

SCOT M. FAULKNER

FAX COVER SHEET

DECEMBER 2, 1996

TO: Mr. Mike Dorsey
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SUBJECT: CAO Comments on "FINDING A" of KPMG Audit

Number of pages (including cover sheet): 39

If there are any problems with transmission contact: 304-535-2757.

MESSAGE:

Dan Meyer, and Arne Christenson, requested that I respond to "Finding A" of the KPMG Audit. They agreed that the official record must reflect my input to the section which directly relates to me personally. If you have any questions on this, contact them directly. If you have any questions on the substance of my submission contact me directly.

I can provide a discette of this material. Let me know if that would be helpful.

Thank you.

**IMMEDIATE OFFICE OF THE CHIEF ADMINISTRATIVE OFFICER
MANAGEMENT RESPONSE**

FINDING A:

Management has an overall concern with the lack of research and proper review of documents by the auditors. At no point do the findings reflect or reference over three feet of documents formally presented to the audit team. Nor do the findings reference any of the information imparted during one on one interviews with the Chief Administrative Officer. Further, requests from the Chief Administrative Officer for the audit team to conduct a follow-up interview with the Administrative Counsel were denied.

Management also finds it unusual, given its own 20 year experience reviewing audits, that an audit would devote six pages to the personal management style of an individual. It is also highly unusual to have such a personal critique, when at no point in the audit process, did the audit team reference that this was their mandate.

The audit also does not address, in any way, the fundamental issue of the role of the Committee on House Oversight (CHO) in helping or impeding necessary actions. In fact, several of the audit recommendations fundamentally mischaracterize the role of the CHO, granting it numerous management authorities that are not in House or Committee rules.

Regarding specific findings:

"CAO staff moral is low"

This statement is false.

Prior to the 104th Congress, the ABC television show "Seven on Your Side", had a special report on the "Last Plantation". In that program, ABC reported on the mistreatment of low level service employees within the House. At the beginning of the 104th Congress the image of CAO employees was that they were "patronage dregs", people who were unskilled, unproductive, and not really a part of the "real" House. Employee morale within the CAO was nonexistent in December 1994.

Using quality management principles the CAO, had his staff started the first ever recognition system for service personnel. During the holidays, CAO employees, for the first time ever, were included in official House festivities. At the same time, employees, buried under up to 12 layers of management, were allowed to "talk to anyone, about anything, anytime". The volumes of employee letters to the CAO were not reviewed by the audit team. All of them reference how, for the first time in their time working for the House (some up to 20 years), they were being treated as professionals and as human beings.

Inadequate communications

This finding is false and misleading. It does not reflect the documentation and interviews provided by the CAO.

There were no internal communications at all within the new CAO operation at the beginning of the 104th Congress. Many long time employees repeatedly stated (some in writing) that, prior to the 104th Congress, managers, and top executives never met with lower level employees, did not know their names, and never visited or conducted meetings in any of the front line facilities.

During the 104th Congress:

* For the first time ever, all managers within the CAO functions met, once a week. Beginning in June 1996, all CAO employees received a full report on these meetings, via telephonic audec. This is the only federal government organization that provides such real time communication to all employees. According to the American Society for Quality Control, the CAO is one of only a few large organizations in America with this kind of real time communication to all employees.

* For the first time ever, there was a weekly meeting of executive staff. This started, in January 1995, as a Friday meeting including immediate CAO reports, then it shifted (May 1996) to a Tuesday breakfast meeting for the AA's. In September 1996, this meeting became a 5:00 Wednesday or Thursday meeting of AA's, and the Strategic Planning Team to discuss and plan the FY98 budget. In November 1996, there were more and larger meetings directly relating to the transition to the 105th Congress. These project meetings, which included AAs, temporarily took the place of the AA meetings.

* For the first time ever, there was a monthly newsletter to all employees. The articles were generated and written by CAO employees. The emphasis of the newsletter was on recognition of employees and teams and their achievements in developing better services in the House. These examples of excellence were used as internal "benchmarks" or best practices for other parts of the CAO organization to adopt. The CAO also, personally wrote a monthly editorial outlining major themes of the operation.

* For the first time ever, all operations of the CAO were documented and communicated to all CAO employees as well as to the customers of the CAO (Members, Staffs, Committees). This documentation was in the form of a customer manual "HOUSESMART" and through the CAO-ONLINE website.

* The CAO personally participated in specific priority projects, meeting with the self-directed project teams, acting as a facilitator and resource. One such project was the elimination of the leased warehouse and furniture auction. In this instance, the

CAO worked in the warehouse, directly supporting frontline personnel, and facilitating real time problem solving. This effort resulted in an annual savings of \$235,000 and a one time auction revenue of \$139,000.

* Another project, the transition to the 105th Congress, the CAO acted as a resource provider for the 50 CAO employees who were developing the first ever online orientation site in American government and the creation of the first ever "TEAM-ONE" service team to help settle the 72 new Members into the House. This project including weekly general meetings with the 50 CAO staff, and facilitating problem solving and brainstorming sessions in the "Web Lab" to assure the success of this effort.

* The CAO frequently attended AA staff meetings throughout the organization.

* The CAO personally met with new employees, one on one, to greet them. At that time the Credo and Contract with Congress were explained. The CAO used these meetings to outline an open door policy and the management philosophy of open communication.

* The CAO personally taught classes, of his own design, on management (75 supervisors) and customer service (45 front line employees).

* The CAO personally conducted awareness sessions on quality management and problem solving to all 600 employees (September 1995 and June 1996).

* The CAO personally conducted orientation of House operations including tours of the House Floor as part of their "core competency" training.

It should be understood that some CAO executives and upper level line managers were not fully comfortable with the full empowerment of the CAO workforce and the high level of interaction the CAO enjoyed with all 600 employees. Several of the AA's are on record putting "gag orders" on their employees telling them to go through them instead of working with the CAO directly. "Reprisals" that were threatened were not from the CAO, but from the AAs and other managers for employees who worked outside of channels.

It should be noted that, in the planning for the 105th, several of these managers were either resigning or being replaced to open lines of communication previously blocked.

"HIR gag order"

This finding is false and misleading. It does not reflect the documentation and interviews provided by the CAO.

Prior to the 104th Congress, House Information Resources (HIR) was

known as "House Information Systems" (HIS). The older version of the organization was highly insular, having only eight customer service personnel, and working directly for the House Administration Committee. The current HIR organization has 40 customer personnel known as "technical support representatives" or "TSRs".

Prior to the 104th Congress, the HIS organization did not work directly with customers, there were no focus groups, and service was widely criticized as being nonexistent. However, as with other service units prior to the 104th Congress, as long as individual House Members protected individual employees, there was no need to worry about performance measurement, customer feedback, or personnel evaluations.

The 104th Congress changed all of this into a customer focused, business based system. Many within HIR/HIS were upset with losing their protections and their status as Committee staff. Their rate of pay, and leave policies changed, making many long for the old days and old ways.

While part of the new HIR supported and worked within the new service culture, others openly opposed the new ways. One method was by going around the established Executive Secretariat procedures to:

1. Provide official responses to the CHO without internal CAO clearance and coordination.
2. Unilaterally commit HIR and CAO resources to projects without notifying anyone else within the CAO.
3. Actively defy formal, documented CHO policies, including Committee resolutions.

In each instance major embarrassments resulted and service to the House was damaged. The most important one was the development of new uses of the Mainframe, up to a year after the CHO formally voted to transition to a client server system. This caused major concerns from the FFS Steering Committee and with the Inspector General.

In the wake of mounting evidence of HIR conducting its own, unauthorized agenda at variance with both the documented wishes of the CHO and CAO, the CAO issued a series of E-mail messages to HIR requiring them to adhere to the same procedures as the rest of the CAO. HIR attempted "malicious compliance" by taking this guidance to absurd levels, trying to state that the guidance related to service contacts in addition to policy. As plans for the 105th Congress began, a major rethinking and re-engineering of HIR was underway to address these matters.

It is unfortunate that the audit team did not review the complete record of E-mails and HIR activities relating to this issue. Also, it is unfortunate that the audit team used "gag order" as something official, when it was only used unofficially within HIR for any

effort to integrate them into the rest of the CAO.

"Historically there have been a series of scheduled meetings"

This finding is false and misleading. It does not reflect the documentation and interviews provided by the CAO.

First, as discussed above, there were no internal communications of any sort, let alone "scheduled meetings" prior to the 104th Congress. It is therefore misleading to say that anything that was brand new as of January 1995 is "historical" in any way.

Second, as the CAO discussed with the audit team, the most common finding in any large organization is "meetings for meetings sake". With weekly strategic planning meetings (some going two hours), 105th transition meetings (lasting 45 minutes to two hours), and the weekly Monday staff meeting (30 minutes to an hour) already in place, the need for yet another meeting during the last few months is questionable. The audit team also did not reference the documentation they received regarding the network of E-mails, sky-tel pagers, mobile telephones, and impromptu drop-bys that linked the CAO together minute-by-minute, sometimes seven days a week.

Thirdly, it is well documented in memoranda and E-mails that several AAs were repeatedly opposed by the CAO in their efforts to reverse the Leadership and Appropriations Committee mandated downsizing and cost reductions. These AAs are also well documented as having tried to slow down the implementation of quality management and worker empowerment, in favor of a more traditional "command and control" organization. Some AAs were also frustrated, in their efforts to become more independent, by the CAO's repeated references to everyone being part of "one big 600 person problem solving team", and that "anyone can talk to anybody, anytime, about anything". Had these AAs succeeded, the CAO organization, instead of modeling the open system, virtual organizations of the 21st Century mandated by Leadership, would have reverted to the inefficient and dysfunctional bureaucratic model that existed prior to the 104th Congress.

"the stated goals of empowerment and TQM were inconsistent with the management practices"

This finding is false and misleading. It does not reflect the documentation and interviews provided by the CAO.

Empowerment is earned and planned, not thrust on the unprepared and unwilling. This is the primary teaching of any quality management effort. In their sweeping misuse of TQM terms and practices, the audit team shows a fundamental misunderstanding of what they were reviewing. Management provided to the audit team three feet of material, numerous articles on the subject and how the methodology was being applied in the House. At no point do they reference any

of this material nor was there any series of discussions with the CAO on this matter.

In addition to the documentation, the audit team did not reflect other positive employee empowerment reforms which had never been attempted in the House prior to the 104th Congress:

* For the first time ever, flextime and flexplace arrangements were utilized to provide a higher quality of work life for CAO employees.

* For the first time ever, there were self-directed work teams, where professionals, from any part of the CAO organization, could take the lead in planning, directing, and completing major projects.

The audit team also did not review the communications in the CAO files relating to employees "blowing the whistle" on abusive management practices of AAs and senior managers directly to the CAO. In some cases these communications state "we are coming to you because we know you will listen" or "I am writing you, because you are the first leader I trust".

"all purchase orders intended for use by the CAO organization are reviewed and approved by the CAO personally."

The audit team makes an unwarranted leap on fragmentary information as it criticizes this practice. The auditors did not follow up on the CAO's suggestion to discuss this practice with other successful managers that were specifically referenced. The auditors also do not reference the \$8 million annual savings which occurred in FY96 by the use of this practice.

The auditors use highly emotional and unprofessional terms, like "environment of fear and mistrust" without referencing any documentation. They further reference the "intended environment of empowerment" without explaining that, in changing a 207 year old culture, such empowerment is the GOAL not the implementation device. They also do not reference the exhaustive documentation they received on the extensive "empowerment" and delegations that had been accomplished within the CAO regarding vouchering, budgeting, personnel hiring, self directed work teams, and daily management. In fact, there is no reference at all, that all of this used to be done, in highly unaccountable and politicized ways, by the House Administration Committee, and House Members prior to the 104th Congress.

The auditors completely ignore the documentation of the depoliticizing and professionalizing, of service operations. The implementation of the single most important mandate of the "Open Congress" initiatives outlined by the 104th Transition Team should have received some mention, but did not.

"Further evidence of the lack of communication within the CAO operation is demonstrated by the CyberCongress initiative."

This finding is false and misleading. It does not reflect the documentation and interviews provided by the CAO.

The auditors never reviewed the full E-mail files on this matter. While there were monthly reports from HIR on CyberCongress projects, at no point did these reports specifically reference that the Mainframe was being used and expanded in direct contravention of formal CHO policy. Once this became clear, fairly blunt policy guidance was provided by the CAO. Given that the CAO, the Inspector General, the CAO customer liaison office, the House Systems Administrators Association, the CAO Intranet staff, and the CHO all felt misled and set-up by HIR the use of the term "rogue operation" is not unwarranted.

"Poor planning and analysis"

This finding is false and misleading. It does not reflect the documentation and interviews provided by the CAO.

The audit team clearly did not read the one inch thick Transition Report given to them, which outlined House Leadership's mandate for the specific course of action. It also did not review the change management methodology file which outlined the proven and well established approaches to high impact reengineering used by the CAO team.

The audit team further ignores the volumes of weekly and monthly status reports which were used to monitor progress both internal to the CAO, and in formal scheduled reports to the CHO. As discussed later on in this document, the audit team ignores the fact that financial reforms were monitored and assessed through the Finance Office. This was well documented and even endorsed by the House's Inspector General.

Nor did the audit team read the one inch thick review of reform initiatives given to them, which clearly outlined how the reforms were identified, planned, approved, and implemented using established best practices from the private sector.

To assure that the official record is clear, the executive summary, "CHIEF ADMINISTRATIVE OFFICE OVERVIEW OF PLANNING FOR 1995 HOUSE REFORMS", is reprinted here:

CHIEF ADMINISTRATIVE OFFICE OVERVIEW OF PLANNING FOR 1995 HOUSE REFORMS

On December 10, 1994, the 104th Congress Transition Team, and Speaker-designate Newt Gingrich, met with Scot M. Faulkner, then the Chief Administrative Officer-designate (CAO), to discuss the methodology and procedures for reforming House operations. Rep. Jim Nussle, Chair of the Transition Team, proposed, and all agreed, that:

1. Mr. Faulkner and his team would rapidly identify possible reforms, based on common sense, and existing standards of good business practice. It was viewed that a team of outside "management experts" brought in with the new CAO would have the time, objectivity, and skills to draft the first list of reforms, instead of depending on existing staff from Member or Committee offices (many of whom were either busy with the "100 days" legislative agenda or unfamiliar with "business process reengineering").

2. An independent audit team (selected in early January 1995) would conduct a more in-depth analysis of pre-existing systems and procedures and provide additional ideas for reforms by July 1995. It was intended that some of these findings would validate the ideas and actions generated in Item #1.

3. Mr. Faulkner and his team would present their list of possible reforms to a steering group incorporating the Transition, Leadership, House Oversight, and Legislative Branch Appropriations early in 1995.

4. At that time the steering group would divide the CAO's list of potential reforms into "do and not do" categories. The "do" reforms would then be further divided based upon whether they could be accomplished through administrative action by the CAO or require additional action by other forums. This determination was based on both existing House Rules and on the potential need for "political cover" to assure the successful implementation of the reforms by showing that the reforms had the full and formal backing of the Leadership of the House.

In late January 1995, the CAO and his group of 18 management professionals presented their list of 75 reform proposals to the steering group. All 75 reform proposals were approved as "do" reforms during the 104th, with a priority list established.

The next step was to flow chart the implementation steps for each of the 75 reform proposals. GANTT charts were developed by the Associate Administrator with authority over the function to be reformed. A two day "mini-retreat" was held in late February 1995, where each of the 75 reforms and their implementation plans were reviewed by the entire CAO reform team, staff from the Transition, Leadership, Appropriations, House Oversight, and 8 auditors. These professionals took up to several hours per reform to fully assess what was required to implement the proposed reform action (see photos of this session). The respective roles for the CAO, House Oversight, and Appropriations were identified (see spread sheets). Eventually the required actions and final

decisions were identified under "Staff Recommendation" after another two weeks of review by the House Oversight Committee in early March 1995.

Throughout this process, key CAO staff offered items for consideration from their areas of functional responsibility. The full group brain stormed and evaluated possibilities, selecting some for more thorough analysis. The CAO's staff continued to develop, in more detail, those proposals and implementation schedules with ongoing House Oversight feedback.

In June 1995, the CHO approved specific CAO recommendations which required a Committee vote. Beginning in July 1995 the CAO presented monthly status reports to the CHO documenting the progress of the implementation of these reforms. Once adopted, all 75 reforms were tracked on a weekly basis by the respective Associate Administrator and distributed CAO-wide. Reform pieces continue to be tracked as needed by the Executive Secretariat and Internal Controls and Continuous Improvement.

CHIEF ADMINISTRATIVE OFFICE PLANNING FOR 1995 REFORMS

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"the CAO sought to implement changes without going through the necessary rigorous planning and analysis process to document the costs, benefits, and implications of planned changes".

Once again, the audit team clearly did not read the one inch thick Transition Report given to them, which outlined the specific course of action to be taken by the CAO team. Nor did the audit team read the one inch thick review of reform initiatives given to them, which clearly outlined how the reforms were identified, planned, approved, and implemented. The audit team did not reference the material provided by the CAO that showed the role played by Price Waterhouse which was to supplement, with more detail, the initial findings and analyses of the CAO team.

Further, the audit team, by stating that the "CAO sought to implement changes without going through the necessary rigorous planning and analysis process" are making a unilateral and obsolete value judgement on what is the best method to accomplish high impact, revolutionary management change. This finding completely ignores a full file folder provided them on change management methodology. That file references the rapid change approach which is now advocated by major business schools, Baldrige Award winners, Fortune 500 companies, and every credible management theorist writing today. Peter Drucker, the most highly regarded management theorist in the world today states "strike like lightning" when he describes strategic change. The change management principles of Drucker, Covey, Deming and Crosby were espoused by the Speaker, and the Transition Team. The CAO team was under an explicit mandate by the Transition Team and Leadership to use these approaches in all they do.

The audit team does not discuss the fact that these approaches definitely worked. The audit team does not reference the material provided them on the fact that the rapid reform model, used during the 104th Congress, was:

1. named one of the "Top 100 Innovations in American Government" by the Ford Foundation and Harvard University.
2. named one of the "quality management stories of the decade" by the American Society for Quality Control.
3. used as the preferred change model by the International Association of Parliamentarians and Parliamentary Scholars. In fact 40 national parliaments are currently in the process of studying the House's model for adoption.
4. used as the preferred change model by the Council of State Governments.
5. personally endorsed by world renowned management practitioners Philip Crosby, Bill Marriott, and Arnaud Figenbaum.
6. taught as the preferred change model by the Business School of the University of Maryland.

Management queries the audit team: if what was done was so flawed, how did \$148 million get saved in less than two years? Management also wants to know from the audit team: if what was done was so wrong, why have these major professional groups, and world renowned management experts, positively recognized or adopted this methodology?

The role of CHO

The audit team repeatedly references delays in CHO approval of reforms and the lack of material to meet CHO needs as a deficiency on the part of the CAO. The audit team was provided extensive documentation on the jurisdictional issues which impeded the reforms, but make no reference to them. This is a fundamental oversight, as the CHO role is integral to what did and did not happen in the 104th Congress. In fact, a detailed analysis conducted on instruction from the Speaker's Office, complete with documentation, was completely ignored by the audit team. To assure a complete official record this analysis is included as **ATTACHMENT A** to this management response.

The most recent proposed reorganization of the Finance Office

The audit team completes its list of specific examples with the most recent submission to the CHO. Once again the audit team draws the wrong conclusion using partial data. Given the strategic nature of the Finance reorganization and staff expansion, a general DRAFT proposal went forward to the CHO, **AT THE CHO'S REQUEST**, so that a consensus could be reached as to whether the proposal meet various needs. Once a consensus was reached, the more extensive and detailed package would be readied. Such DRAFT approaches have been used for two years with the CHO to save rework. None of this was discussed in the audit findings.

"Insufficient goal setting and monitoring"

This finding is false and misleading. It does not reflect the documentation and interviews provided by the CAO. This documentation clearly shows the use of established strategic planning models by the CAO. Extensive memoranda outlining the last two years of the CAO's strategic planning process, including, worksheets, meeting schedules, and meeting minutes were all ignored.

In addition, the audit team does not reflect the fact, known and endorsed by the Inspector General, that the monitoring of implementation of finance related audit recommendations and strategic planning was part of the Finance Office, not the Immediate Office of the CAO. Management is concerned that the audit team could overlook something so basic and well documented, in the making of their findings and recommendations.

Once again the audit team uses CHO feedback from a limited contact with Committee staff, not Members, to critique CAO operations, but never addresses the core issues addressed in the February 1996 document which they have [APPENDIX A]. In addition, the audit team does not reference any of the extensive material provided them on the transition (referenced above) or any of the exhaustive documentation on the CAO strategic planning process.

Management will cede the audit team that additional process measures are necessary. However, the audit team does not note that, prior to the 104th Congress there were no measurements at all. Starting in September 1995 the CAO began to require monthly, weekly, and on some cases daily, measures to monitor operations. In one of the "empowering" efforts, managers were allowed to measure what they thought was relevant and report this to the CAO.

Established and proven quality management practices states that measures forced from the outside will be poorly done and never last. Only by having individuals realize the value of measurement themselves will relevant, accurate, and lasting measures be developed. This is why the CAO began slowly, but methodically to use measure and to refine them. In each monthly issue of the CAO CONNECTION a "chart of the month" was featured as a way to show how measures can be helpful. The audit team itself sat through a Monday staff meeting where measurement was discussed and the full depth of its support in the organization was clearly displayed, yet none of this is referenced in the findings.

There is still improvements to be made before the CAO operation has an integrated measurement and monitoring system to match the best practices in the field. The audit team does not discuss the extensive comments made by the CAO on how the next steps toward this goal were being put into place:

1. The teaching and deployment of more sophisticated measurement tools, like statistical process control, were already underway.
2. The evolution from activity measure to outcome measure, in line with the Government Performance and Results Act (GPRA) had begun with m CyberCongress and training measures in September 1996. Furnishings was the next target, with all of CAO having some form of outcome measures by March 1997.
3. A full scale "cost of quality" analysis to be done in the first part of 1997.

Management reminds the audit team that what has occurred in the 104th Congress, and what must continue in the 105th Congress, is a fundamental change in the work culture. This does not happen through imposing activities, forms, or organization charts, it happens through changing mindsets and frames of reference (paradigms) one individual at a time over a 3-5 year period. This change model consolidates and institutionalizes the gains from the

kind of rapid reengineering conducted at the beginning of the 104th.

Recommendations:

1. Encourage regular communications between Members, Committees, and other customers and CAO operational units.

Agree. That is why TEAM ONE, ONE CALL, CAO ONLINE, the Customer Liaison Office, and the Decision Support Center have already been established (some as early as April 1995). More can always be done, and will. The new WELCOME Online site on the House Intranet is the first major breakthrough merging quality management and information technology. The 52,000 hits a day (November 25, 1996) shows the great potential of such tools.

2. Develop, for Committee on House Oversight approval, a standard planning and decision-making package addressing all aspects of policy and operational reviews.

Agree. The February 1995 analysis for the Speaker outlines specific actions the can be taken [ATTACHMENT A].

3. Establish an annual CAO goal setting and monitoring process.

Agree. This already exists. During the 104th Congress the goal setting and monitoring progress has evolved to meet the evolving needs of the CAO organization:

* A rapid change model-based approach to goal identification and goal setting was used from December 1994-March 1995 for the reengineering.

* A more traditional model was used for goal setting from October-December 1995 to create the FY97 CAO Budget.

* An advanced, quality management based, model was used for goal setting from July-November 1996. This model, along with performance indicators which helped monitor and assess actions to date, were incorporated and used for creating the FY98 CAO Budget.

* With the further deployment of quality management tools, the use of more extensive and sophisticated measurements, and the opening of the Decision Support Center, the goal setting process for FY99 can reflect a true state of the art in goal setting and monitoring.