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Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

June 28, 2004

The Honorable Christopher Cox
Chairman
Select Committee on Homeland Security
House of Representatives

Subject: *The Chief Operating Officer Concept and its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*

Dear Mr. Chairman:

In a May 18, 2004 letter, you observed that many management and integration challenges remain at the Department of Homeland Security (DHS) and to strengthen the departmentwide reforms and transformation underway at DHS the Select Committee is considering options such as the Chief Operating Officer (COO) concept to help address these challenges. At your request, this letter describes the roles and responsibilities of an effective COO and presents certain options that could serve to strengthen and streamline management functions in a department as large and diverse as DHS. As agreed, we have summarized our reports on the COO concept, organizational transformation, as well as DHS's management and transformation challenges.

On September 9, 2002, GAO also convened a roundtable of government leaders and management experts to discuss the COO concept and how it might apply within selected federal departments and agencies.¹ The intent of the roundtable was to generate ideas and to engage in an open dialogue on the possible application of the COO concept to selected federal departments and agencies. There was general agreement on a number of overall themes concerning the need for agencies to elevate, integrate, and institutionalize attention on key management challenges. Our prior work presented in issued reports on DHS's management and transformation challenges was done in accordance with generally accepted government auditing standards. Because this response is based primarily on our previously issued work and the non-audit work performed for the roundtable, we

¹U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

did not obtain agency comments on a draft of this letter. However, we are sending a copy of this letter to the Secretary of the Department of Homeland Security.

As DHS and other agencies across the federal government embark on large-scale organizational change initiatives in order to address 21st century challenges, there is a compelling need to elevate, integrate, and institutionalize responsibility for key functional management initiatives to help ensure their success. A COO or similar position may effectively provide the continuing, focused attention essential to successfully completing these multiyear transformations. However, the specific implementation of such an approach must be determined within the context of the particular facts, circumstances, challenges, and opportunities of each individual agency. In addition, certain mechanisms can serve to augment the COO position, and thus further strengthen and streamline management functions within an agency. These mechanisms include articulating the COO's role in statute in order to make clear its broad responsibilities, using performance agreements to clarify individual performance expectations, and setting a term appointment for the position to ensure accountability over the long term. Finally, strong and continuing congressional oversight can help determine how best to elevate, integrate, and institutionalize key management and transformation responsibilities in executive agencies.

DHS Faces Management and Organizational Transformation Challenges

DHS faces enormous management and organizational transformation challenges as it works to simultaneously establish itself, integrate numerous entities and systems, and protect the nation from terrorism. To achieve success, the result should not simply be a collection of components in a new department, but the transformation of the various programs and missions into a high-performing, focused organization.² However, the size, complexity, and importance of DHS's mission make the challenges involved especially daunting. As a reflection of this, in January 2003 we designated the implementation and transformation of DHS as high risk.³ This determination reflected the fact that DHS was formed from diverse components with a wide array of existing major management challenges and program risks. For example, one DHS directorate's responsibility includes the protection of critical information systems that we already considered a high-risk area. Also, many of the originating components—including the Immigration and Naturalization Service, the Transportation Security Administration, the U.S. Customs Service, the Federal Emergency Management Agency, and the U.S. Coast Guard—individually faced one or more major management challenge, such as strategic human capital risks, critical

²For additional information on the attributes of high-performing organizations, see U.S. General Accounting Office, *Highlights of a GAO Forum on High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment*, GAO-04-343SP (Washington, D.C.: Feb. 13, 2004).

³U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

information technology management challenges, or financial management vulnerabilities.⁴

The high-risk designation also reflected DHS's daunting management challenge associated with the process of organizational integration and transformation itself. During its first year of operations, nearly 180,000 employees from 22 different agencies with a combined budget of over \$30 billion became part of the new department. Moreover, we have previously noted that successful merger and transformation efforts can be much more difficult to achieve in the public sector than in the private sector.⁵ Public sector transformation efforts, such as that under way at DHS, must contend with more stakeholders and power centers, less management flexibility, and greater transparency than in the private sector. Organizational mergers of this magnitude carry significant risks, including lost productivity and inefficiencies. Furthermore, top officials in the public sector are typically political appointees who do not stay in their positions long enough to effectively address key transformation initiatives. Indeed, major mergers and acquisitions in the private sector often do not live up to their expectations, and in the short term, the experience of major private sector mergers and acquisitions has been that productivity and effectiveness actually decline.⁶ This can happen for a number of reasons. For example, attention is concentrated on critical and immediate integration issues and diverted from longer-term mission issues. In addition, employees and managers inevitably worry about their place in the new organization. The key is to adopt practices that minimize the duration and the significance of factors that reduce productivity and effectiveness.

The COO Concept Can Provide Needed Focus to Address Management and Organizational Transformation Challenges

The COO concept may provide federal agencies, such as DHS, with a tool to provide the long-term attention required to effectively address significant management challenges and transformational needs. Under this concept, the COO provides a single organizational focus for key management functions, such as human capital, financial management, information technology, acquisition management, and performance management as well as for selected organizational transformation initiatives. Establishing a COO position can enable selected federal agencies to address the following.

⁴GAO-03-119, and U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, GAO-03-102 (Washington, D.C.: January 2003).

⁵U.S. General Accounting Office, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

⁶U.S. General Accounting Office, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

Elevate Attention on Management Issues and Transformational Change

As a result of short-term priorities and other demands on the time of agency heads and their deputies, they generally do not have the ability to focus enough dedicated attention to management issues. However, the nature and scope of the changes needed in many agencies require the sustained and inspired commitment of the top political and career leadership. As mentioned earlier, many of the originating organizational components merged to create DHS brought with them preexisting management challenges. Top leadership attention is essential to overcome organizations' natural resistance to change, marshal the resources needed to implement change, and build and maintain the organizationwide commitment to new ways of doing business. We have previously reported that building an effective DHS will require consistent and sustained leadership from top management to ensure the needed transformation of disparate agencies, programs, and missions into an integrated organization.⁷ A COO position can provide one potential approach for achieving this goal.

Integrate Various Key Management and Transformation Efforts

By their very nature, the problems and challenges facing agencies are crosscutting and thus require coordinated and integrated solutions. However, the federal government too often places management responsibilities, such as information technology, human capital, or financial management, into "stovepipes" and fails to design and implement organizational transformation efforts in a comprehensive, ongoing, and integrated manner. In recent testimony before the Select Committee, DHS's Deputy Secretary reported that DHS has consolidated 22 different personal property management systems into 3 and expects to further reduce them to a single, departmentwide system over the next few years.

The COO concept is consistent with the commonly agreed-upon governance principle that there needs to be a single point within agencies with the perspective and responsibility—as well as authority—to ensure the successful implementation of functional management and, if appropriate, transformation efforts. At the same time, given the competing demands on deputy secretaries in executive branch departments across the government to help execute the President's policy and program agendas, it is not practical to expect that they will be able to consistently undertake this vital integrating responsibility. Moreover, while many deputy secretaries may be nominated based in part on their managerial experience, it has not always been the case, and not surprisingly, the management skills, expertise, and interests of the deputy secretaries have always varied and will continue to vary.

To take advantage of the added status and visibility a COO position would provide and in order to be successful, the COO will need to be among an agency's top leadership (for example, a new level two position with the title of deputy secretary

⁷GAO-03-102.

for management or principal under secretary for management). However, consistent with the desire to integrate responsibilities, the creation of a senior management position needs to be considered carefully with regard to existing positions and responsibilities so that it does not result in unnecessary “layering” at an agency.

Institutionalize Accountability for Addressing Management Issues and Leading Transformational Change

Management weaknesses in some agencies are deeply entrenched and long-standing and will take years of sustained attention and continuity to resolve. This is especially important since private sector experience with mergers and acquisitions suggests that over 40 percent of executives in acquired companies leave within the first year and 75 percent within the first 3 years.⁸ In addition, making fundamental changes in agencies’ cultures will also require a long-term effort. In our previous work, we have noted that the experiences of successful transformation initiatives in large private and public sector organizations suggest that it can often take at least 5 to 7 years until such initiatives are fully implemented and the related cultures are transformed in a sustainable manner.⁹ In the federal government, the frequent turnover of the political leadership has often made it extremely difficult to obtain the sustained attention required to make needed changes. The creation of a COO position can provide one way for institutionalizing accountability over the long term.

Certain Mechanisms Can Augment the COO Position

In the context of providing agencies with a tool to elevate, integrate, and institutionalize responsibility for certain key management functions and transformational efforts within federal agencies, Congress can further enhance the importance and authority of the COO position, and thus strengthen and streamline management functions within a department. For example, Congress could articulate the COO’s broad responsibilities in statute. In 2003, Congress created the position of Deputy Architect of the Capitol/COO; this official is responsible for the overall direction, operation, and management of that organization. Under the statute, besides developing and implementing a long-term strategic plan, including a comprehensive mission statement and an annual performance plan, the Deputy Architect/COO is to propose organizational changes and new positions needed to carry out the organization’s mission and strategic and annual performance goals.¹⁰

⁸GAO-03-669.

⁹GAO-03-293SP.

¹⁰Section 1203 of Division H, Title I, Pub. L. No. 108-7, February 20, 2003, (The Consolidated Appropriations Resolution, 2003). The Architect of the Capitol appointed the first COO on July 28, 2003.

Articulating the role and responsibilities of the COO in statute helps to create unambiguous expectations for the position and underscores Congress' desire to follow a professional, nonpartisan approach in connection with these positions. In addition, it provides, in effect, an implicit set of qualification standards and expectations that the incumbents will have leadership experience in the areas that will be within their portfolios. For example, under the statute, the Deputy Architect/COO is to have strong leadership skills and demonstrated ability in management, including such areas as strategic planning, performance management, worker safety, customer satisfaction, and service quality. Congress also set qualifications in statute when it created the position of Chief Financial Officer (CFO) at 24 departments and federal agencies. The CFOs are to "possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities."¹¹ In addition, Congress set the qualifications for the position of Chief Information Officer (CIO) at federal departments and agencies. CIOs are to "be selected with special attention to the professional qualifications" required for records management, information dissemination, security, and technology management among others areas.¹²

Another potentially important accountability mechanism to augment the COO role is to use clearly defined, results-oriented performance agreements accompanied by appropriate incentives, rewards, and accountability mechanisms.¹³ Performance agreements for senior leaders provide a potentially important mechanism for clarifying expectations, monitoring progress, and assessing accountability. In addition, we have reported on a number of benefits of performance agreements.¹⁴ Performance agreements can

- strengthen alignment of results-oriented goals with daily operations,
- foster collaboration across organizational boundaries,
- enhance opportunities to discuss and routinely use performance information to make program improvements,
- provide a results-oriented basis for individual accountability, and
- maintain continuity of program goals during leadership transitions.

¹¹Pub. L. No. 101-576, November 15, 1990, 104 Stat. 2838.

¹²Pub. L. No. 104-13, May 22, 1995, 44 U.S.C. §§3501-3521.

¹³U.S. General Accounting Office, *Results-Oriented Government: Shaping the Government to Meet 21st Century Challenges*, GAO-03-1168T (Washington, D.C.: Sept. 17, 2003).

¹⁴U.S. General Accounting Office, *Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements*, GAO-01-115 (Washington, D.C.: Oct. 30, 2000).

While performance agreements can be implemented administratively as was done in the Department of Transportation since the mid-1990s, Congress has also required performance agreements in statute as well as provided for performance assessments with consequences.¹⁵ For example, in 1998 Congress established a COO position at the Department of Education's Office of Student Financial Assistance.¹⁶ In 2000 we reported that the COO is to complete an annual performance agreement with measurable organizational and individual goals that the COO would be accountable for achieving. Further, the COO's progress in meeting these goals is to form the basis of a possible performance bonus of up to 50 percent of base pay, as well as any decisions to remove or reappoint him or her. The COO is to enter into subsequent performance agreements with the Office of Student Financial Assistance's senior managers. Similarly, Congress made it clear in statute that the Deputy Architect/COO may be removed from office for failure to meet performance goals. Congress also required in statute that annual performance reports contain an evaluation of the extent to which the Office of the Architect of the Capitol met its goals and objectives.

To help ensure accountability over the long term, setting a term appointment can help provide the continuing focused attention essential to successfully completing multiyear transformations, which can extend beyond the tenure of political leaders. As mentioned above, large-scale change initiatives and organizational transformations typically require long-term, concerted effort, often taking years to complete. Providing a COO with a term-appointment of about 5 to 7 years would be one way to institutionalize accountability over extended periods needed to help ensure long-term management and transformation initiatives are successfully completed. No matter how the position is structured, it is critical that the people appointed to these positions be vested with sufficient authority to achieve results.

Finally, through enhanced oversight, Congress will need to continue to be fully engaged in any ongoing discussions on how best to elevate, integrate, and institutionalize key management and transformation responsibilities and what role the COO concept should play in achieving this goal. The Select Committee's record of holding oversight hearings and its interest in considering a variety of potential strategies to strengthen the management functions at DHS provides a clear example of this engagement. For selected agencies, Congress may want to make the COO subject to Senate confirmation to ensure that nominees have the requisite leadership and management skills and the proven track records in similar positions to successfully address the challenges facing federal agencies. In creating such a position, Congress might consider making certain subordinate positions, such as the CFO, not subject to Senate confirmation.

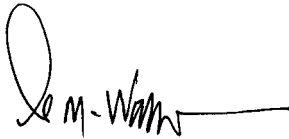
¹⁵GAO-01-115, and U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

¹⁶The name of the Office of Student Financial Assistance was changed to Federal Student Aid on March 6, 2002.

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We are sending copies of this letter to the Vice Chair and Ranking Minority Member of the Select Committee on Homeland Security, the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs, and the Secretary of the Department of Homeland Security. In addition, we will make copies available to others upon request. This letter will also be available on the GAO Web site at www.gao.gov. If you have any questions concerning this letter, please contact me on (202) 512-5500 or J. Christopher Mihm, Managing Director, Strategic Issues, on (202) 512-6806 or at mihmj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. M. Walker", followed by a horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

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