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PERFORMANCE
MEASUREMENT:

An Important Tool in
Managing For Results

Statement of
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Comptroller General of the United States



PERFORMANCE MEASUREMENT:
AN IMPORTANT TOOL IN MANAGING FOR RESULTS

**Summary of Statement by Charles A. Bowsher
Comptroller General of the United States**

Public officials must be able to better ensure our citizens that the government can effectively account for where their tax dollars go and how they are used. But doing this will require that federal agencies and Congress change the way they do business. It will require better information on program status and a change in management attitude. Also, agencies need more incentive to account for their results.

With the Chief Financial Officers Act as a foundation, I would like to lay out further steps that could be taken to improve accountability for program results.

- First, agencies need to clearly articulate their missions in the context of statutory objectives and, with regard to services, citizen expectations. These objectives need to be written in terms that can be used to judge progress toward achieving them. It is essential that agreement be reached between Congress, the Office of Management and Budget, and the executive agencies on realistic, outcome-oriented goals if they are to use the data to assess progress.
- Second, agencies need to develop implementation plans for the goals and objectives and specific measures of progress toward achieving them. Measurable interim targets should be set for agency operations so that the process of measuring progress can get started.
- And third, agencies need to report annually on their progress. Congress must be actively involved in overseeing agency performance in key areas. If Congress does not take performance results seriously, neither will the agencies.

Developing this framework will not be not easy. Our work to date in certain federal agencies and our discussions with officials from states, localities, and other countries suggest, that the necessary changes will take place gradually, be difficult, and will require a high degree of commitment from those involved. A key question that needs to be answered is: What needs to be done to begin moving the federal government toward a better focus on accountability for results? Additional legislation along the lines being considered by this Committee can help. Several steps the Committee should consider include: creating a framework for the development of measures, creating incentives for managers and Congress to use the resulting measures, sorting out agencies and programs by level of difficulty, starting with pilots, and sticking to a timetable.

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss how the development and use of program performance measures can be a valuable tool to help Congress and executive branch agencies improve government operations. Public officials must be able to better ensure our citizens that the government can effectively account for where their tax dollars go and how they are used.

But doing this will require federal agencies and Congress to change the way they do business. It will require better information on program status and a change in management attitude. Also, agencies need more incentive to account for their results. And, Congress needs to carry out effective program oversight to demonstrate to the executive branch that it will use the information provided to hold the agencies accountable.

Four types of reliable data are critical to effectively carrying out agency oversight. First, we must have the ability to track and report accurately on actual versus budgeted expenditures. Second, agencies must know where their key assets are and how effectively those assets are being managed. Third, agencies must be able to assess their unfunded liabilities and be able to anticipate future major problems so that action can be taken before a financial crisis develops. And last, agencies must be able to tie financial costs to program results.

The Chief Financial Officers' Act (CFO), passed in 1990 with the leadership of this Committee, was a critical first step toward obtaining this data. It provides the statutory framework to begin implementing key elements of a comprehensive financial management system that will permit government to provide better financial accountability to our citizens.

**FRAMEWORK FOR IMPROVING
ACCOUNTABILITY FOR PROGRAM RESULTS**

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- First, agencies need to clearly articulate their missions in the context of statutory objectives and, with regard to services, citizen expectations. These objectives need to be written in terms that can be used to judge progress toward achieving them. It is essential that agreement be reached between Congress, the Office of Management and Budget (OMB), and the executive agencies on realistic, outcome-oriented goals if they are to use the data to assess progress.
- Second, agencies need to develop implementation plans for the goals and objectives and specific measures of progress toward achieving them. Measurable interim targets should be set for

agency operations so that the process of measuring progress can get started.

- And third, agencies should report annually on their progress. Congress must be actively involved in overseeing agency performance in key areas. If Congress does not take performance results seriously, neither will the agencies.

Developing this framework will not be not easy. It will require extensive dialog between Congress and the executive branch and a long-term commitment from both. But the process is beginning to develop in some agencies. The Internal Revenue Service (IRS) recently restructured its strategic business plan to focus on what it considered to be its most important objectives--reducing taxpayer burden, enhancing voluntary compliance, and improving quality and productivity.

IRS found that developing strategies for achieving these objectives was a challenging effort. For example, one strategy it developed to increase voluntary compliance is "Compliance 2000." This is an effort to identify the root causes of taxpayer noncompliance and complement IRS' traditional enforcement focus. One of the root causes for noncompliance may be the complexity of tax laws and regulations. To address this root cause, IRS is trying to rewrite regulations to make them easier to understand, and it is in the process of trying to develop measures to determine their success. But, even if law and regulations are simplified, an equally difficult challenge of Compliance 2000 will be increasing IRS' emphasis on taxpayer assistance. This may require different work roles and behavior on the part of IRS employees.

While these longer term activities are underway, IRS is developing the underpinnings by improving its ability to measure costs. It has identified and plans to report the overall costs of its various programs, such as returns processing, examination, and taxpayer services. These data, when related to measurable outputs of the agency, will provide IRS, Congress, and the public with useful financial indicators while work proceeds on the program performance measures tied to its long-term objectives.

IRS has been working on developing its strategic plan and measures since 1984. More recently, the Department of Defense (DoD) created the Defense Business Operations Fund to increase the cost visibility of its industrial and commercial-type activities. With operations and maintenance outlays of about \$86 billion in fiscal year 1992, allocating resources on the basis of unit cost is intended to encourage managers and employees to provide their products and services at the lowest cost. Military customers establish requirements and are charged for what they consume, while those who provide products and services are expected to satisfy customer requirements at the lowest cost.

Beginning this fiscal year, DoD published a clear set of objectives for the fund. One of these objectives is to establish and measure unit costs, an essential element in any business activity. The fund also provides the capability for linking investment requirements with operational costs. For example, if a manager can determine that an investment will help achieve long-term lower costs, there is more incentive to make that investment. All capital investments are depreciated and those depreciation costs become part of the cost of providing a product.

In the long run, DoD will be able to use the unit costing approach to allocate resources on the basis of what it actually costs to do the job. Also, because it focuses on output, it will require employees to know what they produce and establish effective customer-supplier relationships. According to DoD, this will require a change in the organizational culture and roles of managers.

The IRS and DoD efforts are underway. But, it is also important to begin developing performance measures in service delivery agencies. I would like to illustrate why by using the Department of Veterans Affairs (VA) as a hypothetical example.

VA, as a whole, had net operating costs of about \$28 billion and assets valued at \$35 billion in 1989. It also operates 172 hospitals and employs more than 200,000 health care workers. VA has recently worked with veteran groups and congressional oversight committees to prepare a strategic business plan. But VA, like many other federal agencies, currently has no formal secretarial-level monitoring of progress towards achieving its strategic goals. In our ongoing management review of VA, we have found that its data system for its medical operations--like those in many federal agencies--is not structured to support this effort. For example, VA wants to emphasize the health care needs of elderly veterans. But, it must first more precisely define the patient population it serves. VA recognizes this and is in the process of developing better information.

If VA had a strong performance measurement system tied to its strategic vision, why would it be valuable to managers and policymakers and what would it look like? Essentially, a performance measurement system would better position the Secretary to respond to the changing needs of the veteran population, identify opportunities to improve the quality of VA's services, and improve agency management and accountability.

On the medical side of the department, for example, there would be a set of core indicators measuring progress toward achieving mission objectives. These would be available at each management level. The Secretary might designate a relatively small number of the core indicators as being key measures of success, such as

the utilization rate of VA hospitals or the time veterans have to wait to be served.

At the next level, regional directors may choose to have additional indicators that disaggregate the core indicators to identify which hospitals may be experiencing specific performance problems, such as excessive mortality rates for certain types of medical procedures. At the individual hospital level, local managers may choose to disaggregate the core measures further so they could look at, for example, customer satisfaction with the quality and adequacy of specific services.

The point is that managers at all levels would have the core indicators and be able to use them to gauge the agency's progress in meeting its mission. Also, other policymakers could use the core indicators to help assess VA's performance in reaching its long-range goals.

However, VA can also give us a picture of the difficulties that will arise in developing and using measures because the implications will reach outside VA. We know from prior experience there will be difficulties deciding what will be done when the measures identify poor performing or underutilized hospitals. Will the political dynamics of, for example, the need for local employment, override judgements regarding the cost-effectiveness of certain programs? Will public knowledge of the true costs of services create difficult dynamics among veterans groups, the medical community, or taxpayers?

REPORTED STATUS OF MEASURING PROGRAM PERFORMANCE IN THE FEDERAL GOVERNMENT

Based on our survey of the status of performance measurement in federal agencies today, IRS and the DoD Business Operation Fund seem to be among the few agencies that have begun to reshape their operations around their missions and to focus on results. However, we found two forces that seem to be more broadly influencing the development and use of performance measures in federal agencies. One involves agency efforts, primarily related to Total Quality Management, and the other focuses on efforts mandated by the CFO Act.

At this Committee's request, we surveyed 103 federal agencies to determine the extent to which they had created strategic goals and collected at least some measures of progress toward meeting those goals. Agencies reported the following:

- About two-thirds said they had a single long-term strategic plan, and three-quarters said they collected a wide variety of data to assess program performance. However, when we visited a sample of these agencies, we found that most used the information at the program level. While this information

was useful at the program level, it was fundamentally different from that needed to manage or make strategic policy decisions for the agency as a whole.

-- Only 9 of the 103 agencies reported having an administrative infrastructure in place for developing and reporting results. By this we mean that there were few offices that routinely collected performance data and prepared regular reports on progress toward goals set in strategic plans.

Also, in follow-up visits to over a dozen agencies we found that they used their performance measurement systems for a variety of purposes. Some were using them to ensure organizational accountability and efficiency. Others were using them to make budget decisions and determine individual employee rewards. And, in recent months, there has been increased activity toward developing results-oriented performance measures.

With regard to the CFO Act, I believe OMB has developed a useful strategy for implementing the act's provisions that require performance measurement information in financial statements. That strategy calls for a discussion in an overview section of (1) how well the mission of the reporting entity is being accomplished and (2) what, if anything, needs to be done to improve either program or financial performance. OMB believes, and we agree, that including this type of information will help increase the usefulness of financial statements to Congress and agencies. In addition, OMB plans to expand the development of program performance measures beyond the financial statements and will shortly pilot the development of strategic level measures in several agencies.

ISSUES FACING THE COMMITTEE AS IT CONSIDERS LEGISLATION

Given this baseline of federal activities, what do we need to do next? Fundamentally, what needs to change is the way leaders of our governmental institutions manage. Legislation along the lines being discussed by this Committee can help us get started. But, our work to date in certain federal agencies and our discussions with officials from states, localities, and other countries suggests that the necessary changes will take place gradually, be difficult, and will require a high degree of commitment from those involved. I would like to offer several suggestions to begin moving the federal government toward a better focus on accountability for results.

Create a Framework

As I said earlier, the first step should be legislative action to create a framework that will have agencies first, focus on articulating their mission and goals; second, develop

implementation plans and measures tied to the mission; and third, report annually on program results.

Create Incentives for Use of Measures

The second step is to create incentives for managers to use the measures. This is more difficult because you cannot force agencies to generate useful, valid information and force top agency managers and Congress to use it when they make decisions. So how could you stimulate the desired action?

The traditional option has been to try to tie measures to the budget process. Such information should clearly be used to supplement decisions made in the budget process. However, if there is too strong a tie, this increases the potential that only positive results will be reported, thereby diminishing the value of the information. Agencies will naturally fear the use of performance measures as a tool to cut their budgets, especially if the measures show that programs did not adequately achieve the goals. As a result, there is no incentive to report honestly.

We found this to be the case several years ago when OMB attempted to use performance data in the Social Security Administration to determine staffing resource levels. There, we found Social Security changed its technical workload standards over a period of years to avoid staffing cuts as its workload dropped. For example, the disability income claims workload decreased about 35 percent between fiscal years 1979 and 1984. But each year, a different standard was computed and used to determine the staffing required for processing these claims.

The Canadians tried tying measures to their budget process in the early 1980s and failed for similar reasons. A strong tie to the budget process was also a contributing factor in the failed U.S. experiences with Program-Planning-Budgeting Systems in the late 1960s and the Zero Based Budgeting effort in the late 1970s. There are instances where a close tie to the budget has been successful, such as in Sunnyvale, California, which has successfully used performance-based budgeting for more than a decade. But this seems to be the exception rather than the rule.

Another option for creating incentives might be to give agencies more flexibility in exchange for being more willing to be accountable for results. Great Britain is doing this. For example, the Secretary of State for Employment granted the British Employment Service the flexibility to shift funds between appropriation accounts, waived certain governmentwide administrative requirements, and allowed the Service greater authority to carry over appropriated funds to future years.

In return, the chief executive of the Employment Service had to commit to increased accountability for defined results or

outcomes. For example, he agreed to specific quantitative targets, such as 1.3 million job placements for unemployed people in fiscal year 1991-92, and a 95.5 percent level of correct payments of unemployment benefits. At the end of the year, the Employment Service must issue a report on its progress toward each of these quantitative targets and include an explanation for any deviations. This approach is to be expanded to cover much of the British civil service by the end of the decade.

Some state governments in the United States are experimenting with a similar approach of "tradeoff of controls for flexibility." Florida is restructuring its Department of Health and Rehabilitative Services. That restructuring involves redefining its mission to make it more customer-responsive and performance-driven. It is doing this, in part, by providing resource management flexibility in exchange for greater accountability. For example, the governor has proposed revising the department's budget structure by consolidating accounts, allowing funds to be transferred between accounts, and exempting staff positions and salary rates from central control. In return, the department secretary is to negotiate performance-based contracts with local health and human services boards tied to strategic objectives, consumer satisfaction, and unit costs.

Taking this kind of approach with federal programs and agencies would mean major changes in the way government goes about its business--from a focus on correctly spending allotted dollars to managing for results.

Sort Out Agencies and Programs by Level of Difficulty

Some judgements will have to be made on which agencies are ready to develop the framework we propose and which are not. Some agencies and programs will find it more difficult to develop measures than others. Some have more advanced measurement and data systems than others. Also, different types of measures will be needed for different types of agencies because their missions and roles vary dramatically.

In addition, we may have difficulty developing goals and measures in some areas, such as state and local grant programs which constitute about 9 percent of the federal budget. For these types of programs, Congress, executive agencies, and states and localities will need to reach consensus on how to measure progress in areas that are not under the complete jurisdiction of any level of government. The ongoing effort to develop national education standards is an example of the political and technical difficulties embedded in these areas.

It may also be difficult to measure the results of research and development activities--like those operated by the National

Institutes of Health and the Defense Advanced Research Projects Agency--which represent about 4 percent of the budget. But, while it will be more difficult in some areas, we can get started elsewhere, especially in federal programs that administer services--like Social Security and VA--which represent about 35 percent of the budget. So early on, agencies and major programs need to be categorized by the degree of difficulty associated with developing measures.

Begin With Pilots

Given the major changes that will be required to the way agencies and Congress assess performance, we think it is important to begin with pilot projects. The reason we need pilots is that we should not underestimate the difficulty of developing performance measures and ensuring they are used. We found pilots to be a valuable tool for working out the details of implementation under the CFO Act.

Stick to a Schedule

Another lesson we learned through the implementation of the CFO Act was that timetables can create a sense of urgency. Timetables should be set for implementing these pilots within the overall framework or this effort will not be taken seriously. We have to ensure that requirements for the development and use of performance measures are not just another paperwork exercise.

CONCLUSION

Mr. Chairman, developing useful performance measures that are used will not be easy. Strong leadership is absolutely critical if we are to move in this direction because the path is fraught with political risk. But given the degree to which people have lost confidence in the ability of the federal government to effectively carry out its missions, I believe we have to be willing to take that risk.

States, localities, and other countries are moving forward on performance measurement. It creates a focus on results and can improve government operations. The federal government may not start with complete coverage, but it cannot afford to wait. We need to begin with pilots, build on our successes, and learn from our mistakes.

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This concludes my prepared statement. I will be pleased to answer any questions that you or other Members of the Committee may have.

RELATED GAO PRODUCTS

Program Performance Measures: Federal Agency Collection and Use of Performance Data (GAO/GGD-92-65, May 4, 1992).

Tax Administration: An Update on IRS' Progress on Accounts Receivable and Strategic Management (GAO/T-GGD-92-26, Apr. 2, 1992).

Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

Environmental Protection: Meeting Public Expectations With Limited Resources (GAO/RCED-91-97, June 18, 1991).

Service to the Public: How Effective and Responsive is the Government? (GAO/T-HRD-91-26, May 8, 1991).

Management Practices: U.S. Companies Improve Performance Through Quality Efforts (GAO/NSIAD-91-190, May 2, 1991).

Financial Reporting: Framework for Analyzing Federal Agency Financial Statements (GAO/AFMD-91-19, Mar. 1991).

Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/HRD-90-109, Aug. 31, 1990).

Social Security: Need to Improve Unit Times for Estimating Field Office Staff Budgets (GAO/GGD-86-90, Aug. 6, 1986).

Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35, Feb. 1985).

Evaluating a Performance Measurement System: A Guide for the Congress and Federal Agencies (FGMSD-80-57, May 12, 1980).

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