

# The State of the Union:

## A View of the Federal Government's Management from the Inside



Sure, as we heard the President say in his annual speech, the state of our union is strong; but what about its management? If you've been watching the news or paying attention at all, you'd have to admit that the state of management in the federal government is not what it should be. Admittedly, there has been intermittent progress. But recurring failures, like Healthcare.gov, remind us that we have a hard time learning the lessons of the past.

The U.S. Constitution calls on the President to "from time to time give to the Congress Information of the State of the Union." According to tradition, he takes the podium before Congress in January of each year to discuss recent achievements and proposed reforms. While he usually discusses major foreign and domestic policies, he rarely discusses management issues, even though these are the ones with a most direct impact on citizens. This year was no exception. However, there are other places we can go to find out what's working and what's not working in the federal government.

In July 2013, the President announced he had tasked his Cabinet to develop an aggressive management agenda for his second term that would deliver a smarter, more innovative, and more accountable government for its citizens. We expect that New Management Agenda to be announced in March when the President releases his 2015 budget or earlier.

In the interim, analysis of both agency Inspector General reports and surveys of the government management community suggest we know what the problems are just as well as we know their potential solutions. A new management agenda promises to address government's greatest management challenges, but if the past is prologue, achieving and sustaining progress will be a challenge.



## Agency Inspectors General Report Major Management Challenges

Each year, as required by law, Inspectors General report on what they see as their agencies' major management challenges. It's an annual tally of the biggest issues plaguing agency management, and unfortunately, it rarely changes from year to year. Together with the Government Accountability

Office's (GAO) biennial high-risk list, these issues are what puts the government's success and Americans' trust at risk.

Here is a summary of the 8 management challenges most often cited by Inspectors General at the 24 largest agencies:

Figure 1

FY 2013 Agency Management Challenges								
	IT Security	IT Mgmt	Financial Mgmt	Acquisition Mgt	Human Capital Mgmt	Grants Mgmt	Improper Payments	Internal Controls
USDA								
DOC								
DOD								
DoED								
DOE								
HHS								
DHS								
HUD								
DOI								
DOJ								
DOL								
DOS								
DOT								
Treasury								
VA								
EPA								
GSA								
NASA								
NRC								
NSF								
OPM								
SBA								
SSA								
USAID								
Total	18	17	16	15	12	8	8	8



Clearly, these challenges impact major swaths of the government’s operations and need more sustained, transparent oversight and attention. For example, at seven large agencies, all of the management challenges cited by the Inspectors General stayed the same from 2012 to 2013 – none were removed!

As an example, let’s take a quick look at the Improper Payments challenge. One of the government’s longstanding challenges has been making payments properly. If an organization makes trillions of dollars of payments each year, sometimes they’re going to get some of them wrong. However, there is evidence that, with persistent attention, the government is making significant progress. The practices agencies employed to achieve these advances should be studied and replicated so we can make even more progress.

Unfortunately, the manner in which agencies approach their error reduction efforts is inconsistent. GAO, for instance, found deficiencies in every key requirement of DOD’s implementation of laws intended to reduce payment error.

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 required Inspectors General to annually review agency efforts to correct improper payments. Grant Thornton has reviewed the Inspectors General reports for 20 large agencies to determine the status of agency efforts and see what best practices are reducing improper payment rates. For 2012, only 4 of the 20 agencies were totally compliant with IPERA, and 7 were clearly not compliant. However, we did identify some areas where agencies had made some improvements over time. The challenge is to disseminate this information to the agencies most in need of it.

Improper payments should be an area in which we celebrate real progress. However, because we don’t really know the extent of our payment error problem, it’s difficult to claim success against a major challenge.

Figure 2

Common Agency Improper Payment Challenges
Inadequate methodologies for risk assessment and sampling
Inaccurate methodologies for estimation/calculation and reporting
Unclear terminology and definitions
Insufficient documentation
Failure to fully implement corrective action plans
Non-performance of recapture audits

## Surveys of Chief Management Officers and Other Key Federal Executives

Each year, to get the perspectives of executives charged with managing the federal government’s operations, Grant Thornton teams with leading professional associations to survey senior officials in the various management functions.

- To take the temperature of financial management, Grant Thornton and the Association of Government Accountants survey federal agency Chief Financial Officers (CFO) and other financial management executives.
- To find out what’s going on with information technology (IT) in government, Grant Thornton and *TechAmerica* survey federal agency Chief Information Officers (CIO) and other technology executives.
- To get a perspective on performance management, Grant Thornton joins the Partnership for Public Service to survey agency Performance Improvement Officers (PIO).
- To review human capital management issues, Grant Thornton joins the Partnership for Public Service to survey agency Chief Human Capital Officers (CHCO).





- To find out what's happening with federal acquisition policy, Grant Thornton joins the Professional Services Council to survey agency and oversight acquisition executives.
- To find the latest on budgeting, Grant Thornton joins the *American Association for Budget and Program Analysis* to survey federal budget professionals.
- To better understand the unique issues of Defense finances, Grant Thornton joins the American Society for Military Comptrollers to survey Defense financial management executives.

A common thread across each of these surveys is that senior management officials running the government are very concerned about continual budgetary uncertainty and a dispirited workforce lacking in the key skills to deliver public services in a cost-efficient and effective way. Implementation of a comprehensive management agenda recognizing and addressing those concerns is vital to move our government forward in this era of budgetary austerity.

Summaries of these surveys follow, but you can also find the complete reports at [www.GrantThornton.com/publicsector](http://www.GrantThornton.com/publicsector).

### CFO Survey

In 2013, federal agency CFOs told us that their top concern was continuing to provide services in the face of unprecedented across-the-board cuts, a declining and dispirited workforce, and growing financial and other requirements. They suggested government needed to adjust expectations based on

the funding it has rather than the funding it wants. Government can do all the old jobs poorly, or it can do the priority jobs well. CFOs told us they crave a clear and consistent framework that helps them set priorities and accomplish goals important to their agencies.

In response to one of the questions from the survey, CFOs report they have seen little impact on new performance management requirements.

### CIO Survey

The 2013 survey of federal CIOs revealed that tight budgets are hampering the modernization of the federal government's IT. The survey found that many issues continued year-to-year, including:

- The system of government acquisition for IT assets is broken;
- Many experienced IT employees are retiring or leaving government instead of living with frozen pay, causing major challenges with a limited talent pool; and
- Cyber security concerns are increasing while a trained cyber security workforce remains elusive.

CIOs appear to have resigned themselves to flat or declining budgets and have worked diligently to find smarter, more efficient ways to operate amidst a growing tide of retirements and recruitment challenges. They also noted that continuing budget constraints are hampering the government from acquiring and implementing technological advancements that many Americans have come to expect in their daily lives.

In the survey report, CIOs told us where they are spending what money they have.

Figure 3

Has enactment of GPRA Modernization had an impact on your agency?				
	To a Small Extent or Agency	A Little	Somewhat	To a Very Great Extent
In-person	35%	27%	30%	8%



Figure 4

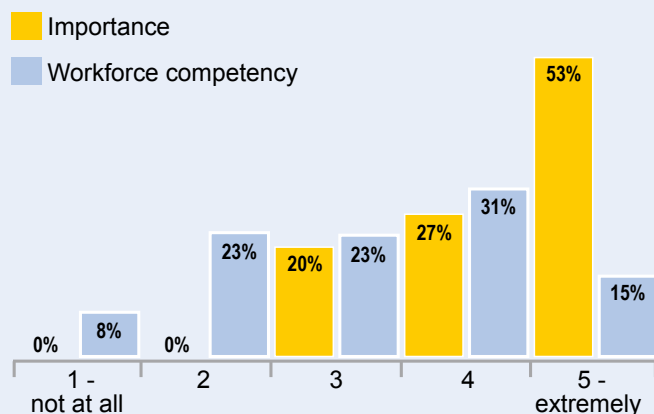
Average IT Spending by Category	
IT Costing, Planning and Business Case Development	8%
Cyber	9%
DME	21%
IT Infrastructure	28%
O&M	48%

## Acquisition Survey

Acquisition professionals told us in 2012 that things were not getting better. They were performing a “balancing act” as they attempted to address perennial concerns of budget uncertainty, workforce size and competency, and oversight workload demands from Inspectors General, audit agencies, and Congress.

The survey report revealed that while negotiation skills are important, many in the current workforce lack them.

Figure 5



## PIO Survey

Unlike what we heard from those who responded to the CFO survey, passage of the GPRA Modernization Act in 2010 gave agency performance management a real impetus, according to PIOs we interviewed in 2013. However, they also detailed obstacles that detour them. So far, most performance management actions are taking place at top agency levels; they have not yet filtered down to program levels. As a result, agencies have a distance to go and need continued support from agency leadership to make progress maturing agency performance management frameworks.

Depending on where they were on performance improvement when the GPRA Modernization Act passed, agencies have progressed to varying stages in the process. However, there was consensus among PIOs that:

- The focus on a few top agency goals has renewed enthusiasm for measuring performance;
- Many agencies are making progress instituting a performance culture, but data is not being used at all levels to inform decisions or budgets;
- Requiring quarterly review meetings was a huge step forward, bringing top leaders together to discuss performance goals, progress and obstacles, and to decide the agency’s next moves;
- Despite advances, many agencies are missing skills that contribute to a performance culture, and they find it challenging to figure out the best things to measure; and
- The 2010 law requiring the establishment of Chief Operating Officers (COO) and PIO positions has given visibility to senior agency





leaders who are actively contributing to agency culture transformation.

At a time of greater budget austerity, one would hope performance information enabled better budgeting. Here's what PIOs said about that.

Figure 6

To what extent is performance information used in making budget decisions?	
Not at all/Some	36.7%
Moderate	38.8%
Great/Very Great	24.5%

## CHCO Survey

With budgets and workforces declining, an aging workforce nearing retirement, increased turnover, and outdated or inadequate human resources (HR) systems and policies, the job of the CHCO is more challenging than it has been in decades according to CHCOs we interviewed in 2012. We're updating the CHCO survey now, but at that point in time, the top workforce management challenges for the federal government included:

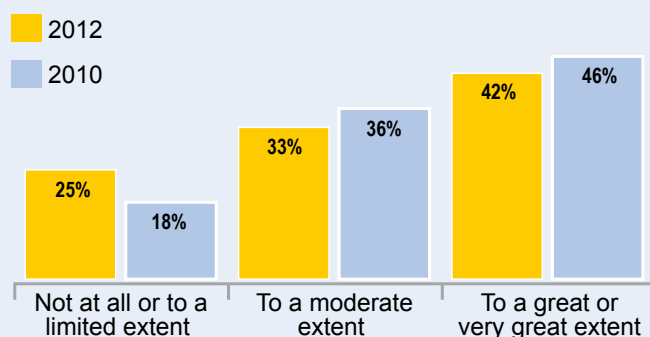
- *Declining budgets.* When resources are constrained, there are fewer employees to do the work, limited options for contracting out or investing in technology, and little money for training;
- *Higher employee turnover.* Government-wide, retirements are up, indicating that the long-anticipated retirement wave may have finally hit. Turnover may remain high for some time due to the combined impact of an aging workforce, a two-year pay freeze, rising anti-government sentiment, and increasing workloads;
- *Inadequate succession planning.* The inability to replace quickly, or at all, the knowledge and expertise of departing employees exacerbates the impact of those departures. Most CHCOs admitted they weren't keeping pace with the organization's needs

and that the talent pipeline was insufficient;

- *Lack of key HR competencies.* Gaps in the competencies needed by HR staffs are a continuing concern, although progress is being made in closing those gaps; and
- *Gaps in agency leadership skills.* CHCOs thought that too few mid-level managers and supervisors have the leadership capabilities to fill leadership gaps.

Of course, a CHCO's success is dependent on support from the top. It looks like most CHCOs are getting the seat at leadership's table they require to be successful.

Figure 7



## Federal Budget Professionals Survey

The 2013 survey revealed frustrations with a budget process that is not working as it should and could. The survey found that budgeting today is more critical than ever because of the widening gap between what government wants to do and what it can afford to do. But instead of the important policy decisions, headlines are dominated by talk of continuing resolutions, sequesters, debt limits, and government shutdowns.

Like many Americans, budgeteers are sorely disappointed, even angered, by the inability of politicians to resolve government funding problems. But unlike most Americans, they have front-row seats at the debacle, and, better than



most people, they understand what is at stake. Agencies cannot implement strategic solutions today because of uncertainty. Instead, budgeteers, of necessity, have become masters of the band-aid solution – the quick, low-cost fix that pushes challenges into the future rather than solves them in the present. No matter how hard they work, the goal of sustainable budget processes remains a flickering mirage somewhere down the road.

The dual goal of finding additional resources and improving program performance could be achieved by reducing the extent of overlap and duplication among programs. But budgeteers tell us that’s not likely.

Figure 8

How difficult do you anticipate it will be for your agency to identify ways “to reduce fragmentation, overlap, and duplication”?	
Not at all difficult	8%
A little difficult	21%
Somewhat difficult	46%
Very difficult	25%

### Defense Financial Management Executives Survey

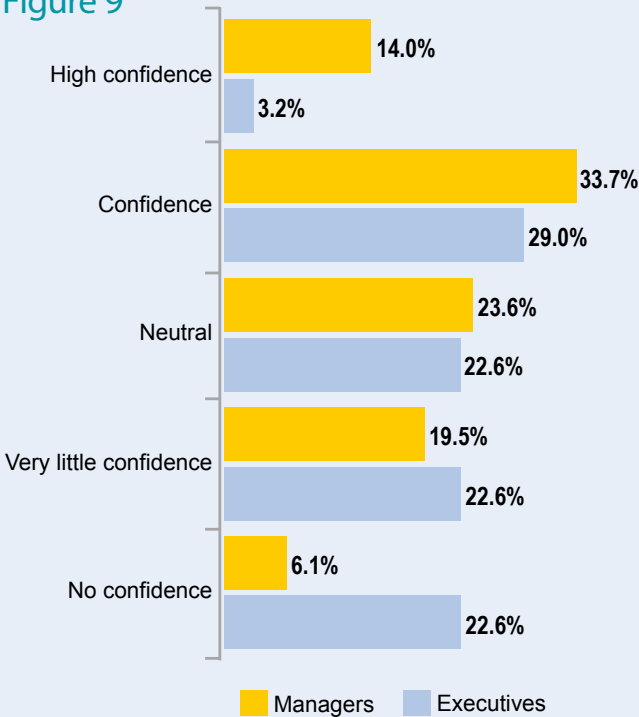
According to the 2013 survey, 94 percent of Defense financial management executives and managers said the challenges they face today are greater than ever. They say they face a perfect storm: fiscal uncertainty, declining worker morale, and increasing audit readiness demands. The survey report concluded that, with few exceptions, sequestration forced program managers to make reductions across all programs without discretion. The executives and managers voiced concerns over the continuing effects of these reductions on the budget cycles beyond FY 2013, as well as their impact on audit readiness.

Among the other major findings of the survey:

- Investments in IT have achieved a less than expected return on investment because they added complexity and increased workload;
- Across-the-board cuts exacerbated the already deep challenges of fiscal uncertainty, declining morale, and audit readiness demands;
- Audit and audit readiness could produce an ancillary benefit of identifying financial management improvements that result in real savings;
- Executives had less choice in acquisition strategy, which can limit the benefits they get from contracts. They want to see more focus on elimination of redundancy; and
- Expecting Defense organizations to maintain financial management momentum with fewer resources is unrealistic.

With high expectations for auditability at long last, Defense financial executives show mixed confidence.

Figure 9





## Summary

There are known solutions to all the challenges identified by agency Inspectors General and in chief management officer surveys. But those challenges seem to persist. A new President's Management Agenda could bring greater focus on the highest priority challenges and the solutions to address them. It's an important step to take on the path to restoring, at least in part, Americans' trust in their government.



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