STATEMENT OF JOHN MERCER

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY
AND FINANCIAL MANAGEMENT
U.S. HOUSE OF REPRESENTATIVES

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IMPLEMENTATION OF THE
GOVERNMENT PERFORMANCE AND RESULTS ACT

Mr. Chairman and Members of the Subcommittee, thank you very much for the opportunity to testify at this hearing on implementation of the Government Performance and Results Act.

I am John Mercer, an independent consultant to government agencies on performance planning, budgeting and management. Previously, I served for 13 years on staff in the Congress – five years in the House and eight as Counsel to the Senate Governmental Affairs Committee. During my service with the Governmental Affairs Committee, from 1989 to 1997, my primary responsibility was development and oversight of federal management reforms. My involvement with GPRA includes having proposed the idea for that law to Senator Bill Roth, and then having been asked by him to lead the development of the legislation, and to oversee its enactment and initial implementation.

<u>GPRA's effect over the last 10 years</u>

Some of the ways in which GPRA has had a positive effect over the last 10 years in creating a government-wide focus on results include:

- The steady improvement in strategic and performance plans shows that federal agencies have become significantly more results-oriented in their long-term and annual planning;
- In the best plans, the relationship between dollars and results is becoming increasingly transparent;
- There is an increasing sense within agencies that what GPRA requires is actually just good business practice and ought to be done regardless of any law.

It is fair to say that over that past decade under GPRA, federal agencies have become significantly more results-oriented in their planning, both on a long-term and an annual basis. This is particularly true since the law went into effect government-wide in September of 1997. The initial strategic plans and annual performance plans that were released by the agencies in 1997 and 1998 were generally not very good. The goals were insufficiently outcome-oriented and the supporting strategies often just rambling descriptions of routine program activities. The linkage of dollars to results was tenuous at best. Agencies used cross-walks that often matched multiple budget accounts with several program activities, so that the relationship between spending and results was not very transparent. But all of this was actually an improvement over pre-GPRA days, when little consistent effort was made to develop and publish a comprehensive set of performance goals and strategies or to report actual results compared to the goals.

Today a number of agencies have made quite impressive progress in these areas. While others are still struggling to get it right, the best departmental and bureau-level plans and performance reports are becoming much more results-oriented. They include strategy descriptions that more clearly explain the specific actions planned to reach the goals and that do a better job of justifying the requested resources. The linkage between dollars and results is increasingly transparent in these plans, particularly this year. We now have a growing group of agency plans that illustrate good performance planning techniques. While there is still room for further improvement in these plans, some are at a point where they can serve as useful examples for others.

While the agencies themselves of course deserve the lion's share of the credit, I believe that much of this improvement has been spurred by the constant scrutiny and excellent critiques of these plans by GAO, and by the useful guidance of OMB's Circular A-11, and more recently by application of OMB's new Program Assessment Rating Tool with its specific criteria.

The most significant effect of GPRA may be that there is an increasing sense within departments and agencies that what the law requires is simply the right thing to do. We may be approaching the point where there is enough momentum behind GPRA implementation that, at least in general, there is a consensus within the agencies that with or without this law these reforms should be sustained. I hasten to add that doing this *well* is often difficult enough that there will probably remain for quite some time a need for constant pressure to improve the quality of these plans and not to backslide.

Challenges agencies face in measuring performance and using the information

Some of the challenges that agencies face in measuring performance and using performance information in management decisions include the following:

- Cascading the goals and strategies of the departmental and bureau plans down through all levels of organizational sub-units, thereby linking long-term goals to day-to-day activities;
- Integrating the budget with performance information at the program activity and task level, by implementing effective managerial cost accounting systems to show full costs of programs and the unit costs of activities and outputs;
- Getting timely, accurate performance data to managers throughout the year, so that they can actually manage their programs for results;
- Strengthening the linkage between the agency's support functions and its programs, by ensuring that the support functions (CFO, CIO, HR, etc.) measure how well they help the agency achieve its programmatic goals;
- Ensuring the validity of the reported results.

Agencies are getting better at identifying meaningful, outcome-oriented goals and the annual performance measures that support these long-term targets. This has been a major issue of attention by GAO evaluators, as well as a primary focus of OMB's PART assessments. However, unless these top-level goals cascade all the way down through the organization and connect to day-to-day activities, all the agency really has is a wish list and not a real plan.

It should be understood that the words “Performance” and “Results” in the law’s name are not redundant. Within the context of what GPRA is all about, these two words are intended to refer to interrelated, but distinct, concepts. “Results” refers to measures of outcome, meaning what the program is trying to accomplish. “Performance” refers to underlying measures of how it gets to those results – such as measures of activity, process and output.

This distinction is important because on a day-to-day basis, program managers actually manage elements of performance, rather than results. They manage inputs, such as costs and work hours, and they manage staff activities and processes, mostly in an effort to achieve certain outputs. In a well-designed plan, these activities and their outputs should lead to the desired outcomes. It is actually the management of program performance by front-line managers that in most cases will determine the agency’s ultimate success in achieving its intended results.

If an agency’s outcome goals cannot be traced down through a hierarchy of cascading performance measures all the way to the activities that consume the budget resources, then saying that spending X amount of money should achieve Y results is little more than a guess. And that is not real performance budgeting. Making the linkages explicit between long-term goals and day-to-day activities will be essential to instilling effective performance management in government agencies and to bringing even greater transparency to the relationship between budget dollars and program results. It will help show how and why changes in spending levels may impact program performance and ultimately program results. An important adjunct to this step will be the implementation of good cost accounting systems that can track the unit costs of program activities and outputs. These are real measures of program efficiency that managers may often be held accountable for controlling. They also form the basis for calculating program cost-effectiveness, for which the agencies and Congress can be held accountable.

Continuing the shift toward a more results-oriented focus

To continue this shift toward a more results-oriented focus, I would like to address two things in particular that need to happen:

- Program performance and results will have to have real consequences, both for the programs themselves and for the managers involved;
- There needs to be a much greater degree of Congressional involvement in using the GPRA-related performance plans and reports, both in the appropriations process and in conducting general oversight.

Having clear, complete and comprehensive performance plans and reports is not an end in itself. Developing high-quality plans will be seen as little more than a paperwork exercise, if the results from implementing those plans have no impact on agency budgets, program structures and processes, or managerial evaluations.

There has to be real accountability by the agency for the performance of its programs. This might mean shifting budget resources from underperforming programs to those that achieve good results. Or it might mean restructuring an underperforming program, and perhaps even adding resources, if that is that it takes to achieve the necessary level of results addressing an important need.

OMB has recently helped boost this type of accountability, by using the results of its Program Assessment Rating Tool evaluations in developing the recommended funding levels for the FY 2005 President's Budget. It is clear that the PART is holding programs accountable for their performance and is driving new efforts to reform program structures and strategies, as well as having an effect on OMB's budget recommendations. This approach is an excellent example of how to ensure a continued shift in government toward a more results-oriented focus.

Another important step in that direction will be the development and implementation of meaningful pay-for-performance systems for senior government executives and program managers. It is probably just common sense that organizational leaders ought to be compensated in some significant part based on the degree to which they successfully lead the organization to achieving its goals. I think the taxpayers would expect that this principle ought to apply to governmental organizations.

The challenge for the Federal government is to design personnel evaluation and pay-for-performance systems that are fair and effective. The main argument against governmental pay-for-performance is that the systems are too *subjective* and allow the evaluators to "play favorites." Frankly, I have no problem at all with the idea of "playing favorites" – as long as the ones being favored are the organization's top performers.

This is where effective implementation of GPRA can provide a very positive benefit. Good program performance plans – containing not only measurable goals for program results, but also for the supporting activities and outputs – may provide a much more *objective* basis for assessing managerial effectiveness.

This is one reason why it is not sufficient to have only outcome-oriented goals for the agency and its programs. Too many external factors may affect program results, including statutorily mandated strictures. Managers are naturally quite reluctant to be held accountable for things over which they may have little direct control. What managers actually manage on a day-to-day basis is staff-related, such as tasks, activities, personnel deployment, etc. In other words, program managers often have more direct control over things that create program outputs than they do over the achievement of actual end results. However, above the level of the program managers, agency leadership might more reasonably be held accountable for program design and achieving desired outcomes.

This is why it is so important to cascade the agencies outcome goals down through the organization, and to link them to the types of activities that managers manage. When this happens, program managers can be fairly evaluated and compensated on their efficient and cost-effective management of program outputs. With proper incentives in place, this type of evaluation system can be a powerful tool for limiting overhead costs, improving efficiencies and maximizing program cost-effectiveness.

Finally, Congress itself has a very important role to play in ensuring a continued shift toward a more results-oriented focus by the Federal government. Congressional interest or lack thereof in this subject sends a strong signal to agencies about whether program performance and results matter. Agencies do read these signals and react. If through inattention or lack of interest, or especially through negative responses, Congress signals that GPRA-type plans and reports are not important or even useful, it often turns into an uphill fight within an agency to implement more results-oriented accountability.

So far, Congress has generally not shown a great deal of interest in the substance of agency performance plans or performance reports, or even suggested how to make them more useful. There has admittedly been occasional instances of reference to program goals and results in some committee reports, and this is certainly helpful, but it is largely episodic and quite the exception. It appears that generally speaking, members of Congress and their committees seldom refer to or use agency performance plans or performance reports in their deliberations.

I am personally quite concerned about this. In developing GPRA, I had hoped that the appropriations committees would be much more supportive of agency efforts to integrate plans and budgets into program performance budgets. I had hoped they would welcome a chance to examine and critique program goals, strategies and results when deciding program funding levels.

I had also hoped that the authorizing committees would find these plans and reports to be a font of interesting and useful information. I had imagined real oversight hearings, with members referring to specific pages and items in the long-term and annual plans, and in the annual reports, while grilling agency officials over their strategies to achieve measurable results or why past performance did not match the goals. I had imagined committee and floor debates with members arguing about how best to measure a program's performance, even offering amendments to change the indicators of success or to increase the target level of performance. Despite my years of experience on Capitol Hill, I had rather naively expected a more enthusiastic response to GPRA plans and reports than we have seen so far.

Frankly, if I were a member of Congress, I know I would have a difficult time trying to explain to my constituents that, "Yes, I sit on subcommittees with jurisdiction over these agencies. And yes, we do have officials from those agencies come before us. But no, I have never asked them about the substance of their measurable goals, or the strategies they have outlined for achieving results, or how these relate to specific funding levels, or about past results. In fact, I have never even looked through their strategic plans, annual performance plans, or annual performance reports. Yes, I can tell you how much they spend in our district; but no, I can't tell you how that relates to specific program goals."

To me, this would be like being on the board of directors of a corporation, but not reading the annual report.

In an effort to suggest how these GPRA plans and reports, and related analyses by GAO and OMB, might be used to conduct better agency oversight, I have developed a guide for Congress. Because this guide is intended to help point in the direction of more comprehensive and effective oversight, I call it the "COMPAS" – the Congressional Oversight of Management and Performance Accountability Scorecard." I have included it with my testimony for reference. It may serve as an illustration of how congressional committees can become more active in supporting a result-oriented Federal government.

I think that all too often, programs and funding levels have been justified on the basis of need and good intentions – how big the problem is and a general conviction that the more we spend the better we will address it. GPRA is essentially a statement that "good intentions aren't good enough anymore."

Congressional Oversight of Management & Performance Accountability Scorecard (COMPAS)

<u>SCORING PROCESS</u>

Step 1: Identify the departments and independent agencies over which the Committee/Subcommittee has partial or exclusive jurisdiction, and the amounts of their respective budget authority.

Step 2: Within each such department, identify the bureau-level organizations over which the Committee has jurisdiction and the amounts of their respective budget authority.

Step 3: Determine whether any general oversight hearings were held by the Committee/Subcommittee during the past 4 years covering these departments/agencies/bureaus (agencies).

Step 3: Apply the Scorecard to each such hearing.

Step 4: Total the score for each hearing and award a letter grade for each.

Step 5: Weight the score for each oversight hearing according to the agency's proportion of the total budget authority under the jurisdiction of the Committee. If no oversight hearings were held, award zero points.

Step 6: Award a final letter grade for oversight and performance accountability to the Committee/Subcommittee based on total of weighted scores.

<u>SCORECARD</u> 100 points possible

For a general oversight hearing that was held during the past 4 years at which a major focus was an agency's overall past performance and expected future results, as reflected in the content of the Strategic Plan, annual Performance Budget, and annual Performance and Accountability Report (PAR) that covered the agency, determine whether—

1. At least one of the agency's long-term, general goals or objectives in the Strategic Plan was the subject of questions or comments—
    a. By the Chairman **3 points**
    b. By other Members **<u>2 points per Member</u>**
    7 points maximum

(The questions/comments could involve such issues as: whether the goals and objectives are sufficiently results-oriented rather than process-oriented; whether the goals/objectives are derived from specific statutory mandates.)

2. At least one of the agency's long-term, measurable performance targets in the Strategic Plan was the subject of questions or comments—
    a. By the Chairman **6 points**
    b. By other Members **<u>3 points per Member</u>**
    15 points maximum

    (The questions/comments could involve such issues as: whether the right thing is being measured and whether the long-term target is set at the right level of performance; whether the performance target is a meaningful measure of success in achieving a true outcome rather than a process or output; whether several performance targets together collectively define the full scope of the general long-term goal/objective to which they link; whether there is an important outcome-oriented priority not covered by any of the long-term performance targets; whether the reported trend in past performance provides confidence that the future performance target will be achieved; whether there are any statutory changes Congress could enact that would improve program efficiency or cost-effectiveness.)

3. At least one of the agency's annual performance goals or other annual measures in the Performance Budget was the subject of questions or comments—
    a. By the Chairman **6 points**
    b. By other Members **<u>3 points per Member</u>**
    12 points maximum

    (The questions/comments could involve such issues as: whether the right thing is being measured and whether the annual target is set at the right level of performance; how past results compare to the original goals; whether the annual performance goals adequately measure progress toward the desired long-term outcomes; whether the activity and output measures include program efficiency and cost-effectiveness measures.)

4. The effectiveness of at least one of the supporting strategies described in either the Strategic Plan or the Performance Budget for achieving a goal was the subject of questions or comments—
    a. By the Chairman **6 points**
    b. By other Members **<u>3 points per Member</u>**
    15 points maximum

    (The questions/comments could involve such issues as: whether the strategy provides a clear rationale as why it will likely be successful in achieving the goal it supports; whether the strategy is more than just a routine description of program activities; whether the strategy reflects innovative ways to achieve better results with the same amount of funding as in the past; whether the incorporation of improved financial management (especially managerial cost accounting), information technology and human resources planning were incorporated in development of the strategy; whether the

strategy reflects specific activities by the agency to ensure coordination of its efforts with other agencies that share a similar goal.)

5. The integration of program performance and budget information in the Performance Budget was the subject of questions or comments—
   a. By the Chairman **4 points**
   b. By other Members **<u>2 points per Member</u>**
   8 points maximum

   (The questions/comments could involve such issues as: the degree to which the agency's annual budget now links its funding requests to measurable levels of results; whether the funding of activities is linked to program outputs, and whether those outputs are linked to measurable outcomes; whether the unit costs of activities, outputs and other results are calculated and shown in the budget, and what the recent and projected trends are for these costs; whether the budget includes measures of program efficiency and cost-effectiveness; whether the program and results costs are fully-loaded to show all direct and indirect costs, including overhead, benefits, etc., or whether some costs are buried elsewhere.)

6. Issues relating to the verification and validation of reported performance data were the subject of questions or comments—
   a. By the Chairman **4 points**
   b. By other Members **<u>2 points per Member</u>**
   6 points maximum

   (The questions/comments could involve such issues as: whether managers receive accurate, timely and meaningful program performance data throughout the year; processes for ensuring the accuracy of program performance data and reported results; plans for improving performance data systems.)

7. At least one issue raised in the agency's financial reports and audits was the subject of questions or comments—
   a. By the Chairman **3 points**
   b. By other Members **<u>2 points per Member</u>**
   5 points maximum

   (The questions/comments could involve such issues as: whether the agency received a clean audit opinion or the timetable for doing so; any outstanding material weaknesses in financial controls identified by the agency or its auditors and how those weaknesses relate to agency accountability and effectiveness.)

8. At least one GAO or Inspector General report (including the agency Management Challenges Report) cited in the Performance and Accountability Report (PAR) and relating to agency management or program effectiveness was the subject of questions or comments—
    a. By the Chairman **4 points**
    b. By other Members **<u>2 points per Member</u>**
    8 points maximum

    (The questions/comments could involve such issues as: how a problem spotlighted in the PAR affects the agency's ability to achieve a particular performance goal or fulfill a stated strategy; the specific recommendations made by GAO or the Inspector General; the timetable and action plans the agency has for resolving the problem.)

9. OMB's use of its Program Assessment Rating Tool (PART) in evaluating a particular agency program was the subject of questions or comments—
    a. By the Chairman **4 points**
    b. By other Members **<u>2 points per Member</u>**
    8 points maximum

    (The questions/comments could involve such issues as: the score and rating received by a program; why a program received a "no" answer or less than full credit on a specific PART question; the steps the agency is taking to improve its score for a program; efforts by the agency to ensure that other programs will score well when evaluated with the PART.)

10. The agency's progress in achieving compliance with the criteria for one or more of the 5 initiatives on the Presidents' Management Agenda was the subject of questions or comments—
    a. By the Chairman **4 points**
    b. By other Members **<u>2 points per Member</u>**
    8 points maximum

    (The questions/comments could involve such issues as plans for meeting the criteria to receive a rating of "green" for budget and performance integration, human capital reform, e-government, financial management reform, or competitive sourcing.)

11. The agency's processes or plans for ensuring the personal accountability of managers and senior officials for program and agency performance was the subject of questions or comments—
    a. By the Chairman **3 points**
    b. By other Members **<u>2 points</u>**
    5 points maximum

    (The questions/comments could involve such issues as: the use of by the agency of program past performance in evaluating managers and implementing pay-for-performance; whether the agency makes meaningful distinctions between adequate

performance and truly superior performance and provides sufficient reward for personnel in the latter category so as to provide real incentive for sustained excellence; what the agency has done with poor performing managers.)

12. The agency's processes or plans for using evaluations by objective, independent sources to assess program effectiveness was the subject of questions or comments—
    a. By the Chairman **2 points**
    b. By other Members **<u>1 point</u>**
    3 points maximum

    (The questions/comments could involve such issues as: how results in a difficult to measure area were or will be objectively evaluated; what specific plans and timetables the agency has for retaining independent evaluations of program effectiveness.)

Half credit if the issue was raised in a post-hearing written question to the agency.

LETTER GRADES

92 – 100 points = **A**
90 – 91 points = **A-**
88 – 89 points = **B+**
82 – 87 points = **B**
80 – 81 points = **B-**
78 – 79 points = **C+**
72 – 77 points = **C**
70 – 71 points = **C-**
68 – 69 points = **D+**
62 – 67 points = **D**
60 – 61 points = **D-**
59 points or less = **F**