique has attracted attention beyond White Sands Missile Range. The DOD IG conducted an audit of 21 test ranges. Their reports stated that service contract cost engineering could reduce contract costs. Representatives from the Office of Federal Procurement Policy visited White Sands to learn about SCCE studies. They felt the methodology could be worthwhile pursuing. The Army Material Command selected, May 1990, cost analyst for developing and implementing SCCE.

I strongly believe that SCCE could be conducted successfully on service contracts throughout the Federal Government. There is nothing inherently military about its application nor the types of waste it prevents. The same types of wasteful cost plague military and civilian agencies alike.

SCCE is accomplished through a team process by Government employees. Team members from the program office provide hands-

on perspective of contract needs. Team members from outside the program office are objective and can ask hard questions without organizational intimidation.

SCCE has a high payback. The cost of conducting each of these three studies averaged \$200,000. The average cost avoidance from each SCCE study was \$17 million. There is another important gain. SCCE studies expedite the procurement process. Currently a significant amount of time is wasted sending the procurement package back and forth between comptroller, procurement and the program office, trying to get everyone's sign-off. SCCE studies involve these parties from day one in the process. Consequently, purchase requests and IGCEs are prepared correctly in the first place, and there is buy-in by the key parties. And we heard some earlier comments this morning about quality, and that is an important part of the process.

It takes a little salesmanship to get past what is in it for me in order to recruit outside team members. Speaking of salesmanship, I have a pamphlet here outlining the SCCE study methodology which I respectfully request be included in the record.<sup>1</sup>

It is likely that SCCE studies would have a deterrent effect. Program offices would prefer sparing their organizations the embarrassment of a report prepared by a SCCE team citing waste written into a planned new service contract.

I want to close with these points. The SCCE methodology offers a blueprint for the Federal Government to define needed contract services better, develop better independent Government cost estimates, and as a consequence, reduce costs of service contracts significantly. The Federal Government needs to adopt new approaches to determine service contract requirements. Staff preparing purchase requests must be committed to both the organization's mission and its cost objectives. These persons as a team must have both knowledge to understand requirements and sufficient organization independence to write lean contract requirements.

Replacing expiring contracts must start from zero with no extrapolations. Rubber stamping contract review boards must be shaken up and staffed with persons committed to both mission and cost. The process must be non-adversarial, relying on team work. We proved at White Sands Missile Range that SCCE can successfully determine what service contracts should cost, avoiding costs averaging 20 percent.

Thank you for giving me this opportunity to provide this testimony this morning.

Senator PRYOR. Mr. Carson, thank you for your contribution. You are a knowledgeable person in this field. It is very surprising to me after all these years that it is still so difficult to get anyone to come to this Committee and talk about this environment of contracting and consulting. The two of you have done it very eloquently. I want to thank you both.

I have always been curious about something. I will ask this to both of you, since you did not mention it in your opening statement. I have always been curious about unsolicited proposals. Let

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<sup>1</sup> See page 77.

us take White Sands. You are sitting there and all of a sudden a contractor or consulting firm walks in the door—I do not know whether it is that rudimentary or not—and say, here is a proposal for something that you need to have done, and we can do it at this price. Does this happen often, the unsolicited proposal?

Mr. CARSON. I probably cannot answer that too well. I was not in procurement and probably did not have visibility to those kinds of initiatives. I came into the process when a need was expressed by a program office and then, OK, how do we provide that service?

Senator PRYOR. Were you on loan to DOD from IRS? I was curious about your IRS affiliation.

Mr. CARSON. No. I began my career at DOD 7 years ago and after kind of running out of opportunity at White Sands Missile Range, the IRS offered an opportunity to come to D.C., so I came here.

Senator PRYOR. Is the IRS as bad about contractors and consultants as the DOD?

Mr. CARSON. I am going to be diplomatic here. I am not working in the procurement function and really cannot speak to that. But I will make the point that the kinds of wastes that are going on within service contracts permeate all agencies, I believe.

Senator PRYOR. Let me ask this question to each of you. Let us say you have an office and you have 100 people in this office performing a mission and 50 of them work for the Government. They are civil servants on the Federal payroll—50 of them work for XYZ contracting or consulting company. What happens there to the chemistry? What is the pro and con? Is this a detriment to morale? What about you, Mr. Schaffner, would you take that one on or would Mr. Carson like that?

Mr. SCHAFFNER. I will let him start.

Mr. CARSON. At White Sands Missile Range, I found the working relationship good between contract employees and civil servants.

Senator PRYOR. Do the contractor employees get paid more?

Mr. CARSON. Yes, they do.

Senator PRYOR. Performing the same function?

Mr. CARSON. Yes, definitely. There certainly is the risk that goes with being a contractor of a contract lasting 5 years, and at the end of 5 years, theoretically at least, they are out of a job. So that has to be factored into this.

Senator PRYOR. What about issues like ethics coverage? The contractors, are they covered by ethics' laws and disclosure laws and such?

Mr. CARSON. They are certainly not, not to the same extent as civil servants. There is a lot more liberty for taking actions that might not be so narrowly constrained or whatever the word might be here, as civil servants. There is certainly more flexibility and I suppose that is one of the important reasons, that is one of the reasons that aside from limitations on FTE's and what have you, is that contractors have more liberty to do things and that is recognized.

Senator PRYOR. OK, you received a high honor, 1990 cost analyst. You were chosen because you had reduced contracts by some 20 percent. How did the higher echelons of DOD receive this? Were they interested in reducing costs?



Mr. CARSON. I will be on my soapbox and I guess that is where I am sitting right now. I modestly said earlier, I led a DOD contingent from White Sands Missile Range. It was really amazing coming out of White Sands Missile Range which is out in the middle of nowhere in New Mexico. And I must say, though with support from the comptroller, that Jerry Carson came to Washington 6 or 7 years ago and worked very hard to form a workshop on service contracts, because the DOD cost analysis symposiums focused entirely on missiles and airplanes and what have you. And it took a lot of tough salesmanship lobbying, but I did find friends and was successful in getting a workshop. And I was chairman of that workshop for 2 years. There was one year I was not, so it was not held and I suspect now it is no longer held.

So there is limited interest in service contracts. It is unfortunate. You, of course, are highlighting it with your efforts on this Subcommittee, and I think service contracts are reaching some visibility where the DOD executives will be paying more attention.

Senator PRYOR. I have been at this now about 14 years since the first day I was in the Senate. Politicians are supposed to and expected to claim victory and talk about all the good things we have done. Basically, I have not changed a thing, I am afraid. I think there are just as many contracts. I think there are just as many conflicts. There is just as much uncertainty.

Mr. Schaffner remarked in his opening statement that you can get a printout, I believe, from OMB on the exact number of employees in any agency, but no agency can give you the number of contracts, consultants or contractors that they have.

One of the great stories, comes from President Carter when he went into office. His first week, he turned to Bert Lance and he says, Bert, I want you to have on my desk in the morning a copy of all the contracts that the Federal Government has with private contractors. Mr. Lance, the Director of OMB, came back and said, Mr. President, he says, it would take four 18-wheeler trucks to bring all the contracts up here to the White House. There are thousands. I imagine as we have sat here this morning, these 2 or 3 hours, I imagine we have signed another 10,000 contracts out there across the land. It is really a world of its own and one that some day people are going to look at with a lot more concern. They are going to have more concern than they have now.

Mr. CARSON. Yes, sir. You indicated earlier that you found an inertia that you could not penetrate. It was on a different issue, but I thought that a very interesting phrase. And you just mentioned a moment ago for 14 years you have been beating on this drum, so to speak, but I think the drum is being heard. It is going to require people who really believe in bringing better management to service contracts to pull it off. But I think the kind of work you are doing, bringing this to the attention of the *Washington Post*, and *Washington Times*, you are succeeding.

Senator PRYOR. You know, Mr. Carson, you say that saving 20 percent saves the American taxpayers literally millions of dollars in some of these contracts. I do not think I ever saw that mentioned in the paper.

Mr. CARSON. No.

Senator PRYOR. I do not believe that was ever in the newspaper or ever on TV. It certainly did not make the lead story on the networks. It is not news, is it?

Mr. CARSON. Those contracts would have been released at the higher figure, if not for our SCCE studies.

Senator PRYOR. Mr. Schaffner, do you have a comment?

Mr. SCHAFFNER. You had talked about the problems of working side by side, and we have a couple offices where this situation occurs and there are problems. If you have a first line supervisor who has a mixture of in-house and contract employees—I quoted one of them in my statement—if you want to change duties, it is a different matter between an employee you directly supervise and one whom you do not really supervise, you manage a contract for. There is some frustration among employees, not just seeing somebody getting a higher salary, but just knowing—some of our actuaries and other staff know how much we are paying for services that they themselves could perform. And that is a frustration, not just as a civil servant, but as a taxpayer.

We find a lot more turnover among a lot of our contract employees and when they learn, their learning curve costs us a lot more than the in-house learning curve.

I think one of the worse things I have seen though is in completing something like a systems development contract, when we establish a practice where for every new automated system, for example, the detailed specs are going to be done by a contractor. And then another contractor is going to do the detailed coding. You more and more get away from the concept of anybody in the Federal Government actually doing the work. People begin to see themselves more as a manager of a contract and identify with that, rather than as someone who actually accomplishes something. In the long term, that is a more pernicious problem.

Senator PRYOR. It is an ongoing problem. I really hope it gets a little bit better in the next months ahead. One of my first visits with Mr. Lader at OMB was about this whole issue. I think he was pretty aghast at the number of contracts that we have and the types of functions that are being sort of farmed out to the private contracting and consulting community, and the costs that we have seen attributed to these contracts are enormous.

Now one final question, if I might, Mr. Carson. What about the SCCE studies that you are doing now. Are those done in-house? I hope.

Mr. CARSON. Yes, sir. They are done solely by government employees.

Senator PRYOR. I am so glad to hear that. I was afraid to ask that question. I am glad you are not farming those out to the contractors, because that happens all the time in many of those agencies.

Mr. CARSON. In-house, right. In-house and speaking for DOD. Those are done entirely by government employees.

Senator PRYOR. That is good. That is music to my ears. I think that is a good note to conclude on. I want to thank the two of you. We are going to be submitting perhaps some additional questions. We are going to leave the hearing transcript open for several days. This has been a very good hearing, very constructive, and we hope

that we can take some of these ideas and put them into practice. Thank you, very, very much.

Mr. SCHAFFNER. Thank you, sir.

Mr. CARSON. Thank you.

[Whereupon, at 11:52 a.m., the Subcommittee adjourned, subject to the call of the Chair.]



# A P P E N D I X

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## PREPARED STATEMENT OF SENATOR THAD COCHRAN

Mr. Chairman, thank you for convening this hearing to update the Subcommittee on the progress that is being made on efforts to reinvent the Federal Government. I look forward to hearing from the witnesses representing the Vice President's National Performance Review Committee on their progress in developing recommendations.

The views and suggestions of the Federal employees who will testify should also be helpful to the Subcommittee. Their testimony should provide a perspective of those who see the day to day operations of the government from the inside and know what is going on at their agencies and how those agencies may better serve the public.

Mr. Chairman, I also want to commend your staff for the report entitled, "Federal Performance: Profiles of Success." This report demonstrates that there are many devoted Federal workers who do a fine job for our country each day.

In my state of Mississippi, we have a number of Federal agencies whose employees provide excellent service to our farmers, small business men and women and individual citizens. I am pleased that the views and recommendations of these civil servants are being solicited by our Subcommittee as it continues to explore ways to improve the operations of our government.

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## FEDERAL PERFORMANCE: PROFILES OF SUCCESS—REPORT OF THE MAJORITY STAFF

Senator David Pryor, Chairman of the Subcommittee on Federal Services, Post Office, and Civil Service, directed the majority staff to prepare a study which highlights some examples of employee initiative in the Federal Government. By identifying positive developments and innovative thinking on the part of Federal agencies and their employees, Senator Pryor offers this study to counter some of the standard negative criticisms to which the Federal Government is often subjected. Additionally, Senator Pryor hopes that the examples and ideas of the Federal workers involved in the cases featured in this study will serve to inspire and encourage others to find ways to better their own performance.

Though generally portrayed as uncaring and unresponsive bureaucrats, the following cases show that Federal workers are effectively serving the public interest and enriching their communities, in spite of the problems and barriers which they often face. It is clear that the Federal Government needs to review and reform itself in order to improve its performance, especially in this era of increasing demands and decreasing budgets. It is also clear, as the following examples indicate, that an essential ingredient in this reform will be the contributions of dedicated and hard-working civil servants.

What follows is a compilation of cases gathered from various sources. In particular, the staff used the files of the Public Employees Roundtable, the publications of the Federal Quality Institute, and various periodicals that cover the Federal Government. In most instances, the staff made no independent verification of the cases cited below, but accepted the basic facts as stated in the selected reports.

### CASES

In the following two cases, which are a sample of many like them, Federal agencies demonstrate their concern for the larger community. While performing their

routine duties, these Federal employees go beyond what is required to carry out a number of voluntary service activities.

### *1. Defense Logistics Agency Headquarters—Alexandria, Virginia*

The Defense Logistics Agency (DLA) provides equipment and supplies to all the military services. Over 60,000 military and civilian employees operate the DLA supply, distribution, and service centers around the globe. DLA headquarters employees are responsible for directing this massive DoD effort.

The mission of DLA headquarters includes no mandatory community service. However, this has not deterred employees from forming three remarkable volunteer programs: "Adopt-A-School," "Adopt-A-Stream," and "Christmas Bells." Through a partnership with Patrick Henry School, employees have contributed over 1,700 hours annually to tutor at-risk students. Students who participate in the agency-sponsored tutoring program have shown significant improvement in their standardized test scores.

In 1990, DLA headquarters registered with the Izaak Walton League of America to adopt a mile-long portion of Cameron Run. Employees assumed the task of analyzing the current condition of the stream, cleaning it up, and keeping it clean. Due to limited resources, the state of Virginia can only monitor approximately 40 percent of its waterways. By giving of their time, DLA employees are helping provide a valuable environmental service to the entire area.

In addition, DLA employees hold a number of fund raisers each year to raise money for the "Christmas Bells" program. For 25 years, over 2,500 needy children have been treated to a special afternoon, complete with gifts, thanks to the hard work of DLA volunteers.

These volunteer programs would certainly not be possible without the cooperation of agency management. For example, employees are given up to two hours administrative leave per week to participate in the school program. However, it is the spirit and enthusiasm of headquarters employees that keep the projects alive. DLA volunteers care about their community, and are willing to work together to improve it.

In 1991, the "Adopt-A-School" program received an EXCELLENCE IN EDUCATION AWARD from the Virginia Polytechnic Institute and State University. School volunteers also received Points of Light pins from the White House in 1992. All 1,200 DLA Headquarters employees have been nominated for the Public Employees Roundtable PUBLIC SERVICE EXCELLENCE AWARD.

### *2. United States Probation Service/Fresno Office—Fresno, California*

The United States Probation Service, an agency of the United States Courts, is primarily responsible for preparing sentencing reports for the Federal Court and supervising caseloads of people released to community supervision by the Federal Court or the Federal Bureau of Prisons. The Probation Service exists in all 94 Federal judicial districts and in the territories of the United States.

In Fresno, members of the Probation Service have expanded their role as servants to the community. In 1991, the Probation Service took the lead in organizing the first "Midnight Fun Run" in Fresno. The event, held at midnight on New Year's Eve, helped raise money for local schools which sponsor sober graduation activities. In just two years, the "Fun Run" has become a popular and successful event. Approximately \$25,000 has been raised for area schools. This past year, at least 5,000 people participated in the "Fun Run." In addition, a large number of area businesses and local, state, and Federal agencies have become involved.

The U.S. Probation Office in Fresno clearly cares about its community. Not only does the "Fun Run" promote safe and responsible behavior, but it also provides a way in which many different parts of the community can work together towards a positive goal. Though relatively small in nature, activities like the "Fun Run" have larger implications. As William Barrett, Deputy Chief of the U.S. Probation Service, said of this event, "We need to take back our cities, if only for one night a year. This is an excellent way to start, don't you agree?"

For its participation in the "Midnight Fun Run," the U.S. Probation Office in Fresno has been nominated for the Public Employees Roundtable PUBLIC SERVICE EXCELLENCE AWARD.

In the following cases, the offices launched internal management improvement efforts. One office performed over and above the call of duty in the aftermath of Hurricane Andrew. In every instance, there was some measurable improvement in an important area of the agency's operations.

### *1. Social Security Administration/Miami South District—Miami, Florida*

The Miami South District of the Social Security Administration (SSA) serves the public by issuing payments of benefits for Social Security, Medicare, and Supple-

mental Security Income. The Miami South District also issues Social Security cards, resolves discrepancies in Social Security wage records, and processes issues which affect benefit payments.

On August 24, 1992, Hurricane Andrew ripped through South Florida. In South Dade County, the devastation was enormous. Andrew left over 250,000 people homeless, destroyed post offices and banks, and knocked out electricity and running water. In addition, the Perrine Branch Office of the SSA Miami South District was completely destroyed. Delivery for Social Security and Supplemental Security Income checks was scheduled for the following week. Given the enormity of this natural disaster, it would have been understandable had the distribution of these checks been delayed. Instead, the management team of the Miami South District set a bold goal: to continue service for the Perrine Branch Office area and deliver the checks early. Using a rented trailer as a temporary SSA office, partial service was restored by August 26. By working with and assisting the U.S. Postal Service, delivery of the Social Security and Supplemental Security Income checks was begun on August 29, and continued for the next two weeks. During this period, over 37,000 checks were distributed in South Dade County. These checks helped thousands of residents to begin rebuilding their lives.

This effort succeeded for two major reasons. First, the South District management team made contingency plans in anticipation of Hurricane Andrew. Second, SSA employees, many of whom had suffered damage and destruction to their own homes, were willing to continue to serve the public. Working together, management and staff overcame a number of obstacles through innovation and sheer determination. The performance of the SSA Miami South District during this terrible time is clearly an example of public service at its finest.

The SSA Miami South District has been nominated for The Public Employees Roundtable PUBLIC SERVICE EXCELLENCE AWARD.

### *2. VA Medical Center/"Ascenders" of the Des Moines VA Medical Center—Des Moines, Iowa*

The Fee Basis Section of the Des Moines VA Medical Center controls, processes and authorizes for payment bills for medical services received by eligible veterans who, due to physical limitations or lack of access to a VA Medical Center, receive care from private providers in their local community.

While a number of cases have centered on innovations in traditional management structure, the Fee Basis Section of the Des Moines VA Medical Center has taken reform a step further. In 1990, following the retirement of the Section Chief, the ten members of the Fee Basis Section became a self-directed, self-managed team unit. The members chose the term "Ascenders" to signify their new progressive approach. Drawing on their experience, the team conceived and adopted a contract of operations which outlined unit policies and objectives. This contract was not only approved by the Ascenders but also union and management personnel. After three years, there is no denying the success of this venture. The Ascenders have significantly reduced the time required to process claims, as well as the number of complaints on claims processing delays. Innovation in work scheduling has led to the elimination of overtime expenditures. The absence of management personnel saves \$28,000 annually in supervisory salary. Team unity is evidenced by the fact that there have been no employee grievances since formation of the Ascenders.

The Fee Basis Section strongly believes that the traditional supervisor/employee approach does not maximize an employee's personal and professional growth. While self-management calls for a great deal of responsibility, it also offers the best opportunity for self-gratification and group morale. Because each team member is instrumental in the development of unit standards and goals, he or she has a personal stake in the unit's success. The attention to teamwork and consistent service has led to extensive cross training of all job functions. Though a relatively small staff, the Ascenders have proven that they can effectively function not only as an individual unit, but also as an integral part of the Des Moines VA Medical Center.

In May 1992 the Ascender's Unit received the Federal Executive Council of Greater Des Moines' PRESIDENT'S AWARD in recognition for their creativity in a Federal Program. The team has also been nominated for the Public Employee's Roundtable PUBLIC SERVICE EXCELLENCE AWARD.

### *3. U.S. Department of Labor Wage and Hour Division/San Francisco Region—San Francisco, California*

The San Francisco Region of the Wage and Hour Division covers the States of California, Nevada, Arizona and Hawaii, along with the Territories of Guam and American Samoa. With a staff of 140, San Francisco is charged with administering and enforcing employee protection provisions of over 90 different Federal statutes

pertaining to employment protection. Over 35 million people fall within the San Francisco Region's jurisdiction.

In 1988, the management team of the San Francisco Region embarked on a comprehensive quality management program. While San Francisco had a record of success, management felt that new approaches were needed to cope with diminishing resources and the growing demand on those resources. Using the principles of Total Quality Management (TQM), the San Francisco Region began a long-term commitment to employee empowerment, strategic planning, and customer focus. Four years later, the effort is beginning to produce measurable results. Offices in the region have reduced their complaint backlogs, lowered investigative hours spent on individual cases by 50 percent, and increased the quality rate of investigations. Though still stretched thin, employees in the San Francisco Region are serving their customers better by allocating their time more efficiently.

Quality management is succeeding in San Francisco because all employees have become believers. Quality management gives every employee the opportunity, and the responsibility, to participate in decision making. San Francisco's effort to change its corporate culture is centered on the formation of self-management teams. With management acting as an equal team member, these groups set operating guidelines and define measurements of success. From this foundation flows the ideas and innovations necessary for effective strategic planning and improved customer service. With quality management principles now firmly in place, the San Francisco Region is confident that the best results are yet to come.

The San Francisco Region of the Wage and Hour Division recently received the Federal Quality Institute's QUALITY IMPROVEMENT PROTOTYPE AWARD.

#### *4. Internal Revenue Service/Ogden Service Center—Ogden, Utah*

The Ogden Service Center (OCS) is one of ten data processing arms of the Internal Revenue Service (IRS). Ogden is the largest of the service centers in terms of geographic area, covering 14 states. The Center, which includes a main building and nine branch locations, is organized along two lines; one involving the processing of tax returns and one handling other functions.

As the IRS readily admits, 1985 was not a very effective year for its organization. Despite efforts to deal with increases in quantity, there were major delays in processing tax returns. The delay led to other problems, such as erroneous notices and lost returns, throughout the IRS. Public opinion of IRS performance reached a new low.

While Ogden was not spared these problems, it had already taken initial steps in 1984 to improve performance. The Ogden quality improvement effort was an enormous undertaking. With over 6,300 employees and a diversified operation, it was clear that there would be no quick fixes or easy solutions for OCS. Ogden management's adoption of Total Quality Management (TQM) principles required a willingness to experiment and make mistakes. Further, significant work would be necessary in order to involve all employees in this effort. Despite these factors, OCS has moved steadily toward achievement of its quality goals during the last nine years. OCS is eliminating processing errors, which subsequently reduces the amount of rework. Ogden's improvement in quality has made it a primary proving ground for new technology. These new automation systems are enabling OCS to do its work faster and better. For the IRS, this means increased revenues and reductions in overhead and clerical costs.

One of the most impressive facets of the OCS quality program is its long-term vision. The early years were dedicated to educating top level managers on quality improvement. This phase culminated in the establishment of a set of core values, a definition of quality, and an organizational goal for the Center. Next, a series of councils and subcouncils were formed in order to bring mid-level management and line employees into the project. At this point, management and employees could combine to tackle chronic problems through the use of Quality Improvement Teams. This incremental approach may not produce immediate or spectacular results, but it ultimately gives quality management a solid foundation in an organization the size of OCS. With management, employees, and the National Treasury Employee Union now firmly devoted to the same goals and values, the Ogden Service Center appears to be well on its way to becoming a Total Quality Organization.

In 1990, the Ogden Service Center was honored with the INNOVATIVE CORPORATE EXCELLENCE AWARD from the Governor of Utah. In 1992, OCS was the recipient of the Federal Quality Institute's PRESIDENTIAL AWARD FOR QUALITY.

#### *5. United States Immigration and Naturalization Service/Las Vegas Sub-Office—Las Vegas, Nevada*



The Immigration and Naturalization Service's (INS) Las Vegas Sub-Office is charged with serving its customers, U.S. citizens and aliens alike, throughout southern Nevada. Additionally, INS is required to enforce Congressionally mandated immigration laws, detect fraud in benefit programs, apprehend and remove criminal and undocumented aliens, and eliminate the unauthorized employment of aliens.

Beginning in the late 1980s, the Las Vegas INS Sub-Office was faced with a rapidly growing population in general, and a rising alien population in particular. With far fewer staff than that needed to accommodate the increasing demand on its services, the Las Vegas Sub-Office seemed headed for a crisis period. Instead, management and personnel faced the challenge with fresh thinking and teamwork. The results have been spectacular. The Las Vegas "team" eliminated its backlogs. It recorded the highest per capita increase in the percentage of aliens accorded U.S. citizenship. The INS' regional office has named the Las Vegas office the "number one" provider of information services to the public for four consecutive years. In 1991 alone, government inspectors estimated that the Las Vegas "team's" increased productivity had saved taxpayers over one million dollars. All this was achieved, despite a 321 percent increase in the demand for services, with the same number of employees it had in 1983.

This commitment to excellence began with management and quickly spread throughout the small staff. Micro-management was eliminated and teamwork was encouraged. All employees helped identify the direction of program work-loads, and devised solutions to best handle these trends. Diversity was quickly identified as a key element of success. Employees worked to develop aptitude in all programs, tearing down traditional office barriers. The phrase, "it's not my job" practically disappeared from the workplace. The spirit of cooperation and unity which resulted from these innovations helped make the Las Vegas Sub-Office a model for INS offices nationwide.

In recent years, the Las Vegas Sub-Office has received the UNITED STATES SENATE'S AWARD FOR PRODUCTIVITY AND EXCELLENCE, as well as the Southern Nevada Federal Executive Association's AWARD FOR CONTRIBUTION TO PUBLIC UNDERSTANDING. The INS Sub-Office has also been nominated for the Public Employee Roundtable's PUBLIC SERVICE EXCELLENCE AWARD.

#### *6. U.S. General Accounting Office/Norfolk Regional Office—Norfolk, Virginia*

The General Accounting Office (GAO) provides members of Congress and others who make policy with information, unbiased analysis, and objective recommendations on how best to use public resources in support of the security and well-being of the American people. The Norfolk Regional Office is one of GAO's 14 field offices. Most of its work is done in the areas of defense and environmental protection.

In 1986, the Norfolk office began a quality and productivity improvement project, designed to increase efficiency and raise morale. Norfolk's good record notwithstanding, improvement was needed in order to cope with a growing demand on its resources. By 1992, the success of this comprehensive reform effort had become quite clear. The number of reports resulting from the Norfolk Office's work increased by over 200 percent between 1986 and 1992. The average period for completing audits was reduced by 39 percent. Most impressively, the savings based on the Norfolk Office's work increased from \$83 million in 1989 to \$1.8 billion in 1992. This improved productivity was achieved with no increase in staff size.

As with the previous case study, the joint involvement of staff and management was a key factor in the success of the productivity improvement effort. Study teams identified key functions affecting productivity and suggested ways to perform them better. The teams not only recommended innovations involving staff, but management as well. This elimination of the traditional corporate structure has resulted in high morale and an attention to quality.

In recognition of its outstanding work, the Norfolk office has been nominated for the Public Employees Roundtable PUBLIC SERVICE EXCELLENCE AWARD.

#### CONCLUSION

These examples are but a few of the many innovative undertakings occurring throughout the Federal Government. It is hoped that the National Performance Review Task Force and the Congress will build on and incorporate these approaches in their efforts to reinvigorate the Federal workplace. It is important that these efforts succeed. In spite of problems, an efficient Federal Government still has much to offer America. As the cases have shown, progressive management and a stimulated workforce can not only meet, but often exceed, public expectations. Perhaps the National Commission on the Public Service, the Volcker Commission, in its 1989 report, "Leadership for America: Rebuilding the Public Service," most effectively ar-

tulated the premise upon which this staff report is based, "Surely, there can be no doubt that moral challenge and personal excitement are inherent in the great enterprise of democratic government. There is work to be done of enormous importance. Individuals can make a difference."

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PREPARED STATEMENT OF BERNARD KULIK

Mr. Chairman and Members of the Subcommittee:

First I would like to thank this Subcommittee for the opportunity to testify today. It isn't often that a career employee gets to "tell it like it is," even if it may raise some eyebrows. I trust that your invitation to testify carries with it a grant of Congressional immunity. Second, I must, be quick to say that this testimony is my own and does not represent the views or opinions of the Clinton administration or the Small Business Administration (SBA).

Mr. Chairman, I have been a civil servant for more than 34 years. I have served with three different Agencies and have been a lawyer in private practice. I started in Government as a grade nine law school graduate and have worked through the ranks to the Senior Executive Service, of which I am a charter member. My Government career has been very successful, as attested to by the many awards I have been privileged to receive, and very satisfying, as attested to by the fact that I am not considering retiring, even though I am eligible. However, I must say that sometimes, when I look at all the good things the Government does, I am amazed that we are able to do it in view of the obstacles we have to overcome.

The expression "Everyone talks about the weather, but no one does anything about it" is well known. But I would like to paraphrase that by saying, "Everyone talks about making Government more effective and efficient, but no one does anything about it." In fact, at times it appears that everyone is doing their utmost to increase Government inefficiency, red tape and confusion.

A frequent cry is heard that Government should operate more as a business. But do we, all of us, the Administration, the Congress, the public and the Federal employees, really want that to happen? If so, why have we evolved a system that is almost guaranteed to fail? For example, what successful business operates on a year-to-year budget and cash flow, with no thought of future expenditure commitments, depreciation, future capital investments, spend or lose, etc. And this doesn't even consider the problems that are caused by the almost bi-annual exercises in appropriations that result in many Agencies of the Government not having a final budget until a good portion of the fiscal year is over. Government appropriations, accounting and budgeting is neither practical nor efficient. It is a part of the problem, not the solution! How many businesses would survive if their planning was restricted in this fashion

And what corporation do you know that has the equivalent of a 536 member Board of Directors (535 members of Congress and the President)? Remember, also, that all members of that Board have their own constituencies, their own priorities, their own agenda, and, for the most part, they may not agree with each other. What business has to be concerned about the requirements of that sized Board, most of whom are rarely heard from unless they have a constituent complaint, and most of whom do not know the details of the business itself?

Now consider the obstacles that we put in the way of our top Departmental or Agency staff. First, at least once every 8 years, sometimes every 4 years, and sometimes even sooner, the entire top staff of the Department or Agency is going to disappear. Every job equivalent to a vice president or senior vice president of a business, on up, will be declared vacant, and the business will be left on its own under a caretaker. Some months later, a new CEO will be appointed and confirmed, many times without any prior experience in the field in which the Agency specializes, and without any experience in managing either an organization as large or as circumscribed by rules and regulations.

Now, the CEO has to fill in the rest of the upper ranks, but he or she does not even have that authority. For the most part, the upper ranks are filled with people referred by the White House personnel office, many of whom are fresh from the campaign trails. Unfortunately, political campaign experience, even a successful campaign, is not necessarily a good training ground for supervisors, managers and policymakers. At the field level, the problem is even worse. The CEO's Regional Directors, those who are responsible for actually delivering the Agency's product or service, are chosen, for the most part, as a result of input from local political

powers. Thus, most of the top staff that is supposed to help the CEO assure the effective and efficient operation of the organization, have no practical experience, and none have any loyalty to the CEO. They each have their own patron, whose wishes may mean more to them than do those of the CEO.

Add to this the fact that many of the new CEOs and their top staffs require a sometimes extended learning period before they can be operationally effective, have uncertain tenure and may just view their present assignment as a step in their quest for "the job" that is their professional dream. Obviously, this can be a recipe for disaster. In my own Agency, in the 29 years that I have served there, we have had 14 Administrators, plus 2 Acting Administrators who each served for more than 8 months.

Somehow, we get over these hurdles, some fairly easily and some after much wasted effort, wheel spinning and reinventing of flat wheels. Then the Agency, both new appointees and the career staff, have to operate with the hand we have been dealt, which can be the equivalent of a straitjacket. There are too many restrictive laws, executive orders, rules and regulations on the books. We are not free to provide our programs in practical ways, we must do it within the restrictive governmental manner. I have already mentioned some budget and fiscal considerations, but there are equally troublesome requirements with personnel, procurement, and many areas that the public is not even aware of.

For example, everybody agreed with the concept of reducing Government paperwork and regulatory flexibility, but the method we have taken to cure these ills can prove to be worse than the disease itself. Reducing paperwork has had absolutely the opposite effect on Government. It has created its own bureaucracy, spawned interminable regulations and requirements, created many new forms and probably is responsible for the loss of another forest to create the additional paperwork required from Government Agencies. Regulatory flexibility has had much the same result. Unfortunately, Congress, the Administration and the public lose sight of the fact that these well meaning efforts can, and in these cases did, require Government agencies to invest additional resources, which had to be taken from program delivery, to meet the new requirements. Can we really afford this use of scarce resources in these days of reduced budgets?

These requirements were not arbitrary when legislated by Congress or regulated by the Administration. They were intended to alleviate real problems. But little or no consideration is given to the effectiveness of their implementation after they are instituted. We have to consider such questions as, whether implementation is being kept unobtrusive or is it interfering with program delivery or other worthy objectives. Perhaps we need more sunset provisions in our legislation and regulations, rather than more legislation and Executive Orders.

What we do not need is a replay of past exhortations to continue the current level of program operation with smaller budgets and fewer employees or across the board cuts. Nor do we need another commission or study to tell us how to "do it better", or "do more with less." The last attempt, known as the Grace Commission, was similar to its predecessors. Its basic flaw was the starting supposition that Government employees were somehow not working smart, that the private sector could perform a quick review and tell the laggard Government employee how to work better. The results speak for themselves. I will merely mention my personal experience. The factual material about my program contained in the report was inaccurate. This was brought to the Commission's attention while the report was still in draft, but no corrections were made. The result was that the report lost all credibility and many of its recommendations were never seriously considered.

In my time in Government I have lived through many such commissions and studies, and I was all set to write off the current National Performance Review under Vice President Gore as another well meaning, but misguided attempt. But I read some of the works of Messrs. Osborne and Gaebler on their basic premise of "Reinventing Government," and I am very enthused by their approach. I believe their ideas make sense and could provide a basic prescription to help cure what many consider to be the disease of big and unresponsive Government. If the Administration and the Congress follow the basic outlines of their program, the results could be a real directional change in the way the Government operates.

But, again, I must raise the question of whether we, all of us are really serious about the idea of reform, or are we merely paying it lip service. Osborne and Gaebler laid out the plan, and we cannot merely pick those elements that are politically pleasant and ignore the others. For example, a basic tenet of the reform is to restructure incentives that drive public managers, including performance awards and savings sharing. Yet, the House of Representatives, in dealing with the President's budget proposals has recommended exactly the opposite, the elimination of

all performance bonuses and awards. Furthermore, is Congress really ready to give the Agencies the budgetary and accounting flexibility they need to become more efficient? And are Government employees really ready to change parts of the current civil service system to recognize outcomes rather than longevity and size? Only time will tell.

Mr. Chairman, I have mentioned here only some of the problems that face the conscientious Government employee or manager in trying to make the Government more effective and efficient. Believe me, these are just a few of the frustrations that we face every day. But this is not a doom and gloom picture. In spite of all of these frustrations, the government and the system work! The Government's managers and its dedicated employees have made it work. Let me emphasize that, despite what politicians say during their campaigns, the fact that the Government works is due to the dedication and hard work of its employees, the much maligned civil servants. We are proud of the job we do and the fact that we keep the Government working and keep the production and services flowing to the public, and that we have helped build the strongest and most prosperous nation in the world.

We have learned how to play the system, how to accomplish what we are told to do in laws and executive instructions within the system, if possible, and by going around the system when necessary. As a manager, I am paid to be flexible and to get my job done; to be a risk taker. I have taken many risks and will continue to do so. Fortunately all have turned out well, so far. But the frustrations the Government's managers encounter can wear them down, and when the possible rewards are taken away, we find incentives to continue taking risks sadly lacking. As another example, when the Senior Executive Service was organized, it was sold to Government managers as a system that required us to be more risk takers, better managers and more directly responsible for the results of our efforts. It was to be a system of more risk (less safeguards for the individual manager), but with concomitant higher rewards than were possible under the old system.

We bought into the system whole heartedly. We welcomed the chance to show how well we could manage and were even willing to give up some of our safeguards for the possibility of additional rewards. I think we have kept our side of the bargain, but has Congress kept theirs? Thus far, the incentives we were given have been whittled away. Currently, the only remaining ones are scheduled to be wiped out by the recent action of the House of Representatives in order to finance locality pay, a benefit that does not include Senior Executives. We do not object to locality pay, but would like to point out that we are as adversely affected by the lack of locality pay as the rest of the civil service. Not including Senior Executives in locality pay (that will be funded by taking benefits away from Senior Executives) seems neither logical nor fair.

The fact that the system has worked certainly does not mean it cannot be improved. The size of the Federal deficit makes improvement mandatory. All Government employees, and certainly all career Senior Executives recognize the need and the desirability of making Government more effective and efficient. In this regard, I would like to make the following points:

1. I encourage the efforts of the National Performance Review and urge you to follow the precepts set forth by Osborne and Gaebler. If we are serious about reform, each interest group will have to give up some existing "rights". Logical and reasoned priorities of programs are far preferable to keeping all current programs at reduced levels, or the impossibility of keeping these programs at current levels with reduced resources.

2. No meaningful changes will occur without changes in the Government's funding, appropriation and budgeting system. The entire Credit Reform Act of 1990 should not apply across the board to all agencies. Multi-year appropriations, performance based rather than line item budgeting and greater transfer authority among separate accounts are among the items that should be considered.

3. I urge a greater reliance in all Departments and Agencies on the career civil service, and less on non-career appointments. Have fewer non-career appointments, certainly fewer at the top levels where an "in and out" policy can have a substantial adverse affect on an organization Career employees are not the enemy; they, too, are aware of election results and realize that a new Administration wants to and will make program changes. The careerists will assist in making these changes, if given half a chance. Careerists do not exist only to thwart the will of a new Administration In fact, careerists, if given the chance, can help a new Administration avoid many embarrassing pitfalls.

4. More sunset legislation is needed, especially for restrictive laws or regulations. Remember that the Government is subject to choking red tape and paperwork also, at times more than our constituents. Perhaps this will permit Government to put more resources into program and service delivery and less into Governmental overhead functions.

5. Give serious consideration to a National Civil Service Academy. The Academy, of graduate level caliber, would offer an intensive in-residence course to mid-level Federal managers, perhaps leading to a Master's degree in Public Administration. This will also help remind Government employees who their constituencies are. Outstanding or imaginative service to the public should be emphasized, and reinforced with suitable recognition.

6. Simplify civil service employment, recognition and disciplinary requirements to the point where they become useful working tools rather than an impediment to good management.

7. Congress should avoid micro managing Government Agencies. Anyone who has ever struggled with trying to downsize an office or program located in the district of a Subcommittee Chairperson will instantly recognize the wisdom of this recommendations.

To summarize, Mr. Chairman, as a long time career employee I am proud of what the Government has been able to accomplish through the hard work of its dedicated employees, but frustrated at the time and effort that we have to spend to accomplishing our good work because of the legislative and regulatory walls that surround our every action. I am encouraged by the signs of progress that are now apparent by the actions of this Subcommittee and the Administration's emphasis on the National Performance Review. But having survived as a civil servant for these many years, I cannot help being skeptical as to whether we, all of us, have the collective will to really do what is needed to make Government more effective and efficient. I hope we do and will be waiting to see the positive results from these efforts.

I would be pleased to answer any questions you may have.

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#### PREPARED STATEMENT OF HAROLD SEIDMAN

Mr. Chairman and Members of the Subcommittee:

My name is Harold Seidman. I am a senior Fellow of the National Academy of Public Administration and a Fellow of the Center for the Study of American Government, Johns Hopkins University. During my 25-year career in the Bureau of the Budget, I was concerned with problems of federal organization and management. I served as assistant director for management and organization under Presidents Kennedy and Johnson. I am pleased to accept your committee's invitation to discuss some of the critical problems which must be solved if we are to accomplish meaningful administrative reform.

The National Academy of Public Administration is a nonpartisan organization formed in 1967 to advance the effectiveness of public management through advice and counsel to all levels of government. In 1984 the Academy was chartered by an act of Congress, the first such charter granted since that of the National Academy of Sciences in 1863. My testimony today reflects my individual views and does not necessarily reflect the views of the National Academy of Public Administration or its Fellows.

If we are to redesign our administrative system and body of laws and regulations that have evolved over 200 years to meet the challenges of the 21st century, it will take sustained effort and willingness by the President and Congress to risk a significant amount of political capital. There are those in executive agencies and Congress who have a vested interest in the status quo and who will oppose change as a potential threat to their power. As Machiavelli advised the Prince: "It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage, than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders in those who would gain by the new ones."

Administrative reform is seen as a no win political issue. Political appointees whose attention span rarely exceeds 18 to 24 months cannot be expected to undertake long-term commitments which do not yield immediate payoffs. All too often White House support of administrative reform has begun and ended with a press release announcing creation of a commission or task group to conduct a comprehen-

sive and ambitious effort to improve management and reduce costs. Ad hoc groups can be useful in identifying problems, proposing solutions and building pressure for reform, but they cannot compensate for the failure to maintain within the Executive Office of the President the institutional capacity and professional competence to assure that organization structures and administrative systems are adapted to changes in technology and the government's role and mission. Administrative reform to be effective must be a continuing process.

The first Hoover Commission was successful where others have produced at best marginal results because at the time the Bureau of the Budget's management staff was able to collaborate with the Commission in developing a workable set of administrative doctrines and in seeing to it that the Commission's recommendations were systematically reviewed and acted upon. Whether the National Performance Review launched by President Clinton can accomplish its ambitious goals and make a positive contribution will depend on reestablishment of the Executive Office's institutional capacity to follow through on the Review's findings and recommendations. The Review's principles and objectives are sound and merit support, but it is unrealistic to expect that it can do more than make a start in six months.

Since its creation in 1970 the M in OMB has been vanishing before our eyes like the Cheshire cat, until it has been almost totally eclipsed by the B. The staff concerned with organization policy and planning which acted as the principal professional adviser to the president on organization and management was abolished. Other management functions were transferred to the General Services Administration. OMB management staff lost 42 percent of its personnel between 1981-1988, and those that were left concentrated exclusively on improvement of financial management. Without the counterweight that should have been provided by OMB, political expediency and budgetary gamesmanship at times have dictated organization and program design and imposition of controls without regard for their potentially adverse effects on program performance. The marked increase during this period in the number of senior management positions held by short-term political appointees is by no means a coincidence.

If the Clinton Administration wants to achieve its goal of reinventing government, first priority should be given to rebuilding within OMB or a separate Executive Office agency the professional capacity to advise the president on organization and management issues, redesign of central management systems, reevaluation of established public administration doctrines and proposed solutions to current and anticipated management problems. The office's role should be to offer incentives and positive support to agency management improvement programs, but it should not attempt centrally to direct and take the credit for such efforts.

The expressed intent of the Chief Financial Officers Act of 1990 was significantly to enhance and upgrade the status of OMB's general management functions. The act provides for a deputy OMB director for management, but his functions as enumerated by the act clearly accord precedence to financial, not general management. Organizational studies, long-range planning, program evaluation and productivity improvement are lumped together in a miscellaneous subsection under "other management functions." OMB will be unable to supply the needed leadership if financial management remains its overriding priority.

Progress will depend on a change in an administrative philosophy that accents the negative and equates management with control. Emphasis is on observance of rules and regulations, not results. Consequently, some officials are reluctant to exploit fully that degree of discretion which is available to them.

Ten years ago, 15 federal departments and agencies sponsored a National Academy of Public Administration project on the need to deregulate federal operations. The Academy report, *Revitalizing Federal Management*, concluded: "Federal managers are captives of internal management systems that have become so rigid, stultifying and burdened with red tape that . . . managers' capacity to serve the public on a responsive and low cost basis is seriously undermined." Academy reports on *An Opportunity for Excellence: Modernizing Federal Classification* (1991) and *Leading People in Change* (1993) confirm the urgent need to replace archaic controls with a system of accountability that is mission oriented and results driven. The use of full-time equivalent ceilings (FTE) on personnel is a classic case of a regulation that makes no rational administrative sense while providing debatable political benefits.

Instead of doing the hard work necessary to reform an archaic system, we have chosen to bypass it. Approaches to administrative reform have failed to take into account the silent revolution that has taken place in the way the federal government conducts its business. There has been a massive shift from direct to indirect or third party government with increasing dependence on contractors, captive nonprofits, and state and local governments to perform management and support functions

and deliver services. The federal government according to the General Accounting Office currently grants over \$180 billion annually to third parties and contracts for another \$190 billion in goods and services. As pointed out by Professor Lester M. Salamon, these arrangements, unlike traditional procurement, involve the "exercise of discretion over the spending of federal funds and the use of federal authority."

Theories positing the establishment of clear lines of authority and accountability from the president down through department heads to every employee are not applicable to third parties whose relationship to the government is contractual. The government's authority is limited by contract terms and disputes ultimately must be settled by the courts.

Contracting does not reduce the size of government or the scope of government responsibility. The assumption that competition and market discipline are all that are required to produce optimum performance is an illusion. When the government is contracting for such intangibles as management, policy analysis, and research and development, opportunity for competition among qualified suppliers is often limited or non-existent. Success or failure of many contractors may depend more on their skill in manipulating the political system than in competition in the market place.

The implications of third party government for the organization, staffing and management of federal programs have yet to be adequately analyzed and fully understood. Up to now contracting has been treated as if it were a routine procurement problem. The most important challenge faced by administrative reformers is to find the ways and means of effectively managing in the public interest an intricate chain of relationships with organizations that have their own incentives and authority structures.

The government should retain the option of utilizing the experience, resources and management skills available in the private sector. But it should be a reasoned choice. Faced with a stifling body of laws and regulations, some federal administrators see contracting not as an option, but the only option, if they are effectively to carry out their statutory responsibilities.

Most disturbing is the increasing establishment of quasi-government institutions outside the executive branch and mislabeling of government agencies as mixed ownership or private corporations for the purpose of bypassing controls or evading budget limitations. The Resolution Trust Corporation is an example of a wholly-owned government corporation which the law incorrectly defines as mixed-ownership. These quasi-institutions include the Corporation of Public Broadcasting, Legal Services Corporation, federally funded research and development centers, and so-called government sponsored enterprises. This committee warned in a 1981 report on a bill to establish a commission on government organization: "The erosion of accountability in government which stems from new patterns of administration is possibly the gravest threat to the health of our system. Fragmented authority and ill-defined responsibility fosters the sense that government is out of control."

We should stop scapegoating career civil servants for deficiencies for which they are not responsible and over which they have no control. Given the constraints imposed by the present system, many programs are administered remarkably well. Government needs to be deregulated, not reinvented.

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#### PREPARED STATEMENT OF MICHAEL SCHAFFNER

My name is Michael Schaffner. I've worked in the Federal Government for over sixteen years. I come here today to argue that, based on my observations, an agency can accomplish its mission at less cost by using its own employees rather than contractors.

##### *Background:*

I wrote to the *Washington Post* when they solicited ideas from Federal employees about how to save the taxpayers money. I wrote that, because contractors generally cost more than civil servants, we could save a lot by *increasing* Federal personnel ceilings to take over work now contracted out.

On March 22, the *Post* published an excerpt from my letter in which I used general examples drawn from my agency, the Pension Benefit Guaranty Corporation. Martin Slate, our new executive director, had already decided to conduct a detailed review of our contracting practices. But the views I present here today are mine and not those of PBGC.

I thank Senator Pryor for his interest in my letter and this opportunity to expand on my views.

I have two reasons for believing that agencies should use their own employees rather than contractors:

—First, contractors tend to cost more, both immediately and through the loss of institutional knowledge.

—Second, using contractors tends to hide the real size of the Federal workforce.

### 1. Costs

Professional services provided by contractors cost much more than equivalent Federal positions. We may pay four times as much for actuaries, three to four times as much for attorneys, twice as much for auditors, and substantially more for management consultants.

This may seem unbelievable to those who think that the private sector always does things less expensively than Government. But that thought owes more to ideology than logic.

When agencies face emergency situations that don't leave them time to write highly detailed specifications and performance criteria, if their functions are so highly specialized that few contractors can do the work, or managers are pressed to act quickly with little consideration for cost, then contracting can get very expensive.

You might also find that, as skilled as contracting firms are at doing their technical job, they are even better at negotiating contracts and charging billable hours. A PBGC manager recently told me "If an employee says that's not in my position description you can amend it. If a contractor says the same thing, you've got real problems." When it comes to the bottom-line, contracting companies must consider profits over public service.

The hidden nature of contractor operations also may contribute to costs. We have reports to show how many Federal employees work in each office. If we want to know what they do, we can look at their job descriptions and mission and function statements. But to find out how many contractors we have and what they're doing, I believe you have to examine individual contracts and invoices. It's not always clear where the money goes.

Nor do Federal managers have much incentive for closely examining contracts. Under our line-item budget process, the only reward a manager gets for the very difficult work of hard-nosed negotiation is to see the savings go somewhere else—they can't easily use the money another way this year, or hold on to it for projects in the next fiscal year. So if OMB ceilings mean they can't get Federal positions to do their work, they'll pay what they have to for contractors.

How much will they have to pay? In the case of PBGC and other agencies with a specialized, professional function, they'll pay a lot. Unlike garbage collection or janitorial services, it's not easy to get a lot of competition for actuarial calculations or legal representation. I've heard of hourly fees of \$90, \$120, and more for work that, even with overhead, would cost a fraction of that amount for a Federal employee. We also know that the contract employee saw only a fraction of that amount.

How do we know? This brings us to a possible objection to my argument. Some may claim that the Government can't hire qualified professionals because we don't pay enough, and that we therefore have no choice but to pay even more to contract out. Some say the "comparability gap" may reach nearly 30 percent.

But this "comparability gap" is elusive, if not illusory. When agencies conduct their own surveys, the number is often far less. I don't want to run on with too many details, but common sense would tell you that if Federal employees really could find equivalent positions at 20 to 30 percent higher pay, we wouldn't stay where we are. We're neither that loyal, nor that stupid.

So we know, from a variety of surveys, that a bill of \$100 an hour for professional services represents a considerable mark-up of the contract employee's actual pay. The difference is in overhead that greatly exceeds that for civil servants.

We can hire the people we need for our work. "Full Time Equivalent" or FTE ceilings keep us from doing this, contractors charge us steep rates, and budget and procurement practices discourage us from haggling much over the cost.

### 2. Hiding the Real Size of Government

Let's talk about the deception involved in substituting contractors for FTE. Many talk about "3 million Federal employees". But this ignores private employees on government work, who may number 3.4 million in DoD alone. I estimated that contractors accounted for 40 percent of the real total employment of PBGC (and over half its budget). Yet we continue to talk about civil servants as if they were the only people working for the Federal Government. There's talk of cutting 100,000 civil servants to save money in overall administration, and another 50,000 to help cover



Federal pay increases. But you don't hear about cutting the overall number of contractor workers and what that might save us.

When we leave these private employees out of our discussions about the Federal workforce we undercut our democracy by obscuring basic information voters need to review and react to our decisions. We also deceive ourselves if we think we can expect to achieve significant savings by cutting back on "Federal workers" when civil servants just might form a smaller and less expensive part of overall Government employment than we commonly admit.

We may also lessen people's responsibility when we contract out. When we contract the performance of a government function we no longer have one employee or office charged with getting the job done. Instead, we have a contractor charged with fulfilling the letter of a contract, and an employee who reviews invoices. In these cases, I believe, nominal compliance with a document takes precedence over the actual work.

Given all the above, I repeat the bottom-line of my letter to the *Post*: we can save a lot of money if we admit how many people work for the government and hire those who do.

*How do we fix this?*

First, OMB should let agencies set their own personnel ceilings. In my letter to the *Post*, I suggested that OMB allow agencies to come back and *buy* FTE at a 100 percent mark-up. Let us hire as many civil servants as we want and we'll give OMB an amount equal to their salaries from what we save by not contracting out. More simply, OMB may wish to offer to trade agencies: an unlimited FTE count in return for a decrease in overall expenditures.

Congress should allow budget "demonstration projects". For example, let agencies that can develop a good plan with tangible performance criteria escape line-item budgeting and keep their savings from year to year.

Finally, whatever else we do, we should demand that agencies report on the number of contract workers they employ, and that we all consider these numbers whenever we talk about the "Federal workforce."

With these changes I believe we can have a much more effective civil service than one constrained by artificial limits on FTE and weakened by over reliance on contractors.

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#### PREPARED STATEMENT OF GERALD CARSON

Mr. Chairman, Members of the Subcommittee and Staff, distinguished guests, I am Gerald Carson, analyst with a civilian agency. I was formerly with the Department Of Defense (DOD) where I headed a Cost Analysis Branch at White Sands Missile Range, New Mexico. I wish to emphasize that my comments today reflect exclusively on my past experiences with the DOD. Today I want to outline an approach I developed at White Sands Missile Range that significantly reduced costs of service contracts. In my opinion, this approach can be applied to service contracts throughout the Federal Government.

Mr. Chairman, I should explain how it came about that I am before you today. An article appeared in the February 23rd issue of the *Washington Times* newspaper reporting your subcommittee's focus on excessive, unnecessary costs of service contracts. This article was interesting for two reasons. Firstly, I led a small contingent within DOD from 1985 to 1991 on a crusade to develop management tools to control costs of service contracts. There had been very little attention paid within DOD and outside DOD to solving systemic cost problems of service contracts. I was heartened to see your subcommittee focusing on wasteful spending for service contracts. The second reason for my interest in the news article was your belief that costs of service contracting could be cut 20 percent. Mr. Chairman, my group also found from actual experience that service contracts likely include wasteful cost elements adding about 20 percent to costs. I contacted your office and met with your staff, asking whether you might be interested in knowing one technique for finding and eliminating this 20 percent wasteful spending on service contracts. This led to your invitation to testify today. I appreciate this opportunity, first and foremost as a taxpayer, and secondly as a Federal employee, to explain a way to reduce government spending on service contracts.

*Waste is Built Into Contracts Before They are Even Awarded*

Let me first explain where flaws exist in planned new service contracts; then, I will explain how to prevent these flaws. Purchase Requests, Requests for Proposal, and Independent Government Cost Estimates for a new service contract likely contain wasteful cost elements in five areas: (1) scope beyond the mission of the organization (2) tasks outside the scope, (3) unnecessary tasks. (4) inflated skill levels, and/or (5) inflated salaries. The present way of writing new service contract requirements too often results in fat and friendly awards, rather than lean and mean awards. The organization needing contract services, which I shall refer to as the program office, justifies its own needs for services. First, it prepares a Purchase Request (PR) and then develops an Independent Government Cost Estimate (IGCE) for this PR. The PR and IGCE are sent to the agency procurement office to prepare a Request For Proposal to solicit bids. The conventional thinking is that the program office knows its needs best. This seems logical; in practice, however, it doesn't work. These PRs and IGCEs are usually flawed products containing excess cost elements. The preparers of the PRs are from the program office; they emphasize mission and give inadequate weight to cost, and lack organizational independence to say "no" to a manager for a poorly justified need. These preparers usually simply extend trends and salaries from an expiring contract and, oftentimes, lack competence in preparing a professional procurement document. We cannot rely on the agency procurement offices to fix up the flawed products either. These offices do not have the technical expertise to evaluate the program office's PR or the IGCE. Procurement offices aren't in a position to appraise the need for, say, 1,000,000 hours of labor to support the program office's mission for five years (approximately 100 full-time equivalent persons for five years), and determine, say, that only 800,000 hours (80 full-time equivalent persons) are really needed. Procurement doesn't have good information to appraise skill categories and grade levels for completing various tasks and determine that lesser grades would really suffice. They rely on the judgements of the program office—who they believe to be the experts.

We cannot rely on contract review boards to fix up the products either. In reality these review boards are typically toothless tigers—either because they don't care enough or because they lack information to evaluate mission needs well and balance against costs.

So who fixes the flawed products? The answer is "no one." The RFP goes out for bid, containing wasteful cost specifications. The contractor bids to provide the inflated 1,000,000 hours, at the inflated grade levels. There is a strong tendency to blame contractors for excesses in contracting. The Government itself, however, could do a much better job of containing costs even before looking externally to the contractor for wasteful practices.

#### *Too Little Emphasis on Better Cost Management of Service Contracts*

The DOD has developed tools for controlling costs of hardware contracts. Conversely, there has been too little emphasis on development of management tools for controlling costs of service contracts. I was formerly Chairman, Service Contracts, at annual DOD-wide Cost Analysis Symposiums held in the Washington, D.C. area. I had access to and knowledge of the entire DOD cost analysis establishment. There was virtually no interest at the upper echelons of the DOD in service contracts; focus was almost entirely on military hardware and computer software issues. The Controller at White Sands Missile Range believed that costs of service contracts could be controlled better, if there were cost management tools available designed especially for service contracts. White Sands Missile Range, New Mexico took the lead for the entire DOD in developing new tools. We found that the easiest way to come up with new tools was to borrow good ideas on managing hardware contracts and adapt them for the peculiarities of service contracts.

#### *"Should-Costing" Eliminates Excess Costs Before Contract Award*

We borrowed an idea from a method of costing hardware contracts called "should costing." The should-costing method involves forming a team of functional experts—to visit the sole-source bidder's manufacturing plant and determine what a product should cost. This study is done before the contract is awarded. The principle aim of should-costing is to prevent excess costs from creeping into sole-source bids for new hardware contracts. The study provides the Government Contracting Officer with information to know what the contract should-cost before the vendor submits a bid. The Contracting Officer has documentation to back up a counter bid if the vendor's bid is out of line. The first application of the should-costing technique was by the Air Force in the 1960s to procure Pratt and Whitney jet engines for the FB-111 bomber. Should-costing avoided costs on this FB-111 contract worth several hundred million dollars, expressed in current dollars.

### *Prevent Waste From Being Specified in New Service Contracts*

I developed a method at White Sands Missile Range which had a similar objective of preventing excess costs from creeping into new service contracts before contract award. We called it Service Contract Cost Engineering (SCCE, pronounced "ski"). The major difference between should-costing and SCCE is that the former looks externally at the contractor, the latter looks internally at ourselves. Should-costing of hardware contracts looks to prevent external sole source bidders from including wasteful costs in their bids. SCCE looks to prevent program offices from including wasteful cost elements in PRs. SCCE enables us, first, to eliminate our internally created wasteful cost elements; second, SCCE studies provide the contracting officers with credible documentation which positions them to negotiate fair and reasonable "lean and mean" contracts.

The SCCE approach wrings excesses out of new contract requirements. It strips away improper scope, unjustifiable tasks, inflated skills and salaries, and excessive staff loading. Just as the should-costing team visits the sole-source bidder's manufacturing plant to determine what a product should cost, the SCCE approach calls for a team of knowledgeable functional experts to visit the program offices and facilities, meet with the managers requesting contract services and determine (1) what services are justifiable, and (2) what they should cost.

A key factor in the SCCE method is that team members come from the program office *and* from outside the program office, including the Controller organization and the procurement office. The team thus combines crucial insider knowledge with crucial organizational independence. Nothing is simply extrapolated from an expiring contract; scope, tasks, skills, salaries, and staffloading start from zero-base. Individual managers of the program office requesting contract support must provide sound justification and, when appropriate, documentation such as historical and projected workload, to back up their request. The team prepares a PR and an IGCE. We have written a Standing Operating Procedure that details the steps necessary to conduct a SCCE study of a prospective contract. This SOP is too lengthy for submission into the record but is available.

### *Technique Reduced Average Award Amounts for New Contracts 20 Percent*

SCCE enabled White Sands Missile Range to avoid wasting significant funding on unnecessary services. Service Contract Cost Engineering reduced planned award amounts an average 20 percent. The attached chart shows results from three SCCE studies. The first SCCE study at White Sands Missile Range was of a planned new contract to support a Strategic Defense Initiative Organization high energy laser test facility. The SCCE team identified an unnecessary task that was going to cost several millions of dollars. SCCE enabled avoiding costs totalling \$10 million on this contract awarded in 1987.

The second SCCE study was of a planned new contract to collect and analyze data from missile test firings. The SCCE team found inflated labor grades and salaries being carried forward from an expiring contract to the Independent Government Cost Estimate for a succeeding contract. The expiring contract contained labor grades that had become inflated over its 5 year life which the preparers were carrying forward to the specifications for the new contract. Inflated salaries were also being carried forward from the expiring contract into the cost estimate for the new contract that were higher than prevailing wages in the local recruiting area. The SCCE study enabled avoiding costs totalling \$9 million on this new contract awarded for \$52 million in 1990.

The third SCCE study was of a planned operations and maintenance contract for services ranging from fixing flat tires to performing warhead impact test area operations. The SCCE team found a pool of unjustifiable manloading in the PR, which the program office tried to justify as necessary to maintain an independent capability, but which unnecessarily duplicated other contract support. SCCE led to cost avoidance totalling \$36 million on this new contract awarded for \$65 million in 1991.

### *Approach Can be Applied to Service Contracts Throughout the Federal Government*

This SCCE technique has attracted attention beyond White Sands Missile Range, and indeed beyond DOD. The DOD IG conducted an audit of contractor support at 21 test ranges in 1989 and 1990. I left White Sands Missile Range before the final report was issued, but I will quote from a draft report dated October 9, 1990. It stated, "Audit Conclusions. During the audit we determined that the White Sands Missile Range, and the Eastern Space and Missile Center (a test range in Florida) had implemented initiatives that could effectively reduce contract costs." The IG cited three initiatives at White Sands Missile Range, one being Service Contract

Cost Engineering. In addition, representatives from the OMB's Office of Federal Procurement Policy visited White Sands Missile Range to learn first-hand how SCCE studies were conducted. I left White Sands for my present position one week before the OFPP visit and did not obtain a report on their visit. The Army Materiel Command, which contracts for the vast majority of service contracts for the U.S. Army, was impressed with the methodology and results it produced; they selected me "1990 Cost Analyst" for my efforts developing and implementing it.

I strongly believe that SCCE could be conducted successfully on service contracts throughout the Federal Government. There is nothing inherently military about its application nor the types of waste it prevents from creeping into new contracts. I have read enough audits by the General Accounting Office to know that the same types of wasteful costs plague military and civilian agencies alike. I am speaking of improper scope, unjustifiable tasks, inflated skills and salaries, and excessive staff-loading.

### *Do it Right the First Time*

It should be noted that the current emphasis on producing quality products calls for building the product right in the first place. Detroit has learned that it can no longer compete building autos with defects. Japanese automakers emphasized building automobiles right in the first place. The American auto industry has changed the way it builds automobiles. It now subscribes to a total quality concept that aims at building defect-free products. Much of the effectiveness of SCCE can be attributed to following this same total quality precept. That is, prepare PRs and IGCEs right in the first place, rather than providing flawed products to procurement offices.

The modus operandi for conducting SCCE studies calls for non-adversarial, professional teamwork, by government employees. The SCCE team determines contract requirements in "broad daylight" and strives for cost-effective contract requirements. The team is composed of persons from within the program office, as well as members outside it, who can appraise contract tasks directly and honestly. Program office team members provide inside, hands-on perspective of contract needs. Members from outside the program office are detached and objective enough to ask hard questions and to make recommendations without organizational intimidation.

### *High Payoff for Investment*

SCCE has a high payoff for its cost. It also shortens the procurement cycle. The cost of conducting each of the three SCCE studies averaged less than \$200,000 (based on time spent by the team members and their salaries.) The average cost avoidance resulting from each SCCE study was \$17 million.

There is another important gain. SCCE studies expedite the procurement process. They replace the present frustrating process of preparing PRs, RFPs and IGCEs and awarding a new contract which typically takes 18 months. This time may vary depending on the complexity of a given contract. A significant amount of time is wasted, sending the package back and forth between Controller and/or Procurement and the program office. The Controller and/or Procurement typically want the program office to modify the PRs and IGCEs. SCCE replaces this back and forth, exasperating, time-wasting process by including staff from the Controller and procurement in preparing the PRs and IGCEs. The products are prepared correctly, and there is buy-in. The process goes much smoother and has less "surprises." The only anguish associated with SCCE is asking organizations other than the program office to support SCCE studies of contracts other than their own. It takes a little salesmanship to get past "what's in it for me" in order to recruit outside team members. Speaking of salesmanship, I have a pamphlet outlining the SCCE methodology, which I respectfully request be included in the record.

It is advisable to reserve SCCE efforts for selected contracts, of a certain size or strategic importance. It is likely that SCCE studies would have a deterrent effect; program offices may not know whether their PRs and IGCEs will be the target of a SCCE study. Program offices would prefer sparing their organization the embarrassment of a report prepared by the SCCE team outlining areas of built-in waste in a planned new service contract.

### *A Blueprint for Reducing Costs of Service Contracts*

I want to close with these points.

- The SCCE methodology offers a blueprint for the Federal Government to improve defining contract services, and develop better Independent Government Cost Estimates and as a consequence, reduce costs of service contracts significantly.

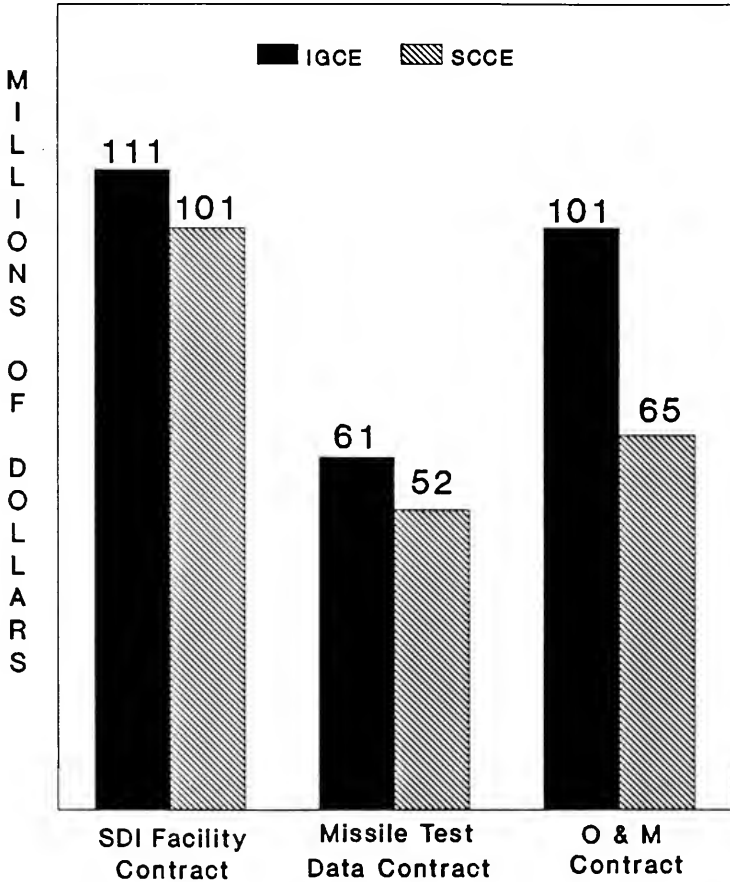
- The Federal Government needs to adopt new approaches to determine service contract requirements.
- These efforts should be staffed with persons committed to both the organization's mission and its cost objectives. These persons as a team must have both knowledge to understand requirements and sufficient organizational independence to write lean contract requirements.
- Contract needs must start from zero with no extrapolations.
- Rubber-stamping contract review boards must be shaken up, and staffed with persons committed to both mission and cost.
- The process must be non-adversarial; trust must be established between the program office, the Controller, and Procurement. Cost and mission need to be considered in a balanced way.

These recommendations are the ingredients for Service Contract Cost Engineering. We proved at White Sands Missile Range that SCCE can successfully determine what service contracts should cost—avoiding costs averaging 20 percent.

Thank you for giving me this opportunity to provide this testimony.

## COST AVOIDANCE AVERAGES 20%

INDEPENDENT GOVERNMENT COST ESTIMATE (IGCE)  
VERSUS  
SERVICE CONTRACT COST ENGINEERING ESTIMATE (SCCE)



# TESTIMONY

of

Asa L. Whitaker, Jr.

EASTMAN CHEMICAL COMPANY  
ARKANSAS EASTMAN DIVISION

BEFORE

## **UNITED STATES SENATE**

COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON FEDERAL SERVICES,  
POST OFFICE AND CIVIL SERVICE

June 16, 1993

ABSTRACT

The quality movement in this country has raised the public's level of expectation for quality goods and services. At one time, this expectation was limited to the private sector; but today's highly competitive environment has broadened this focus to include the public sector. Government services continue to decline while costs continue to escalate. To the citizen on the street, this translates into paying more and more for less and less. Government cannot continue to conduct business as usual. We are in a new economic age.

Quality Management was introduced in the industrial and business communities in response to a severe economic and competitive crisis. America's goods and services are regaining their competitive position in the world because we have recognized the needs of our customers and improved the way we provide those needs. These same concepts have been applied to Arkansas State Government with outstanding results. Significant cost reductions, as well as improvement in government services, have resulted from effective leadership and enthusiastic support by government employees who have completed improvement projects.

The quality process has proven to be an effective methodology for improving the value of government services; however, it requires a change in the way we manage government. Government agencies must adopt a customer-focused philosophy of management and involve employees at all levels of the organization to improve the quality of service. Results in business, industry, and Arkansas State Government provide evidence of the success attainable from this approach.



# TESTIMONY

In today's highly competitive economy, government must face the challenge of continually improving the quality and value of its services. We are no longer in an age where we can continue business as usual and expect the citizens of this country to accept and support a government which continues to cost more and more and provide services which continue to fall short of constituents' needs and expectations. The quality movement in this country has raised a level of expectations that does not allow complacency without some degree of backlash. I was once approached by a prominent individual in state government who was unsure of the need for government to improve. "After all," he said, "if they don't like the service we provide, what are they going to do, move?" From his comments, it was clear his interest was not directed to continually improving service to his clients but just doing what he could with the situation he was given. More enlightened management in government understands full well the ramifications of a constituency who is unhappy with the level of service they receive from their government agency. Those who serve in government know of the vast amount of resources required to answer the huge number of complaints received each day at the White House, Capitol Hill, and in agency offices. As if this were not enough, the rebellion in our country in opposition to more taxes can only be prescribed to a constituency who believes government is not good value and more tax dollars will only result in good money going after bad.

Introduction of total quality concepts into government has been met with the same level of cautious enthusiasm as I have seen in organizations in the private sector. Individual contributors who have been working in government for many years have seen program after program come and go. It is, therefore, reasonable to assume that the introduction of Quality Management might seem like a great idea but sounds a lot like another "flavor of the month." In an orientation session a few months ago, a young lady approached me during the break and shared her excitement for the concepts I had been describing for the last two hours. Her enthusiasm was bridled somewhat when she said, "These concepts sound wonderful, but I will believe this is going to happen only when I see it with my own two eyes." A few months

later, another participant at yet another session said, "We'll see how this goes, I watch their feet not their mouths." What is the source of this skepticism? It is years of experience of working in the nightmare of bureaucratic processes and being frustrated time and time again when they try to effect some change in the way work is done. However, even with the skepticism, the individual contributors in government are ready for the change and are anxious to be a part of it. When we implemented the Quality Management Process in Arkansas State Government, employees were so anxious to be a part of the new vision volunteers were approaching their managers asking to join improvement teams. Within two weeks after starting the process, 68 teams had been formed and were ready to begin the training sessions to prepare for team problem solving.

A few months ago, I was asked to describe Quality Management as it applied to government. I was tempted to give the standard definition which my colleagues and I often give, but decided to reply in this way--Quality Management in government is:

- Improving the process for handling mail-in driver's license renewals enabling the citizens of our state to receive their new licenses in 2-3 days rather than the old time frame of 2-3 weeks.
- Clearly defining and selecting the footwear needs of those incarcerated in our state's penal system and reducing the cost of footwear for the inmates by \$85,000 per year.
- Redesigning the paperwork process for handling pay increases in one department and eliminating over 20,000 pieces of paper per year.
- Developing a new process for bulk mailing for an annual savings of \$27,500 in postage for the Department of Education.
- Providing a process to enable all citizens to evaluate the level of service received at any state office throughout Arkansas and have that information used to bring about improvements in service.
- Reducing the amount of paperwork required by school districts for teacher certificate renewal by 30%.
- Reducing the time required in local revenue offices to renew licenses from 2-3 hours to 5-10 minutes.

These comments are anecdotal evidence of the successes to be achieved when the principles of Quality Management are applied systematically to government processes.

Implementation of Quality Management requires adopting a customer-focused philosophy of management which utilizes the involvement of all employees to continually improve the quality of the services they provide. In some sectors of government, the idea of customers is a concept alien to day-to-day operations. Clients, recipients, taxpayers, citizens, and constituents somehow slip through the net of logic as customers and become those persons we in government take care of, control, or regulate. After several hours of quality training in one state agency, a Deputy Director approached me to recite his most recent revelation. He said, "I have never thought of our clients as customers. This idea brings on a whole new line of thinking." More often than not, government agencies adopt a line of logic which places their customers more in the category of children--taking care of their constituencies because they are unable to do it for themselves. Responsible yes, responsive no. In fact, such an approach to service often develops an acute case of supplier arrogance. The agencies become so entranced by their knowledge, skills, and expertise they become sure they know best what their clients need. Therefore, the service is designed, produced, packaged, and presented only to have it met with criticism and less than enthusiastic success.

The Governor's Team in the State of Arkansas examined closely the question of why government exists. The answer to this question became the Mission of Arkansas State Government--

"To enhance the quality of life for all Arkansas Citizens by meeting basic needs, preserving our state's resources and heritage, and providing services which must be or can best be met by efficient and effective state government."

The ideas offered by this mission statement clearly define the universality of government meeting the basic needs for all the people while it continues to provide general services for the overall good in an efficient and effective way. This mission, which I believe is

universally applicable to all government, can only be achieved by employees working in an environment which allows them to continually improve the services they provide.

The environment which allows a government employee to maximize his or her potential is achieved through total employee involvement. Unless we educate, enable, and empower government employees to respond to the needs of their customers, we will not bring about the kind of change we desire. Bringing about the change is a matter of critical importance and the solution is leadership. Government employees join millions of others in the private sector in the desire to work with effective leaders. I often get comments like, "I wish I knew what was going on around here, one day it is money, the next day it is service, the next day it is something else." Dr. W. Edwards Deming refers to this as "constancy of purpose" within the organization. The Governor's Team responded to this need in Arkansas State Government by developing two foundation documents to set the direction and attitude for providing service to the citizens of our state. The Arkansas State Government Quality Policy states:

"State employees will relentlessly strive to improve services through the application of quality management principles with the goal of exceeding the expectations of our customers, the people of Arkansas."

The policy clearly defines the customers of state government and the level of service required from each agency. The second foundation document, "Arkansas State Government Quality Principles," identifies the expectation that all government agencies will:

- identify and meet customer's needs;
- involve employees at all levels in problem-solving and decision-making;
- enable employees to change and succeed through appropriate education and training; and
- improve processes, remove barriers, and establish accountabilities to create and reinforce continuous improvement.

These documents represent significant shifts in the paradigm for managing government and requires a definite change in the way we measure success. Success for government managers has often been measured by the number of people in the organization and/or the size of their

budget. Success must be redefined as a manager's ability to reduce cost and improve the quality of service to his/her customers. The road to change is challenging in a government bureaucracy, but certainly attainable. When we began the process in Arkansas, there were no models to use and no paths to follow except those found in business and industry. However, a model was developed as well as a plan to implement the model, and we are currently on our journey. The model, as well as the details of implementation, is described in a white paper entitled "The Top Down Approach to Implementing Quality Management in State Government" and is located in the appendix of this document. The implementation plan has enabled state employees to bring about improvement in the way they do work and the quality of the service they provide. The concept has proven to be robust by sustaining itself through a re-election campaign, a race for President of the United States by the sitting Governor, as well as a change in the gubernatorial leadership for our state. Growing pains are being felt throughout state government as the effort to bring about change continues; however, enthusiasm remains high and the effort is strong and viable.

# APPENDIX

## TOP DOWN TQM IN ARKANSAS STATE GOVERNMENT

ABSTRACT

In today's highly competitive economy, state government must face the challenge of continually improving the quality and value of its services. Many efforts have been made in the past with some degree of success, but none have provided the quantum leaps needed in today's environment. In the decade of the 80's, progressive organizations around the world have come to realize the importance of focusing on quality. Quality Management (QM) has provided the process to achieve this focus, and its application has achieved outstanding results in state government.

BACKGROUND

Webster defines government as the ruling of a country, state, district, or the direction of the affairs of state. To the person on the street, government is a mystical body of individuals harbored in a capital city who tends to take his money and spend it foolishly. Occasionally, the same individual will recognize that a few good things happened because of government, but it always seemed to result in an increase in his tax base. Inconvenience, red tape, and inefficiency is often the hallmark of John Q. Citizen's perception of how government operates. The phrase "good enough for government work" did not come into being without some degree of just cause. It was into this environment the principles and concepts of Quality Management were introduced. The recipients of this message were not beady-eyed politicians and bureaucrats but rather conscientious managers with a desire to manage their administrative functions in a responsible and economically sound manner.

Today's highly competitive economy has made it apparent that state government must face the challenge of continually improving the quality and value of its services in much the same manner as the corporate citizens of the state. Government certainly is no stranger to cost reduction programs. Public perception, whether justified or not, has always pushed elected officials to at least make some effort to reduce costs and/or to slow the rate of tax increases. Obviously, there has been some success in the past; but as we discovered in industry, focusing on saving money through blanket cost reductions, witch hunts for waste and



corruption, and legislative mandates usually have had a backlash of affecting the level of service state citizens have grown to expect.

It seemed logical that state government should follow the concepts used by progressive organizations to focus on improving the quality of the services they provide and the quality of the processes they use to provide these services. Certainly, the principles of Quality Management apply equally to the functions of state government. It was important to apply these QM principles in a way that enabled all state agencies to focus on the needs of their customers and to involve all state employees in the process of continual improvement. We began with the belief our state employees were a valuable resource of knowledge, skill, and experience and their involvement would be critical to our success.

Our journey into Quality Management in state government can be marked by three significant phases. These can be described as Awareness, Start-up, and Roll-out. We are currently in the Roll-out phase of the implementation plan. However, we certainly continue to learn and improve as we continue on our journey to full implementation.

#### DEVELOPING AWARENESS

Certainly, the quality initiative is no stranger to the state of Arkansas. In November of 1986, the Arkansas Industrial Development Commission convened a group of individuals, including myself, to plan and implement a statewide quality task force. This task force is still in existence today and is quite active in creating a common awareness and understanding of the potential for increasing productivity through Quality Management.

In addition, the concept of community quality initiatives was introduced in my hometown of Batesville, Arkansas, in 1987. The purpose of the community initiative was to enable small business, industry, and service and public sector organizations to establish a way of managing that would result in continual improvement of the quality and value of their products and services. Since the inception of the community initiative in Batesville, twenty additional cities and towns in Arkansas have begun community initiatives in quality.

On February 25, 1988, the Quality First-Batesville Project, our community initiative, celebrated the results and achievements of the first teams to complete the 14-week course in Quality Management. The day was certainly destined to be a highlight in the history of our community, and we invited Governor Bill Clinton to be a part of our celebration.

It was at this gathering the Governor heard firsthand from quality improvement teams. Their enthusiasm proved to be contagious, and the results of the completed projects sparked the Governor's vision for applying these concepts in state government. During his luncheon speech, he told the audience, "If I can demonstrate to people around the country and people around the world that Arkansas' major communities have a systematic, ongoing effort to improve productivity in every single employer's operation, that will speak volumes about the quality of the Arkansas work force and business climate of the state."

He began to share this philosophy around the state and continued to learn more of quality concepts. Based on his own testimony, the Governor began to feel guilty for espousing this concept for others while not following his own advice in state government.

In September 1989, the Governor requested our assistance to begin the systematic implementation of QM in State Government, and plans were formulated to begin this process as soon as possible.

Upon hearing and accepting the general outline for the implementation plan, the Governor then asked that we turn our attention towards making other key organizations aware of the chosen direction and strategy. Three principal stakeholders were identified: the state legislature, members of the Governor's cabinet, and the Arkansas State Employees Association. In a prior legislative session, the Arkansas State Legislature passed an act to create the Joint Performance Review Committee consisting of three members of the senate and six members of the house. Their charge was to determine the most appropriate method for improving the effectiveness of various state agencies, departments, and institutions.

Leadership of the Joint Performance Review Committee (JPR) was invited to meet with the

Governor and his Chief of Staff to review the proposed implementation plan and the concepts being embraced to manage state government. After gaining support of the JPR leadership, orientation began for both the Joint Performance Review Committee members and members of the Governor's cabinet.

Meetings were also held with the leadership of the Arkansas State Employees Association to review the basic concepts of QM and the implementation plan. As you might imagine, QM received their enthusiastic support.

It might be of value to note an early decision made by the Governor and his team regarding a policy for handling state employees displaced by Quality Management improvement projects. Up front, the Governor announced no Arkansas state employee would be terminated as a result of Quality Management. It was recognized some may be transferred to other agencies. Attrition was chosen as the route to reduce the work force should it be necessary.

#### START-UP

The implementation plan chosen began with the selection of six agencies to participate in the pilot effort. The concept was implemented with the idea of establishing quality improvement teams throughout state government while simultaneously introducing management teams to the concept of quality planning and their role in quality improvement.

To facilitate start-up, a training plan was developed. The agencies chosen in the pilot consisted of the Governor's team led by the Governor with membership of six other cabinet members. In turn, management teams were formed in the Employment Security Division, the Department of Education, the Department of Human Services, the Arkansas Industrial Development Commission, the Department of Finance and Administration, and the Governor's staff. Each agency Director was asked to appoint an agency Quality Management Coordinator to be responsible for facilitating the effort within each agency.

The agency implementation plan (Figure A) began with management team orientation to share and affirm the need to focus on quality management. This was followed by the

selection of project improvement teams within each agency who would be supported and reinforced by the management team and coached by the agency QM coordinator.

Parallel streams of activity were used in implementation. One stream was a series of workshops by the management teams focusing on three principal elements of the overall plan--these being the customer, the mission, and the formation of key result areas and associated measures of performance within each agency. Concurrent with this effort was a series of activities involving improvement teams: team orientation in quality principles; training in team problem-solving skills; and working together on improvement projects. This activity was designed to implement the initial QM model (Figure B) developed for the startup mode.

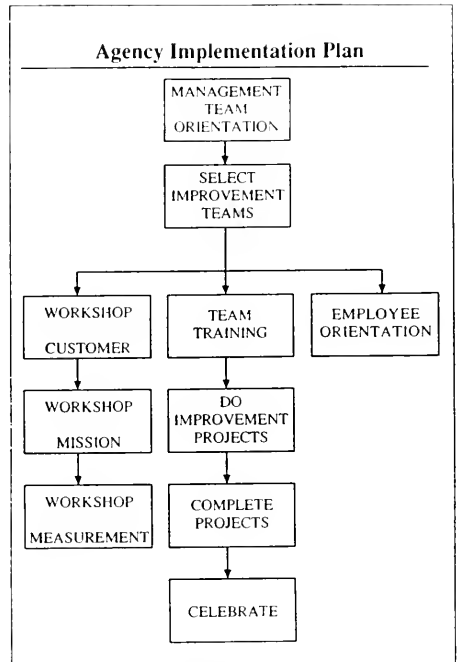


Figure A. Agency Implementation Plan

The focus of our effort has been and will continue to be a focus on the customers of state government. This was a revolutionary thought in some circles but it was received extremely well.

The foundation for our model comes from employee involvement. Unless we educate, enable, and empower the people within our organizations, we cannot bring about the kind of change we desire. Thusly, by concept and design, state employees began working in Quality

Management immediately with a focus of quality planning and quality improvement.

As you might expect, the management teams focused in the area of quality planning to provide the leadership and reinforcement required to support the activities of quality improvement teams. As the process matured, we incorporated the elements of quality measurement. Formulation of the model in this manner was very deliberate and allowed the management teams to begin with a narrow focus and then expand it as they began to understand their role in each of these activities.

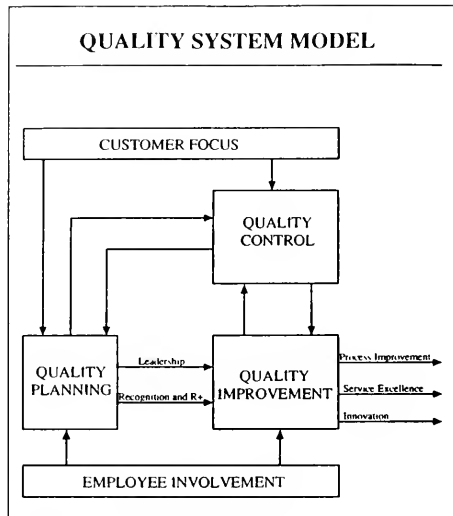


Figure B. Quality System Model

To facilitate the management team's work in quality planning, we used a Quality Management Process (QMP) specifically designed to enable an organization to provide services that lead in quality and value as judged by its customers.

The Governor's Team, consisting of the Governor and several members of his cabinet were the first management team to use the process. They began by defining the critical customers of state government followed by a macro look at the organization to determine critical outputs, processes, inputs, and suppliers. We refer to this activity as a SIPOC analysis--an acronym taken from the relationship of suppliers, inputs, processes, outputs, and customers.

Based on the understanding developed during the SIPOC analysis, a mission statement (Figure 1) was prepared to clearly provide a customer-oriented statement of why the organization

exists. As a complement to the mission statement, the Governor's Team developed a Quality Policy (Figure 2) and a set of Quality Principles (Figure 3) they believed were important to complete the conceptual design of the quality system.

These documents, mission statement, Quality Policy, and Quality Principles, became the foundation documents for roll-out and continue to guide implementation. Continued analysis of customer needs and expectations and the definition of key processes needed to satisfy the mission allowed the team to identify their key results areas (KRAs) to be **economic development, education, environment, health, heritage, and public safety**. We are currently developing measures of performance for each of these key result areas.

To recognize and support the work of the quality improvement teams, the Governor's Award process was implemented. The

Governor's Award process recognizes improvement project teams and the award is presented to the team upon completion of an improvement project. In addition to the certificate, each team member receives a lapel pin recognizing their contribution and participation.

To further recognize the achievements of the quality improvement teams, our first semiannual Day of Celebration was held on July 2, 1990. Teams were invited to share their achievements with others through formal presentations; however, all teams who had completed projects were recognized. Figures 4 - 13 are samples of some of the completed

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Figure 1

**ARKANSAS STATE GOVERNMENT  
MISSION**

To enhance the quality of life for all Arkansas Citizens by meeting basic needs, preserving our state's resources and heritage, and providing services which must be or can best be met by efficient and effective state government.

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Figure 2

**ARKANSAS STATE GOVERNMENT  
QUALITY POLICY**

State employees will relentlessly strive to improve services through the application of quality management principles with the goal of exceeding the expectations of our customers, the people of Arkansas.

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projects.

Involvement of state employees in improvement projects was and continues to be key to our success. Voluntary participation has grown to include 30 agencies with a combined head count of 32,000 state employees. Over two hundred improvement projects have been completed and an equal number of projects are underway.

In the past year, we have focused on removing barriers to implementation, measuring our progress, and determining the needs and expectation of our customers.

Current activities include:

1. Creation of a Quality Management Board by act of the state legislature.
2. Implementation of a computer based project reporting system.
3. Development and implementation of a state wide customer survey process utilizing survey cards in each state government office around the state.
4. Development of measures which allows us to monitor our success for our Key Result Areas.

Our experiences, both current and past, overwhelmingly support the original premise as to the applicability of QM in state government. Without a doubt, government has a unique culture and is different in many ways to private business and industry. The most important thing, however, is the many things government has in common with all service organizations. The opportunities are many, and I find the people of state government are ready and anxious to meet them

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Figure 3

**ARKANSAS STATE GOVERNMENT  
QUALITY PRINCIPLES**

- \* Identify and meet customer's needs
  - \* Involve employees at all levels in problem-solving and decision-making
  - \* Enable employees to change and succeed through appropriate education and training
  - \* Improve processes, remove barriers, and establish accountabilities to create and reinforce continuous improvement
-

Figure 4

Department of Finance and Administration

Office of Motor Vehicles

- \* Reduced decal inventory by 67%
- \* Reduced decal consumption over 50%
- \* Reduced cost of issuing mail-in renewals by 65%
- \* Reduced turnaround time for mail-in renewals from 2-3 weeks to 2-3 days

Figure 5

Arkansas Department of Education

Special Education's  
Monitoring/Reporting Process

- \* Increased monitor supervisor's availability to the district by 20%
- \* Improved consistency of Special Education Program evaluation by monitoring supervisor's

Figure 6

Department of Human Services

Project 1611

- \* Eliminate steps that do not add value to the merit increase (personnel/payroll) process
- \* Eliminate DHS Form 1611 use for merit increase for standard conditions to be used for exception
- \* Eliminate nearly 20,000 pieces of paper annually; will save over \$30,000 per year including 40% of a personnel specialist man-year

Figure 7

Department of Finance and Administration

Office of Budget Forms Management

- \* Redesigned and clarified budget request forms
- \* Reduced rework as a result of form clarification
- \* Reduced staff time required to explain forms
- \* Eliminated duplications



Figure 8

Arkansas Department of Education

Reduce Mail Cost

- \* Established procedure for evaluating alternate methods
- \* Empower decision-making at operation level
- \* Projected savings is mailing cost of \$27,500 annually

Figure 9

Department of Finance and Administration

Economic Analysis/Tax Research

- \* Needed to improve the Arkansas Fiscal Notes Publication
- \* Used customer input to improve organization and style of the publication
- \* Achieved Zero errors in March issue
- \* Reduced annual printing cost by \$2,100

Figure 10

Department of Finance and Administration

Direct Sales Transactions  
Motor Vehicles

- \* Restructured office layout to improve customer accessibility
- \* Restructured job duties and established a receptionist to seek customer needs and expedite service
- \* Altered forms and eliminated extra copies of each form being made by another department
- \* Eliminated handling documents three times

Figure 11

Arkansas Department of Education

Service Directory

- \* Established a directory of responsibility by service category
- \* Provided a guide for ADE employees to direct inquiries to the proper person
- \* Enabled school districts to identify by name the correct individual within ADE to direct their inquiries
- \* Reduced number of transfers required to answer citizens inquiry

Figure 12

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Arkansas Department of Education

Teacher Certificate Renewal

- \* Reduced district paperwork for this task by 30%
  - \* Reduced task for 1,050 person-hours per year
  - \* Saved \$1,000 in postage annually
- 

Figure 13

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Department of Finance and Administration

Revenue Tax Administrators

- \* Reduced time to process funds by four weeks
  - \* Reduced time to process reject letter by two to six weeks
  - \* Increased sorting productivity from 12-16 batches per day to 14-20 batches per day
  - \* Reduced labor cost \$5400 per month
-

PREPARED STATEMENT OF THE NATIONAL COUNCIL OF THE SOCIAL SECURITY  
MANAGEMENT ASSOCIATION, INC.

The National Council of Social Security Management Associations (SSMA), an organization representing 4000 field office and teleservice managers and supervisors of the Social Security Administration, appreciates the opportunity to describe some innovative methods we are using to deliver service to the American public.

These ideas do not necessarily all constitute "good government," although we hope that many do. Innovations in field offices are prompted by the fact that SSA does not have adequate staff or funds in the field to fulfill all of our responsibilities to the public. To try to do our full job we must find ways of stretching our resources, putting more of a burden on claimants, or using volunteers to accomplish work which should be done by our employees.

Surviving six years of agency downsizing (losing twenty to thirty percent of our staff in field offices) while managing steadily increasing workloads is a significant accomplishment. We have shown what local management can do by adjusting work processing procedures and using very limited resources effectively in the areas of budgeting, disability case handling, community outreach, telephone service and training. Subspecialization, intensive and innovative training, use of system controls, establishing community liaisons, enlisting claimants' help—these are some of the tools that LOCAL managers can use effectively when they are authorized to do so. The following are examples from field offices across the country.

While many of our methods work to the end of getting the job done—doing more with less—we have not asked the public about what they want or prefer. The effectiveness of some of these procedures has not yet been analyzed. The public should be given a say in any such analysis.

#### *Local Resource Management*

Local Resource Management (LRM), is a budgeting authority which field managers have been requesting for years (traditionally, all budgetary decisions have been made many miles away from the local office.) The first phase of the pilot included just the Boston and Philadelphia regions but LRM has now been expanded to four more regions. The local manager is given a budget and the authority to reprogram dollars from one category to another to meet the needs of the office and get the most value for dollars spent:

- Although restrictions still exist which allows for this only in emergency situations, a Rhode Island manager purchased better quality photocopy paper for less than one half of the price demanded by the usual government supply process. The money saved was used to train three employees in life-saving cardiopulmonary resuscitation techniques.
- By reprogramming a few dollars from the limited budget categories, a manager was able to send eight employees to a one day Customer Excellence seminar held by Indiana University. This course stressed the need to always keep our customers in the forefront of goals.
- A manager was able to purchase high quality office furniture at 25 percent of its actual value from a local business which was liquidating its assets.
- Management teams have been able to budget overtime hours to ensure that we work when the need is greatest not just when money is made available.
- A manager was able to reprogram money from "supplies" to a depleted travel budget to allow employees to man a booth at a native American Indian Health Fair/POW WOW to help familiarize the tribe with SSA and to assist us in earning their trust.

Overall, under LRM local managers are constantly aware of every dollar spent. We make difficult decisions every day. In a tight budget time such as this, these decisions have to be made at the local level if SSA is to continue its service with such drastic reductions in resources. We need to eliminate shadow functions—many positions at the Regional and Central Office level which are involved in every expenditure when budget decisions are made centrally—and redeploy these employees to the field offices and teleservice centers where staffing shortages are most critical.

Another positive aspect of LRM is that the money is spent in the local community which the field office serves, saving money while stimulating the local economy. Better government results from reducing procurement, personnel, and leasing requirements which stifle rather than stimulate effective government and from granting additional delegations of authority necessary to allow managers to make the full range of decisions on hiring, staffing mix, overtime, furniture/equipment, automation tools, etc.

## *Disability*

As an agency, SSA is running pilot programs to try to determine a solution to the disability crisis. It is apparent that without an infusion of staffing we will not be able to keep pace with the rapidly rising backlogs. New claims have risen by nearly 50 percent during the past three years. In offices across the country, management teams are also trying different methods both to reach prospective disability claimants and to process their claims more quickly with the present resources.

**Indianapolis:** Working with Marion County Public Aid to get Children in Need of Services (CHINS) on the SSI disability roles. An SSA Claims Representative goes to the Public Aid offices twice a week to work with the case workers to identify potentially eligible children. The Federal Government working side by side with the county in this way enables the county to do more for these abandoned children. SSA also can detect many cases where a payee has been misusing funds for previously entitled children.

**Massachusetts:** Using appointments almost 100 percent of the time for disability claims. An SSA Service Representative preinterviews the claimant, explaining forms and process and asking for medical evidence of record (MER) the claimant might have at home. This has resulted in a much better medical history package and medical evidence being included in about 15-20 percent of our cases. It also frees up Claims Representative time to adjudicate claims, etc.

Also developing, over a two year period, an outstanding relationship with Memorial Hospital and UMASS Medical Center. They now set up appointments for disability claims taken on site AND provide needed medical evidence. At Memorial we have successfully taken a number of fully documented disabled children's claims. In UMASS, which is a central Massachusetts trauma center, we take fully developed disability claims as well. We also serve as a focal point for other offices on some of these claims (the center handles the helicopter transported accident victims—usual traffic).

**California:** Working so extensively with community groups that the group becomes an extension of the office. For example, SSA employees train a number of groups on the application process and eligibility issues. The groups have standing appointment times and they come in with the claimant, medical records, and all paper work fully and accurately completed. The claim then takes a minimal amount of time and the state Disability Determination office has almost nothing to do after receipt except allow it. It's like having a system of "deputy Claims Reps" in the community, or, from the other side, "deputy community workers" in the field office. While it would be better if we had enough staff to handle this correctly, this innovation empowers the community—steering rather than rowing.

**Seattle:** Liaison with county Health Department. The field office has established contacts with the Health Dept. to facilitate claims processing for AIDS cases. The Health Dept. assists in completing medical forms and applications to save the person another contact and alerts SSA to TERI or presumptive disability situations.

Also, liaison with the school district for school resource teachers to automatically provide school records needed for medical disability decisions. The state Disability Determination Service had been routinely sending Functional Assessment Questionnaires to teachers to fill out. The local office provided a supply of forms and worked out procedures for the teachers to provide this information at the front-end of the process, thus speeding up the disability decision, and saving time for the state disability office.

**Minnesota:** Establishing a "Low Birth Weight" procedure with the neonatal clinic of a local hospital. The initial purpose in fiscal year 1992 was to identify infants born weighing under two pounds and refer the parents to SSA to discuss the possibility of filing for SSI. Now the hospital is referring these infants as well as larger ones with other disabilities, on average about two referrals per week.

Also in fiscal year 1992, the Duluth SSA District Office set up a procedure (in cooperation with the Minnesota Disability Determination Service) to schedule consultative exams for some disability claimants during the course of the initial interview. If the claimant alleges certain mental conditions and has had no treatment within the last three months, the Claims Rep or Field Rep calls a local psychologist to schedule the evaluation (usually the same week or next). After the evaluation, the doctor sends his bill and report directly to the state DDS. We have averaged two to three such evaluations being scheduled per week.

**Milwaukee:** Taking claims for children in Foster Care programs in Milwaukee County as part of our SSI Outreach program. These children are in very transitory situations, with little connection to traditional areas (stable school environment, etc.) through which they would normally be reached. Because they are children, they could easily miss out on SSI eligibility because no individual adult is closely

watching out on their behalf. Normally, securing a safe place for them to live is the only goal of social workers.

In this project, we outstation an SSA claims representative at the Milwaukee County Department of Social Services (DSS), the local welfare agency. From the thousands of children involved in foster care placement, DSS workers identify those that have some sort of physical or mental/emotional disability. Our claims representative then reviews the DSS foster care file, obtaining the necessary medical and nonmedical information, and contacts both the DSS social worker and the foster care parents to obtain additional medical-related information necessary for the claim.

Since the project's beginning in 1991, our outstationed claims representative has taken 700 applications, with over 500 children in foster care subsequently becoming entitled to SSI benefits and automatic health insurance coverage under Medicaid. We anticipate ultimately that we will have over 1000 needy disabled children entitled to SSI/Medicaid through this process.

**Rhode Island:** Trying to reduce the long time that claimants have to wait to receive a decision on their disability claims. A field office, in conjunction with the R.I. Disability Determination Service (DDS) and the SSA Regional Office, has been running a pilot called FOMER since 3/01/93. The claimant's help is enlisted to obtain the needed medical evidence for their claim by asking them to hand carry a request for medical records to their doctor/hospitals. About 76 percent of disability claimants have chosen to participate. DDS still pays for the medical records submitted. Many cases have enough or almost enough medical evidence in file at the time they are sent to DDS for a disability decision to be made right away.

The field office staff were excited when they received their first couple of cases back from DDS with a decision in 7 days (the regional average for an initial decision is \_\_\_\_\_ days). Now they have begun another phase of the pilot—to explore outstationing a DDS examiner to make decisions on cases with sufficient medical evidence in file at the time the claim is taken. In the first two days, our examiner had three cases which could be finally adjudicated right away. About 10 percent of those who participate in FOMER may be able to receive these quick decisions. A personal computer and modem are being set up so that the examiner can communicate directly with the state disability office and handle much of the work right in the SSA field office.

This does not happen without cost. In addition to the considerable time spent by the management team to set up internal operating procedures, to meet with the Disability Determination Services and SSA Regional Office to decide each facet of the pilot, to deal with the union, and to present this pilot in a way that staff understand and support it, it has resulted in additional work for all employees in the office. The one remaining clerical employee does FOMER as her primary duty, leaving each Claims Representative in the office to do their own clerical work. The FOMER clerical recontacts all of the 800# appointments, explains FOMER, mails out the FOMER packages, sets up the disability file, associates medical data and appropriate forms with the folder, changes appointments, etc. The offices' Service Representatives and Claims Representatives must also explain FOMER to all those who walk in or call. The disability interview is made longer by annotating which medicals have been received and which medical sources will or will not be contacted.

Overall, however, we see this as a positive experience when we see a claimant receiving a quick decision on his/her claim. We have been particularly gratified that many of those receiving these early decisions are the most critically ill and need our rapid attention.

### *Outreach*

With restricted travel funds and few Field Representatives in the since agency downsizing, local office managers have had to be creative in our efforts to reach difficult-to-reach segments of the public.

**Massachusetts:** The New Bedford District Office has developed a comprehensive referral network with area agencies. Based on an integrated service delivery model, representatives from various groups work together to develop a package of services for clients in need. Several groups, including the Department of Public Welfare, the financial services department of the local hospital, the Area Agency on Aging, the Department of Mental Health, and others confer on cases identified by one agency as needing specialized attention. Frequently, individuals targeted are those who are unable to obtain needed services for themselves, due to physical or mental limitations. The plan, developed by the SSA Field Representative and directors of the various agencies, allows representatives to draw on the expertise of workers in a variety of fields to coordinate efforts and to offer a full range of service options.

Because contacts are frequent between agencies, the Field Representative has developed an informal relationship with representatives and each case can be promptly and easily assessed to determine an appropriate package of services. As an example, the Field Rep, a representative from the local hospital, and a caseworker from the Area Agency on Aging might confer on the case of an elder at risk who is currently hospitalized, but will be returning to the community. It might be determined that an SSI claim and home health services must be in place before the client can return home. The hospital representative who had already developed a relationship with the client would introduce the FR and the Agency on Aging representative and the process of obtaining services would begin.

**Rhode Island:** When we learned that many members of the Native American Indian Tribe in our area would not come into a government office, we developed (slowly) a good relationship with the director of the Narragansett Indian Tribe Social Services. Now the field representative goes out with the director to the homes of Indians who are potentially eligible for SSI. We have also had Indians come to our office to speak to the staff about their culture and the prejudices that they face. We have been invited to man a booth at an inter-nation POW-WOW and Health Fair in July. These are concrete ways actions we have taken to improve services to a specific population which was not being served and start to break down the barriers as they see them.

**Seattle:** We have established a liaison with the staffs of homeless shelters. When the Shelter staff identifies a homeless individual who is potentially eligible, the field rep goes to the site and takes a complete claim to minimize the need to recontact the individual. He also works closely with them on post-entitlement issues for the homeless population (non-receipts, reinstatement, etc.)

**Chicago:** Social security offices servicing prisons expend a great deal of time and effort dealing with the misinformation that circulates routinely through the inmate population. Many inquiries are received based on this misinformation. To combat this, the Chillicothe, Ohio Social Security office (with seven prisons in its area) produced a videotape program explaining the program from a inmate's perspective. To bridge the credibility gap and increase inmate interest in the message, Johnny Paycheck was recruited to appear in the program. Mr. Paycheck is a country-western performer and a recent parolee from the Ohio state prison system himself.

This production was done entirely cost-free. A local cable television company donated its services, and Johnny Paycheck volunteered as well. The videotape received a very positive reception by inmates and prison administrators alike. Approximately forty other social security offices throughout the country have requested copies of the program and are now using it in their prisons.

**Michigan:** To try to reach more individuals cut off from state General Assistance, we have outstationed our Field Representative in the local Department of Social Services offices for a half day a week. Michigan's general assistance (GA) program, which paid a bit more than the straight welfare payment, was cut about two years ago as a state cost savings measure. No one was quite sure what the people who were cut off would do. It is believed that many "GA cutoff" people would be eligible for SSI. However, what little data was available indicated that many of these people had not applied for SSI or Title II benefits. Now our Field Rep takes two to four applications per half day at the DSS.

However, we have ongoing problems with this effort. First, our travel budget is extremely limited; we will run out of travel money before the year is out. Second, the effort is very labor intensive. This effort requires travel time, set up times and soon, (July 1993) will require us to take the paper applications and type the information into the MSSICS system. Third, our staffing is such that we may no longer afford to have a Field Representative do anything except take claims inside our office.

### *Telephones and Training*

SSA has long been proud of its service to the public and how well we have trained our employees. Telephone service and adequate training, however, have been hard hit by the budgetary woes of recent years. We believe the American public deserves a highly trained, effective staff. They also deserve to have their phone calls answered by a person in their local office immediately if that is what they choose. The following are two examples of how we are trying to deal with the present, far from ideal situation.

**Massachusetts:** Our operational telephone units (not the general inquiry line) have been connected to answering machines. We believe that this provides better and more consistent information sharing access with the public while still providing blocks of uninterrupted adjudication time for the Claims Representatives. Many of-

offices have no or very few clerical staff to answer telephones. Claims Representatives are either interviewing or are taking teleclaims from their desks. Answering machines solved the problem of ringing telephones. The customer can consistently get through and leave a message.

**New England:** Due to lack of training and travel funds, it is next to impossible to bring field employees in to a centrally held class. A manager on a regional training committee suggested that we use circuit rider training to make sure that the most important training initiatives take place. Several people are picked from each area to meet in Boston to develop the course and prepare high quality handouts, visual aids, cheat sheets, etc. They then call the manager of the offices closest to their homes and arrange to give this training in 5 or 6 offices. This way, 74 supervisors in 74 offices in New England are not spending their individual time preparing and delivering this training, the message is consistent, and we can guarantee that the training is done right (or that it is done!). We have used this method effectively for several computer training initiatives and Debt Management System training.

We believe that SSA should seriously consider the high cost of not providing training in making its budget request. The expense of training should always consider the cost of staff time as well as travel and training funds.

### *Conclusion*

The above are just a few examples of what management in the field is trying to do to continue to deliver service with greatly reduced staffing and resources. We believe that the local level is where we can make a difference, where we can get the community involved in the delivery of the service that they have every right to expect. We can only accomplish this when a redesign of SSA follows the mission of the agency and bases service in the community.

In order to innovate, we need tools to work with. These tools include a reasonable local budget, reasonable productivity goals and objectives and sufficient staff with ongoing replacements. We need to remove many of the staff layers that are not working directly to deliver service to the people and redeploy these positions to the field. Give the local managers adequate staffing, funding, budgetary flexibility and responsibility, and we should be able to provide many more exciting ideas and processes which will improve our service to the public.

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### PREPARED STATEMENT OF JOAN B. KESTON, EXECUTIVE DIRECTOR, PUBLIC EMPLOYEES ROUNDTABLE

Good morning Senator Pryor and members of the Subcommittee on Federal Services, Post Office and Civil Service. On behalf of Public Employees Roundtable, I want to express our appreciation for this opportunity to appear before you.

Public Employees Roundtable is a non-partisan, non-profit coalition of 30 management and professional associations representing more than 950,000 Federal, state, and local government employees and retirees; 49 government agencies are Associate Council members and 26 corporations belong to the Corporate Forum. PER was founded 11 years ago and has consistently undertaken on-going major initiatives to educate Americans about the contributions public employees make to the quality of our lives, to encourage excellence and esprit de corps in government and to promote interest in public service careers.

Historically, Americans have had conflicting views concerning the role of government; our Constitution, with its construct of balance of power, reflects that concern. In the last decade, this ambivalence has manifested itself in a public perception of government mediocrity. Civil servants teach our children, protect our streets, pay Social Security checks, safeguard our borders and control airline traffic. While polls have found citizens are pleased with these and other individual services, that level of satisfaction is not translated to their view of government in general. We believe the way to reverse this vision of public service is to make a connection between these services and the public's perception of the effectiveness of government; to encourage open dialogue on the scope of expected services and to promote excellence in government performance.

In 1985 we developed our Public Service Excellence Awards program that recognizes outstanding and innovative programs at the Federal, state, county, city and intergovernmental levels of government. These awards are co-sponsored by the U.S. Office of Personnel Management, the Federal Executive Boards/Federal Executive Associations, the National Governors' Association, the National Association of Coun-

ties, The International City/County Management Association, the National League of Cities and the U.S. Conference of Mayors.

While we all agree that it is important to remove systems barriers that impede innovation, it is equally important to recognize that effective managers quickly learn how to satisfy system requirements and find the latitude to implement change. We feel it is critical that Americans not be given the impression that there is no innovation in government.

There is a training exercise that asks you to connect nine dots using four straight lines without lifting the pencil off the page and without tracing over the same line twice. The dots outline a square, a dot in each corner, one in the middle of each side and one in the center. The solution is to have the lines intersect outside the square or box.

In examining the winners of our Public Service Excellence Awards you can clearly see that they share this ability to expand boundaries by looking for solutions outside the limits of the conventional "box." Those recognized in 1993 had little or no resources to meet the growing needs of their clients. The approach each took was to form creative partnerships with members of their communities. For example:

The Visitor Information and Associates' Reception Center of the Smithsonian is able to serve over a million visitors a year with a staff of 33 because they recruit, train and direct the activities of 1,700 volunteers.

The Michigan Department of Agriculture's Michigan Harvest Gathering reaches out to the corporate world and others, raising 552,354 lbs. of food and \$260,161 last year, to stock Michigan's food banks for the hungry. One of the most successful activities is a sculpture contest requiring at least 500 cans of food.

Anoka County Minnesota Parent's Fair Share Program is a collaboration among Federal, state and local government agencies and private foundations to help non-custodial parents develop necessary skills to secure stable, full-time jobs and to have appropriate relationships with their children. Within 18 months the average child support payment rose from \$50 to \$111 a month and the number of employed parents rose from 54 percent to 89 percent.

The Cleveland Public Schools Career Expo Fair was designed to reduce a high school dropout rate of over 50 percent. This year 150 companies demonstrated 400 different career areas to 5,000 students and parents. The drop out rate has been reduced to about 47 percent which translates to 6,000 more students staying in school and graduating.

The South Carolina Firefighters Aluminum Cans for Burned Children Program was initiated to raise money to buy special clothing, equipment, ointments and dressings, shelter and transportation for families of the young patients. Aluminum cans are collected and sent for recycling helping the environment and earning money for the program.

The dedication and enthusiasm of our winners is contagious. Dynamic organizations have a vibrancy that can be felt by all that come in contact with them, an articulated sense of commitment and purpose. There are other commonalities these winners share that can be used to define organizational excellence:

- Active leadership with a clear definition of mission that results in delivery of quality products and services to customers;
- Effective communications, both internally and with clients;
- Management commitment to continuing employee development;
- A strategic plan for the organization, which is continually revisited after monitoring the external environment;
- Crisis is viewed as an opportunity for change.

It is sustained over time when there is a:

- Quality culture of continuous improvement;
- Process for evaluation and reassessment of customer service.

We enthusiastically support efforts to remove barriers to innovation and to encourage excellence, but we feel there is an additional challenge—to find ways to educate both citizens and other organizations about the existence of such programs. The Board of Directors of the Public Employees Roundtable is convinced, based on their experiences with their Public Service Excellence Awards program, that excellence in public service is not isolated phenomena; however, publicizing them is. If government is to be taken seriously, citizens must be informed about the activities it performs. As customers, either directly or indirectly, their informed input is essential to the democratic process.

One vehicle for doing this is Public Service Recognition Week during the first week in May. An initiative of the Public Employees Roundtable and the President's



Council on Management Improvement, it has grown from four cities in 1986 to more than 1000 in 1993. This special week offers the opportunity to demonstrate the scope and breath of services government provides and how that affects the quality of American life.

In Washington, D.C. more than 100,000 visitors annually go through the exhibits of sixty agencies on the National Mall. More than 30 cities across the country have similar exhibits. Across the country celebrations differ as each reflect local ingenuity and diversity. Some had open houses, riverfests, award ceremonies, school outreach, a rodeo and competitive sports events.

The *Atlanta Constitution*, *The Plain Dealer* (Cleveland), *The Columbus Dispatch*, *The Rocky Mountain News* (Denver), *The Houston Chronicle*, *The Post Dispatch* (St. Louis), *The Washington Post*, and the *Federal Times* had public service supplements or pages. All these events help to open communication channels between those in government and the citizens we serve.

In the last year, Americans have been offered the opportunity to participate in town meetings and open forums on the budget and other topics of national concern. Through this process of education has come some understanding of the complexity of issues that surround the specific policy decisions under discussion. Expanding this effort could very well result in some innovative solutions to the challenging problems of this decade. In 1993 over 4,000 students came to the National Mall. The feedback was positive as they took advantage of the opportunity to see government programs in action.

We wish you well with these hearings and offer the services of our network to help in any that we can. Thank you again for this opportunity.

Most Americans know very little about what government does. The services it provides are taken for granted since when it operates well, it is invisible. It is only when a program is in dysfunction that anyone pays attention. The result is high public skepticism about the effectiveness of government.

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#### PREPARED STATEMENT OF MS. KAMARCK

Mr. Chairman and members of the subcommittee: I'm Elaine Kamarck, Senior Policy Advisor to the Vice President. It's a pleasure to be here today to tell you about the National Performance Review, and our efforts to reinvent the Federal Government.

It started with President Clinton's announcement on March 3 of an effort "to redesign, to reinvent, to reinvigorate the national government." He put Vice President Gore in charge of a 6-month effort to make the government work better and cost less.

The National Performance Review (NPR) is a government-wide effort to change the way government works, and to spread the quality revolution that has swept America in the past fifteen years through the Federal Government.

The work of the NPR is being done in the Cabinet Departments and in the larger agencies, as well as by a group of civil servants who are agency representatives under my supervision. We look forward to working with the Congress as well, because much of the promise of government that works better and costs less can only be realized by a cooperative effort involving the executive and Legislative branches of government.

We are guided by a simple set of four principles.

1. We believe a government that puts people first serves its customers—customers ranging from taxpayers to Head Start parents to the new Social Security recipients to local governments. The Vice President often talks about the customer service revolution, and about making government "customer driven," like the best private sector companies are.

2. We believe a government that puts people first *empowers its employees* by freeing them from mind-numbing regulations, by delegating authority and responsibility, and by providing them with a clear sense of mission.

3. We believe a government that puts people first helps communities solve their own problems. It encourages and steers, it doesn't impose solutions that were designed a thousand miles away, in Washington, on the theory that one size fits all.

4. And finally, we believe a government that puts people first *fosters excellence*. It replaces regulations with incentives, it measures results rather than inputs, and fosters continuous improvement.

So that's our simplest set of principles—serve our customers, empower our employees, help communities solve their own problems, and foster excellence.

We applaud your efforts here today to hear from outstanding civil servants. We have organized our review of the Federal Government around the proposition that the Federal Government contains many talented and motivated people who are trapped in an outmoded system. Our goal in the NPR is to identify the systems which stand in the way of excellence and then, working with the Congress to establish new systems which allow for the promotion of excellence and accountability.

#### WHAT DEPARTMENTS DO IN THE NPR

President Clinton and Vice President Gore have asked the Departments and agencies to create their own reinvention teams to work with the NPR team until September, and to continue as change agents beyond then. They are also helping to staff the NPR team, and have been asked to designate two or three programs or units to be laboratories for reinventing government.

The reinvention labs are to serve as test beds for our principles, and as places where the transformation we are striving for can occur quickly. We look to the labs to:

- Create a clear sense of mission
- Encourage initiative
- Waive unnecessary regulations
- Demonstrate the immediate benefits of freedom and incentives
- Reward improved service or reduced cost
- Provide early examples of success to encourage the rest of government to get on with it.

#### THE NPR STAFF

When President Clinton announced the National Performance Review (NPR), he said, "We will turn first to Federal employees for help. They know better than anyone else how to do their jobs." That's why we put together a staff that includes about 80 percent full-time Federal employees. We are organized into two major sections, one that reviews the government by agency, and one that examines major systems in the government.

We have also tried to learn from what other governments have done. Our review has shown they have stopped doing things, they have pushed authority to line managers, they have pooled separate "pots" of money, they have used customer-driven performance measures, they have gotten rid of monopolies and increased completion, and they have removed layers.

We plan to have a report in September for the Vice President to give to the President that recommends a plan of action for "reinventing government." We expect that our report will include both administrative and statutory proposals. It will describe the government we want, analyze the barriers that stand in our way, summarize our progress to date, and finally, make government more effective, more efficient, and more responsive to the American people.

**SERVICE CONTRACT  
COST ENGINEERING  
(SCCE)**

**A LA SHOULD COSTING**

24TH ANNUAL DOD COST ANALYSIS SYMPOSIUM  
4-7 SEPTEMBER 1990

STEWS-RM-MC  
WHITE SANDS MISSILE RANGE, NM

SLIDE 1

**SERVICE CONTRACT  
COST ENGINEERING  
(SCCE)**

**A LA SHOULD COSTING**

STEWS-RM-MC

## NARRATIVE WITH SLIDE 2

IT IS OUR CONCERN AT WSMR THAT CONTRACTING OFFICERS (KOs) FREQUENTLY MUST NEGOTIATE FROM A "NAKED" POSITION. THAT IS, KOs ARE FREQUENTLY NOT ARMED WITH WELL-DOCUMENTED INFORMATION TO MAKE INFORMED DECISIONS CONCERNING THE REASONABLENESS OF CONTRACTOR PROPOSALS.

WSMR PREPARES INDEPENDENT GOVERNMENT COST ESTIMATES (IGCEs) WHICH SOUND GOOD IN PRINCIPLE BUT IN FACT OFTEN HAVE SERIOUS SHORTCOMINGS.

IGCEs ARE TOO OFTEN SIMPLE EXTRAPOLATIONS OF HISTORICAL PERFORMANCE. THEY ARE FREQUENTLY PREPARED BY PERSONS WHO DO NOT HAVE THE TIME, THE ORGANIZATIONAL INDEPENDENCE, OR THE TECHNICAL EXPERTISE TO TURN OUT A PROFESSIONAL PRODUCT.

SLIDE 2

**KOs OFTEN NEGOTIATE FROM A "NAKED" POSITION****IGCEs OFTEN HAVE SHORTCOMINGS****SIMPLE EXTRAPOLATIONS****PREPARED BY PERSONS WITH TOO LITTLE TIME,****NO ORGANIZATIONAL INDEPENDENCE,****INADEQUATE TECHNICAL EXPERTISE**

STEWS-RM-MC

## NARRATIVE WITH SLIDE 3

WE ALSO HAVE CONCERNS REGARDING REQUESTS FOR PROPOSALS (RFPs) FOR SERVICE CONTRACTS.

WAS THE SCOPE OF THE PLANNED CONTRACT CAREFULLY REVIEWED TO ENSURE IT ONLY REFLECTS PRESENT AND FUTURE REQUIREMENTS? OR ARE WE CARRYING ALONG ANY EXPIRED MISSION NEEDS?

WERE THE SPECIFIC FUNCTIONS CAREFULLY REVIEWED FOR CURRENCY AND FUTURE REQUIREMENTS? OR ARE ANY OLD FUNCTIONS INCLUDED WHICH ARE NO LONGER NEEDED?

WERE THE SKILLS NECESSARY TO PERFORM THESE FUNCTIONS CAREFULLY REVIEWED TO ENSURE THAT THEY SUPPORT CURRENT AND FUTURE FUNCTIONAL REQUIREMENTS? OR IS THERE INFLATION IN JOB SKILLS?

WERE THE NUMBER OF PERSONS OF REQUISITE SKILLS CAREFULLY REVIEWED TO ENSURE ONLY THE NECESSARY WORKFORCE IS HIRED TO PERFORM CONTRACT FUNCTIONS? OR DID THE REQUIRING ORGANIZATION ADD MANLOADING TO DO THINGS THEIR WAY SO THEY WOULD NOT HAVE TO RELY UPON IN-HOUSE SUPPORTING ORGANIZATIONS?

WERE REQUIREMENTS FOR MATERIALS CAREFULLY REVIEWED? AND ON AND ON.

THE WATCHWORDS HERE ARE "CAREFULLY REVIEWED"

SLIDE 3

## **CONCERNS REGARDING RFPs**

### **DID WE CAREFULLY REVIEW:**

**SCOPE TO INCLUDE ONLY CURRENT AND FUTURE NEEDS?**

**FUNCTIONS?**

**SKILLS?**

**NUMBER OF EMPLOYEES?**

**MATERIALS?**

**ETC?**

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## NARRATIVE WITH SLIDE 4

HOW DO WE LAUNCH A SCCE STUDY?

WE OUTLINE THE CONCEPT TO THE PROPONENT ORGANIZATION

— FORM AN AD HOC TEAM OF FUNCTIONAL EXPERTS FROM THE PROPONENT ORGANIZATION AND FROM OUTSIDE. THIS MIXTURE GIVES THE TEAM INSIDE INSIGHT ALONG WITH OUTSIDE OBJECTIVITY AND INDEPENDENCE.

— THE TEAM CHIEF SHOULD COME FROM THE PROPONENT ORGANIZATION TO LEND MORE CREDIBILITY TO THE STUDY.

— THE GOAL IS TO PREPARE A PACKAGE OF CONTRACTUAL SERVICES NEEDED BY THE PROPONENT AND ESTIMATE A FAIR AND REASONABLE PRICE THAT IS WELL-DOCUMENTED

HOW DOES THE PROPONENT BENEFIT FROM THE SCCE STUDY?

— THE KO RECEIVES A LEAN, MEAN PACKAGE THAT IS WELL DOCUMENTED TO BARGAIN INTELLIGENTLY AND MAKE AN AWARD AT A FAIR AND REASONABLE PRICE.

— THE PROPONENT IS MORE LIKELY TO GET ITS PACKAGE THROUGH THE SYSTEM FASTER. THE SCCE TEAM, WITH PERSONS FROM COORDINATING DIRECTORATES IN FROM THE BEGINNING, HAS A SHARED SENSE OF PURPOSE TO GET THE PACKAGE OUT FOR SOLICITATION ON TIME. OTHERWISE, WITH A PROPONENT-PREPARED PACKAGE THERE IS A TENDENCY OF THE COORDINATING DIRECTORATES TO FIND OUT "WHAT'S WRONG WITH IT?" THE RESULT IS MEMOS BACK AND FORTH AND MEETINGS. IN OTHER WORDS, SCCE STUDIES FOSTER TEAMWORK

SLIDE 4

## **LAUNCHING A SCCE STUDY**

### **OUTLINE TO THE PROPONENT**

- TEAM OF PROPONENT AND OUTSIDE PERSONS**
- TEAM CHIEF FROM PROPONENT**
- GOAL: "LEAN AND MEAN" PACKAGE WITH  
A WELL-DOCUMENTED COST ESTIMATE**

### **WHAT'S IN IT FOR THE PROPONENT?**

- KO HAS A WELL-DOCUMENTED PACKAGE TO  
BARGAIN FOR A FAIR AND REASONABLE AWARD**
- THE PACKAGE GETS THROUGH THE SYSTEM  
WITH LESS FUSS AND QUICKER**

### **I.E., SCCE STUDIES FOSTER TEAMWORK**

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## NARRATIVE WITH SLIDE 5

THE NEXT STEP IS TO SUBMIT A STUDY PROPOSAL, USUALLY COORDINATED WITH THE CONCERNED TEST DIRECTORATES, AND THE DIRECTORATES OF PROCUREMENT AND RESOURCE MANAGEMENT, TO THE COMMANDING GENERAL.

THE PROPOSAL INCLUDES A CHARTER FOR THE COMMANDER TO SIGN. THE CHARTER PROVIDES FOR THE FOLLOWING:

- DETERMINE SERVICE CONTRACT REQUIREMENTS, ENSURING THERE IS NO UNNECESSARY SCOPE, FUNCTIONS, SKILLS, MANLOADING, MATERIALS, OR DUPLICATION.
- DESIGNATES A TEAM CHIEF AND EMPOWERS HIM TO DRAFT PERSONNEL FROM ANY WSMR DIRECTORATE, SUBJECT TO APPROVAL OF THE DEPUTY COMMANDER.
- SPECIFIES TEAM COMPOSITION. THE TYPICAL TEAM HAS A TEAM CHIEF, INDUSTRIAL, MECHANICAL, AND ELECTRONICS ENGINEERS, OPERATIONS RESEARCH ANALYST, MANAGEMENT ANALYST, CONTRACT PRICE ANALYST, COMPUTER SYSTEMS ANALYST, AND CLERK-TYPIST. WE HAVE ALSO HAD A FINANCIAL SYSTEMS ANALYST, AND OPTICAL AND CHEMICAL ENGINEERS.
- PREPARE A FINAL REPORT SETTING FORTH THE GOVERNMENT (1) MINIMUM, (2) MOST PROBABLE, AND (3) MAXIMUM SUPPORTABLE NEGOTIATING POSITIONS. RATIONALE SHALL BE PROVIDED FOR EACH POSITION FOR THE KO'S USE IN NEGOTIATING A FAIR AND REASONABLE AWARD.

SLIDE 5

**WSMR CG ISSUES A CHARTER:**

- DETERMINE CONTRACT REQUIREMENTS, ENSURE NO UNNECESSARY SCOPE, FUNCTIONS, SKILLS, MANLOADING, MATERIALS OR DUPLICATION**
- DESIGNATES TEAM CHIEF**
- SPECIFIES FUNCTIONAL MAKEUP OF AD HOC TEAM TO INCLUDE SPECIALISTS IN FUNCTIONS OF PLANNED CONTRACT**
- FINAL REPORT SHOULD CONTAIN MINIMUM, PROBABLE, AND MAXIMUM JUSTIFIABLE PRICE**
- PROVIDE RATIONALE FOR EACH PRICING POSITION FOR NEGOTIATING A FAIR, REASONABLE AWARD**

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## NARRATIVE WITH SLIDE 6

SUCCESS IS DEPENDENT UPON HAVING THE RIGHT PERSON FOR TEAM CHIEF. THESE ARE OUR CRITERIA. HE/SHE SHOULD HAVE STATURE TO LEND CREDIBILITY TO THE STUDY RESULTS. ABLE TO "LEAN INTO THE WIND" IF THAT SERVES WSMR, THE DOD AND TAXPAYER BEST. ABLE TO LAY DOWN THE STEPS TO ACCOMPLISH THE STUDY OBJECTIVES AND EXPLAIN THEM CLEARLY. BE ABLE TO LEAD AND GET TEAM MEMBERS WORKING QUICKLY. SOMEONE WHO GETS THINGS DONE. THE TEAM CHIEF PUTS FORTH A PLAN WITH MILESTONES FOR DEFINITIZING COST DRIVERS.

— IS THE PLANNED SCOPE WITHIN THE MISSION OF WSMR? THE PROPONENT?

— DO ANY OF THE FUNCTIONS FALL WITHIN ANOTHER ORGANIZATION'S DOMAIN? IS THERE UNNECESSARY DUPLICATION WITH ANOTHER ORGANIZATION?

— HAVE SKILL LEVELS EDGED UP BEYOND THE WORK?

— CAN THE PROPONENT SHOW DOCUMENTABLE DATA JUSTIFYING FUTURE MANLOADING LEVELS?

— CROSSCHECK MATERIAL REQUIREMENTS. CERs VS INTERVIEWS. MATCH? APPEAR SOME MATERIALS HAVE BEEN MISSED? ON THE OTHER HAND, ARE WE PLANNING ON CONTRACTOR PROCURING TO BYPASS IN-HOUSE SOURCING?

— ARE THERE REPORTS OR REGULATIONS THAT COULD BE ELIMINATED OR MINIMIZED?

SLIDE 6

**CRITERIA FOR TEAM CHIEF SELECTION****STATURE WITHIN WSMR TECHNICAL COMMUNITY****INDEPENDENT THINKER****PEOPLE MANAGER****GOOD PLANNER****GETS THINGS DONE****TEAM CHIEF LAYS PLANS TO DEFINITIZE COST DRIVERS****SCOPE: CONSISTENT WITH MISSION? DUPLICATION?****FUNCTIONS: PROPONENT'S? DUPLICATION?****SKILL LEVELS: INFLATED?****MANPOWER LOADING: FUTURE WORKLOAD JUSTIFIES?****MATERIALS: OMISSIONS?****OTHER: HIDDEN BUT COST? IMPACT BE LESSENER?**

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THE SUB TEAMS DEVELOP COST ESTIMATES BASED ON IN-DEPTH INTERVIEWS WITH MANAGERS, DATA FROM EXTERNAL SOURCES SUCH AS INDUSTRY LABOR SURVEYS FOR THE AREA, AND EXTENSIVE DISCUSSIONS AND DEBATES WITH OTHER TEAM MEMBERS. THEY SEEK TO UNDERSTAND THE JUSTIFICATION FOR EACH SKILL LEVEL AND EVERY PERSON NEEDED AT THE SKILL LEVEL. THEY CROSS CHECK USING COST ESTIMATING RELATIONSHIPS OF MATERIALS, TRAVEL, OVERHEAD, ETC. FROM OTHER CONTRACTS. THEY CONDUCT GROUND-UP ENGINEERING ESTIMATES AND AVOID RELYING ON EXTRAPOLATIONS OF EXPIRING CONTRACTS. THEY MAY COLLECT INFORMATION DIRECTLY FROM THE CURRENT CONTRACTOR, IF NECESSARY, WHERE IN-HOUSE DATA ARE NOT AVAILABLE.

SKILLS, NUMBER OF EMPLOYEES, LABOR, MATERIALS, OTHER COSTS ARE ENTERED INTO SPREADSHEETS.

**SPREADSHEET FORMAT**

SLIDE 7

**FUNCTION NAME**

**FISCAL YEAR**

<b>LABR</b>	<b>LABR</b>	<b>BASE</b>	<b>OVHD</b>	<b>OVHD</b>	<b>TOTL</b>
<b>HRS</b>	<b>RATE</b>	<b>DLS</b>	<b>RATE</b>	<b>DLS</b>	

**ENGR LABR**

**OPTICL TECH**

**ETC**

**TOTL ENGR CST**

**OTHER DIR CST**

**MATL**

**ETC**

**TOTL ODC**

**TOTL CST B4 G&A**

**SUBTOTL \***

**\*BEFORE NON SPECIFIC FUNCTION CONTRACT COSTS**

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WE HAVE COMPLETED 3 SCCE STUDIES SO FAR. WHAT HAVE WE ACCOMPLISHED?

WE HAVE BENCHMARKS TO COMPARE AGAINST. THE PROPONENT HAD ALREADY RELEASED A TECHNICAL ACQUISITION PACKAGE INCLUDING AN IGCE.

THE FIRST STUDY WAS COMPLETED IN 1986 OF PLANNED SUPPORT SERVICES FOR THE HIGH ENERGY LASER TEST FACILITY. THE SCCE ESTIMATE WAS \$10 MILLION LESS THAN THE PROPONENT'S ESTIMATE AFTER ADJUSTMENTS. THE SCCE TEAM TRIMMED MANLOADING. THE ACTUAL CONTRACT COST IS COMING IN UNDER THE SCCE ESTIMATE, BECAUSE LESS CUSTOMER BUSINESS HAS FORCED CUTS IN MANLOADING.

THE SECOND STUDY WAS COMPLETED IN 1989 OF PLANNED ENGINEERING AND ANALYSIS SERVICES. THE SCCE FINDINGS LED TO AN AWARD \$8 MILLION LESS THAN WOULD HAVE BEEN AWARDED OTHERWISE. THE SCCE TEAM RECOMMENDED REDUCING SKILL LEVELS AN AVERAGE OF ONE GRADE LEVEL.

THE THIRD STUDY WAS COMPLETED IN 1990 OF PLANNED OPERATIONS AND MAINTENANCE SERVICES. SCCE STUDY FINDINGS LED TO A REDUCTION IN MANLOADING AND MATERIALS THAT ARE EXPECTED TO REDUCE THE FINAL AWARD AMOUNT MORE THAN \$20 MILLION BELOW THE PROPONENT'S ESTIMATE. THIS CONTRACT HAS NOT BEEN AWARDED AS OF THIS DATE.

SLIDE 8

**STUDIES WERE COMPLETED IN 1986, 1989, 1990  
WHAT WERE THE RESULTS?**

**STUDY 1 OF LASER TEST SUPPORT SERVICES:**

**SCCE ESTIMATE \$10M LESS THAN PROPONENT'S  
AFTER ADJUSTMENTS. ACTUAL COSTS COMING IN  
UNDER SCCE ESTIMATE.**

**STUDY 2 OF ENGINEERING AND ANALYSIS SERVICES:**

**AWARD \$8M LESS DUE TO RECOMMENDATION  
TO REDUCE SKILL LEVELS 1 GRADE LEVEL**

**STUDY 3 OF OPERATION AND MAINTENANCE SERVICES:**

**SCCE RECOMMENDATIONS LED TO REDUCTION  
IN MATERIALS AND MANLOADING THAT WILL LIKELY  
REDUCE AWARD OVER \$20M (NOT AWARDED YET)**

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NARRATIVE WITH SLIDE 9

THE DIRECTOR OF RESOURCE MANAGEMENT WELCOMES  
DIALOGUE FROM OTHER ORGANIZATIONS.  
THE POINT OF CONTACT IS SHOWN ON SLIDE 9.

SLIDE 9

**POINT OF CONTACT:****COMMANDER****WHITE SANDS MISSILE RANGE****STEWS-RM-MC (ATTN: GERALD CARSON)****WSMR, NM 88002-5058****(A) 258-2736; (C) 505-678-2736**

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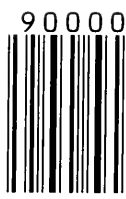




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