PERFORMANCE-BASED GOVERNMENT: EXAMINING THE GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993

JOINT HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

AND THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

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PERFORMANCE-BASED GOVERNMENT: EXAMINING THE GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993

WEDNESDAY, MARCH 6, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
JOINTLY WITH
UNITED STATES SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The committees met, pursuant to notice, at 9:35 a.m., in room 2154, Rayburn House Office Building, Representative William F. Clinger, Jr., and Senator Fred Thompson (co-chairmen) presiding.

Present from the House Committee on Government Reform and Oversight: Representatives Clinger, Morella, Horn, Mica, Davis, Fox, Gutknecht, Shadegg, Flanagan, Bass, Slaughter, Peterson, Thurman, Maloney, Barrett, Norton, Meek, and Holden.

Present from the Senate Committee on Governmental Affairs: Senator Thompson.

House Committee on Government Reform and Oversight staff present: James Clarke, staff director; Judy Blanchard, deputy staff director; Kevin Sabo, general counsel; Jonathan Yates, counsel; Diann Howland, professional staff; Edmund Amorosi, director of communications; Judith McCoy, chief clerk; Cissy Mittleman, professional staff; David McMillen, Matthew Pinkus, minority professional staff; and Cecelia Morton, minority office manager.

Senate Committee on Governmental Affairs staff present: John Mercer, counsel; Claudia McMurray, general counsel; and Michal Sue Prosser, chief clerk.

Mr. CLINGER. The Committee on Government Reform and Oversight, in a joint meeting with the Senate Governmental Affairs Committee, will come to order.

We are here to receive testimony on the importance of performance measurement in Government and the status of the Government Performance and Results Act of 1993. I am delighted that the Vice President highlighted Government performance in his speech on Monday at the National Press Club, and I hope that that commitment will translate into an interest in the implementation and enforcement of this statute, which was passed by the Congress and enacted into law in 1993. We look forward to working with the Vice President very much on this issue.

GPRA has the potential to be an extremely powerful tool for use in managing Federal programs and policies; however, Congress

must be closely involved in the oversight function of the GPRA. Like any management program based on measurements and statistics, the GPRA also has the potential to be improperly implemented. We have a responsibility to make certain that the information we obtain from agencies can be validated and that we get all the information we need in order to evaluate the programs in a proper manner.

GPRA can provide Congress with the information on which to base sound policy and budgeting decisions. Our commitment to balancing the budget compels us to scrutinize Federal programs and examine inefficient and nonperforming programs against efficient and productive ones.

Congress and the American people are justified in their concerns that Government is inefficient and wasteful. Citizens have a right to expect a good return on their tax dollar investments, but it is difficult for Congress to assure those taxpayer of good returns on their money when we don't have the tools to measure performance and there are sometimes hundreds of programs doing the same thing.

I hope that we can eventually use the GPRA to compare parallel, similar, or duplicate programs in different departments. Congress could then emphasize the good programs and focus attention on the nonperformers. Special interests or civil servants will probably be concerned that cross-program comparisons cannot be done due to the unique provisions of each authorizing statute. There are some limitations in comparison, but it does seem to me that there ought to be some way to compare similar programs, and I hope that GPRA will help us to examine that.

Today's hearing is a conceptual overview of the Act. We hope to arrange future hearings to examine the Office of Management Budget's role in the Act's implementation and to examine the progress made by specific agencies.

We thank all of our witnesses for joining us today and hope that they will give us insight into the special problems they have had and the lessons learned in performance measurement and management.

[The prepared statement of Hon. William F. Clinger, Jr. follows:]

PREPARED STATEMENT OF HON. WILLIAM F. CLINGER, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

We are here to receive testimony on the importance of performance measurement in Government and status of the Government Performance and Results Act of 1993 (GPRA). I am delighted that the Vice President highlighted Government performance in his speech, Monday at the National Press Club, and I hope that it will translate into an interest in the implementation and enforcement of this statute which was passed by the Congress and enacted into law in 1993. We look forward to working with the Vice President on this issue.

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Mr. CLINGER. Now, I am very delighted to welcome and turn the microphone over to our colleague from the Senate, Senator Thompson.

Senator THOMPSON. Thank you very much, Mr. Chairman. I welcome this opportunity to join with you in co-chairing this important joint hearing of the Senate Governmental Affairs Committee and the House Government Reform and Oversight Committee concerning the Government Performance and Results Act of 1993.

As you know, this Act is a major reform of the way the executive branch of the Federal Government does business, and it is crucial that Congress fully understand its value, particularly to the legislative process. As those who are already familiar with GPRA know, Senator Roth authored the legislation in the Governmental Affairs Committee, and Congressman Clinger played a vital role in moving it through the House.

Despite GPRA's approval by wide margins in both houses, I doubt that most members of either body fully understand what a powerful tool it gives us as we try to improve Government performance, reduce its cost, and hold it accountable. That is why I am pleased that Speaker Gingrich suggested this hearing. It gives all of us an opportunity to develop a better understanding of how the Government Performance and Results Act can assist us in legislating, developing the Federal budget, as well as performing our oversight responsibilities.

Up until the passage of GPRA, both Congress and the executive branch have focused on the programs and activities of an agency, as well as the costs involved, rather than the results of those activities. When Members of Congress debate the funding for these Federal programs each year, the discussion always seems to focus on whether something is a Federal responsibility or not, or whether or not we can afford the program.

While these questions are important, GPRA will force us to ask other questions, such as, if we are going to spend this amount of money on this particular program, what should we expect it to accomplish in the way of results? And, what objective measures should we set for determining the success of this program? And, what goals should we establish to mark the effectiveness of this agency?

GPRA requires several Federal agencies to implement the requirements of the Act through pilot programs, now numbering over 70. Next year, though, every program in every agency will be subject to the Act's requirements. It is my understanding that Federal agencies are becoming more and more informed about this new law and how it might affect their operations. It is the subject of an increasing amount of planning and discussion among Federal managers. Unfortunately, up until now, this law has received little attention in Congress. Hopefully, after today's hearing, that will change.

I look forward to the testimony of our witnesses and welcome their insights as to how this law can be used most effectively.

Thank you, Mr. Chairman.

Mr. CLINGER. Thank you, Senator, very much.

We now are pleased to welcome, as our first witness, a gentleman who has been of inestimable assistance to the work of this committee over the years and continues to provide us with very valuable insights and information, the Comptroller General, Mr. Bowsher.

In view of the fact that this is strictly a legislative hearing, we are not going to swear in witnesses today. This is basically not an oversight hearing.

So, General, you can proceed to give us your testimony, if you will, in full or summarize, as you choose.

STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY L. NYE STEVENS, DIRECTOR, AND J. CHRISTOPHER MIHM, ASSISTANT DIRECTOR, FEDERAL MANAGEMENT AND WORK FORCE ISSUES, GENERAL ACCOUNTING OFFICE

Mr. BOWSHER. Thank you very much, Mr. Chairman and Senator Thompson.

We are pleased to be here today. I thought I would summarize my testimony and, if you could put the statement in the record, I would appreciate that, Mr. Chairman. I am accompanied today by Nye Stevens, who heads up our work in this overall area, and Chris Mihm, who has done much of the work that we have done in this area.

First, let me start off by saying that, in the effort to reduce the size of Government, to make a smaller Government, it is also important, as everyone recognizes, to have one that is more effective and more efficient than what we have previously had. This is sometimes very difficult when the agencies themselves do not have clear results-oriented goals and when they do not have reliable, accurate, and timely program and financial information.

Now, the two committees represented here today, one in the Senate, one in the House, are the committees that passed both the CFO Act and GPRA Act. I think that does give you the legislative framework to really change the way Government works and to evaluate how well agencies are delivering their programs and how effective their organizational structures are.

The CFO Act, as we are all aware of here now, has some real deadlines. In other words, in 1996, the 24 largest agencies of the Federal Government are going to be required to have an audited

financial report. And in 1997, we will be issuing a consolidated report to the American taxpayers, with a GAO audit being performed on that consolidated report.

I think equally important to these audits and to the financial reports at the end of the year is program cost information. One of the things that we have done in setting the new standards is to insist that the cost information of our programs be developed in an organized fashion, much better than we have in the past.

GPRA, of course, is the other very key legislation that has been passed to focus on the outcomes of Federal programs and to determine what is the real difference that these Federal programs have made in people's lives, such as the increase in real wages earned by graduates of an employment training program or a reduction in the fatality and injury rates in the workplaces or on the highways.

Now, again, the legislation called for a specific set of dates and accomplishments. One is, by 1997, every agency is supposed to have a 5-year plan. By 1999, they are supposed to convert that into an annual plan and, in the year 2000, actually issue reports that summarize what the results are, and to issue those reports to the President, to the Congress, including the authorizing and appropriation committees, and to make those reports available to the public.

GAO's role, as the auditor, is to review how well this is working. You also included in the GPRA legislation that we would issue a formal report on June 1, 1997, on the progress of GPRA. Meanwhile, as we work with both committees, it is our agreement that we would try to work here, not wait for that deadline, and try to report to you on a progressive or concurrent basis, and that is one of the reasons we can be here today to report on how well things are going.

I think one thing that is encouraging is that a growing number of the Federal agencies are seeing that a focus on outcomes can lead to dramatic improvements in effectiveness.

For example, the goal of the Coast Guard's Marine Safety Program is to protect the public, the environment, and the U.S. economic interests through the prevention and the reduction of marine incidents. When the Coast Guard began to focus on the outcomes that it was really trying to achieve in that program, such as fewer injuries and fatalities, rather than activities such as the number of physical inspections of ships, it fundamentally shifted its program efforts.

The Coast Guard found that, although it traditionally concentrated on inspections, two-thirds or more of all the reported casualties were caused by human error. As a result, the Coast Guard began to work in partnership with the towing industry to build the knowledge and the skills of towing industry employees. The Coast Guard's redirected efforts contributed to a significant decline in the towing industry fatality rate, which went from 91 per 100,000 industry employees, in 1990, to 36 per 100,000, in 1994.

Now, if you look at job training, it's just kind of the opposite. In other words, when GAO was asked to do a series of audits and studies there, we eventually found there were 160 programs, costing the American taxpayer about $20 billion, and you really didn't have any goals or reporting on how much was being accomplished

by those programs. So this, I think, is a good illustration, the Coast Guard example and the job training program, about what a difference it really, truly makes.

One of my main central themes today, though, is that strong and sustained congressional attention must be applied if GPRA implementation is to be a success. Without it, the congressional and the executive branch decisionmakers may not obtain the information they need as they seek to create a Government that is more effective, efficient, and streamlined.

The authorizing, the appropriation, the budget, and the oversight committees all have key interests in assuring that GPRA is successful, because, as Senator Thompson pointed out, the GPRA can become a very valuable tool in making the Government more efficient and effective and for Congress to do its oversight. Chairman Clinger, you issued a letter of instruction here recently, recommending that the House committees conduct their oversight, including GPRA and CFO, to see how well they are doing. I think that was really excellent.

Among the questions that we think Congress can ask at hearings are: How well is the agency measuring outcomes? How are the GPRA performance goals and information being used to drive the agency's daily operations? Because if you don't get the program down to actually where the daily operation are, then just issuing an annual report or having some goals at the headquarters will not get the job done. How is the agency using performance information to improve its effectiveness? And what progress is the agency making in building the capacity necessary to implement GPRA?

As we have looked at some States and even some other countries in trying to implement this, why, it is obvious that you need some good training, and sometimes you even need some new talents in the organization to really make the change in effort as to how you are trying to deliver these Government programs.

I think maybe a final question might be, what steps has the agency taken to align its core business processes to support mission-related outcomes?

So, Mr. Chairman and Senator Thompson, this basically is a summary of our presentation. We would be very happy to answer any questions.

[The prepared statement of Mr. Bowsher follows:]

PREPARED STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES

Messrs. Chairmen and Members of the Committees:

I am pleased to be here today to discuss the contribution that the Government Performance and Results Act (GPRA) can make to congressional and executive branch decisionmaking and the key role that Congress can play in fostering GPRA implementation.

The effort to reduce the deficit has created the need to reexamine and update the federal government's spending priorities. As a result, deficit reduction is placing added pressure on agencies to clearly demonstrate that they are making sound and effective use of taxpayers' dollars. However, the hard decisions that must be made to reduce the deficit and manage downsized federal agencies are made more difficult when agencies—as is often the case—lack clear, results-oriented goals and when reliable, accurate, and timely program and financial information is not available. Better performance and financial information can advance the debate on the need for and the effectiveness and efficiency of specific federal programs.

Congress already has established a legislative framework for generating improvements in the kinds of information needed by decisionmakers. The Chief Financial Officers (CFO) Act and GPRA—passed under the joint leadership of the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight—represent the cornerstones of that legislative framework. I have discussed the first of these two cornerstones in previous appearances before these committees.[1] I observed that, through the implementation of the CFO Act, agencies have made steady progress in overcoming decades of neglect in fundamental financial management operations and reporting. However, I also noted that much more progress was essential if agencies were to produce audited financial statements under the required timetable and to provide decisionmakers with needed reliable financial and program cost information.

The second of the legislative cornerstones, GPRA, requires agencies to set strategic goals, measure performance, and report to the President and Congress on the degree to which goals were met. Congress intended for GPRA to fundamentally shift the focus of federal management and accountability from a preoccupation with staffing and activity levels to a focus on "outcomes" of federal programs. Outcomes are results expressed in terms of the real difference federal programs make in people's lives, such as the increase in real wages earned by graduates of an employment training program or a reduction in the fatality and injury rates in workplaces or on highways. GPRA is being implemented initially through 71 pilot projects during fiscal years 1994 through 1996 to provide agencies with experience in meeting its requirements before governmentwide implementation in the fall of 1997.

As you know, I have supported the intent of GPRA and believe that it offers significant potential for enhancing decisionmaking and improving the management of federal programs. My comments today are based on our completed and ongoing reviews of efforts to implement GPRA in the pilot and nonpilot agencies. GPRA requires that we report to Congress by June 1, 1997, on the implementation of GPRA, including the prospects for compliance by nonpilot agencies. As agreed with the committees, our strategy has been to report regularly on GPRA and related initiatives throughout the pilot phase.[2] These products will form the basis for our more comprehensive assessment in 1997.

A growing number of federal agencies are beginning to see that a focus on outcomes can lead to dramatic improvements in effectiveness. For example, the goal of the Coast Guard's marine safety program is to protect the public, the environment, and U.S. economic interests through the prevention and mitigation of marine incidents. When the Coast Guard began to focus on the outcomes it was trying to achieve, such as fewer injuries and fatalities, rather than on activities, such as the physical inspections of ships, it fundamentally shifted its program efforts. The Coast Guard found that, although it traditionally concentrated on inspections, two-thirds or more of all reported casualties were caused by human error. As a result, the Coast Guard began to work in partnership with the towing industry to build the knowledge and skills of towing industry employees. The Coast Guard's redirected efforts contributed to a significant decline in the towing industry fatality rate, which went from 91 per 100,000 industry employees in 1990 to 36 per 100,000 in 1994.

However, our work also has shown that a fundamental shift in focus to include outcomes does not come quickly or easily. The experiences of states and foreign governments that are leaders in implementing management reforms similar to GPRA—and the early experiences of many GPRA pilots—show that outcomes can be very difficult to define and measure. These organizations also found that a focus on outcomes can require major changes in the services that agencies provide and the processes they use to provide those services, as the experience of the Coast Guard demonstrates.

Given that the changes envisioned by GPRA do not come quickly or easily, my central theme today is that strong and sustained congressional attention to GPRA implementation is critical. Without it, congressional and executive branch decisionmakers may not obtain the information they need as they seek to create a government that is more effective, efficient, and streamlined. Authorization, appropriation, budget, and oversight committees all have key interests in ensuring that GPRA is successful, because once fully implemented, it should provide valuable data to help inform the decisions that each committee must make.

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[1] *Financial Management: Continued Momentum Essential to Achieve CFO Act Goals* (GAO/T-AIMD-96-10, Dec. 14, 1995) and *Financial Management: Must Be Sustained to Achieve the Reform Goals of the Chief Financial Officers Act* (GAO/T-AIMD-95-204, July 25, 1995).

[2] These products, along with other relevant GAO work, are listed in the "Related GAO Products" section of this statement.

Strong and sustained congressional attention to GPRA is needed now because some agency officials have questioned Congress' commitment to GPRA. Officials in some pilot agencies have told us that Congress seldom asked about the implementation of GPRA in their agencies, how their agencies' services and products were directed at achieving outcome-oriented goals, and their agencies' progress toward achieving those goals. Agency officials said that evidence of real involvement and interest on the part of congressional committees in using performance goals and information to help in congressional decisionmaking would help to build and sustain support for GPRA within their agencies.

BETTER DEFINING AGENCIES' MISSIONS AND GOALS THROUGH THE GPRA STRATEGIC PLANNING PROCESS

A comprehensive reassessment of agencies' roles and responsibilities is central to any congressional and executive branch strategy that seeks to bring about a government that is not only smaller but also more efficient and effective.[3] GPRA provides a legislatively based mechanism for Congress and the executive branch to jointly engage in that reassessment. In crafting GPRA, Congress recognized the vital role that consultations with stakeholders should have in defining agencies' missions and establishing their goals. Therefore, GPRA requires agencies to consult with Congress and other stakeholders in the preparation of their strategic plans. These consultations are an important opportunity for Congress and the executive branch to work together in reassessing and clarifying the missions of federal agencies and the outcomes of agencies' programs.

Unclear Missions and Goals and Poorly Targeted Programs Hamper Agencies' Effectiveness

Many federal agencies today are the product of years of accumulated responsibilities and roles as new social and economic problems have arisen. While adding the particular roles and responsibilities may have made sense at the time, the cumulative effect has been to create a government in which all too frequently individual agencies lack clear missions and goals and related agencies' efforts are not complementary. Moreover, legislative mandates may be unclear and Congress, the executive branch, and other stakeholders may not agree on the goals an agency and its programs should be trying to achieve, the strategies for achieving those goals, and the ways to measure their success.

For example, we reported that the Environmental Protection Agency (EPA), had not been able to target its resources as efficiently as possible to address the nation's highest environmental priorities because it did not have an overarching legislative mission and its environmental responsibilities had not been integrated.[4] As a result of these problems, EPA could not ensure that its efforts were directed at addressing the environmental problems that posed the greatest risk to the health of the U.S. population or the environment. To respond to these shortcomings, EPA is beginning to sharpen its mission and goals through its National Environmental Goals Project, a long-range planning and goal-setting initiative that, as part of EPA's efforts under GPRA, is seeking to develop a set of measurable, stakeholder-validated goals for improving the nation's environmental quality.

The situation at EPA is by no means unique. Our work has shown that the effectiveness of other agencies, such as the Department of Energy and the Economic Development Administration, also has been hampered by the absence of clear missions and strategic goals.[5]

The federal government's adaptive response over time to new needs and problems also has contributed to fragmentation and overlap in a host of program areas, such as food safety, employment training, early childhood development, and rural development.[6] Overlapping and fragmented programs waste scarce funds, confuse and frustrate program customers, and limit the overall effectiveness of the federal effort. For example, the $20 billion appropriated for employment assistance and training activities in fiscal year 1995 covered 163 programs that were spread over 15 agen-

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[3] See *Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996* (GAO/OCG-95-2, Mar. 15, 1995) and *Deficit Reduction: Opportunities to Address Long-Standing Government Performance Issues (GAO/T-OCG-95-6, Sept. 13, 1995).*

[4] *Environmental Protection: Current Environmental Challenges Require New Approaches* (GAO/T-RCED-95-190, May 17, 1995).

[5] See, for example, *Department of Energy: Need To Reevaluate Its Role and Missions* (GAO/T-RCED-95-85, Jan. 18, 1995) and *EDA's Management Challenges* (GAO/GGD-95-62R, Feb. 17, 1995).

[6] See, for example, *Food Safety: A Unified, Risk-Based Food Safety System Needed* (GAO/T-RCED-94-223, May 25, 1994) and *Early Childhood Programs: Multiple Programs and Overlapping Target Groups* (GAO/HEHS-95-4FS, Oct. 31, 1994).

cies. Our work showed that these programs were badly fragmented and in need of a major overhaul.[7]

Moreover, in reviewing 62 programs that provided employment assistance and training to the economically disadvantaged, we found that most programs lacked very basic information needed to manage. Fewer than 50 percent of the programs collected data on whether program participants obtained jobs after they received services, and only 26 percent collected data on wages that participants earned.[8] Both houses of Congress in recent months have undertaken actions to address the serious shortcomings in the federal government's employment assistance and training programs, although agreement has not been reached on the best approach to consolidation.

In another example, we identified 8 agencies that are administering 17 different programs assisting rural areas in constructing, expanding, or repairing water and wastewater facilities.[9] These overlapping programs often delayed rural construction projects because of differences in the federal agencies' timetables for grants and loans. Also, the programs experienced increased project costs because rural governments had to participate in several essentially similar federal grant and loan programs with differing requirements and processes. We found that, because of the number and complexity of programs available, many rural areas needed to use a consultant to apply for and administer federal grants or loans.

The examples I have cited today of agencies with unclear missions and other agencies that are duplicating each other's efforts are not isolated cases. Our work that has looked at agencies' spending patterns has identified other federal agencies whose missions deserve careful review to ensure against inappropriate duplication of effort.[10]

GPRA Provides Opportunity to Clarify Agencies' Missions and Better Focus Programs

As I noted in an appearance before the Senate Committee on Governmental Affairs last May, in large measure, problems arising from unclear agency missions and goals and overlap and fragmentation among programs can best be solved through an integrated approach to federal efforts.[11] Such an approach looks across the activities of individual programs to the overall goals that the federal government is trying to achieve. The GPRA requirement that agencies consult with Congress in developing their strategic plans presents an important opportunity for congressional committees and the executive branch to work together to address the problem of agencies whose missions are not well-defined, whose goals are unclear or nonexistent, and whose programs are not properly targeted. Such consultations will be helpful to Congress in modifying agencies' missions, setting better priorities, and restructuring or terminating programs.

The agencies' consultations with Congress on strategic plans will begin in earnest in the coming weeks and months. The Office of Management and Budget's (OMB) guidance to agencies on GPRA requirements for strategic planning said that agencies would be asked to provide OMB with selected parts of their strategic plans this year. Some departments, such as the Department of the Treasury, are scheduling meetings on their strategic plans with the appropriate authorization, appropriation, and oversight committees.

As congressional committees work with agencies on developing their strategic plans, they should ask each agency to clearly articulate its mission and strategic goals and to show how program efforts are linked to the agency's mission and goals. Making this linkage would help agencies and Congress identify program efforts that may be neither mission-related nor contribute to an agencies' desired outcomes. It would also help Congress to identify agencies whose efforts are not coordinated. As strategic planning efforts proceed, Congress eventually could ask OMB to identify programs with similar or conflicting goals.

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[7] *Multiple Employment Training Programs: Major Overhaul Needed to Create a More Efficient, Customer-Driven System* (GAO/T–HEHS–95–70, Feb. 6, 1995).

[8] *Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively* (GAO/T–HEHS–94–88, Mar. 2, 1994).

[9] *Rural Development: Patchwork of Federal Water and Sewer Programs Is Difficult to Use* (GAO/RCED–95–160BR, Apr. 13, 1995).

[10] *Government Restructuring: Identifying Potential Duplication in Federal Missions and Approaches (GAO/T–AIMD–95–161, June 7, 1995).*

[11] *Government Reorganization: Issues and Principles* (GAO/T–GGD/AIMD–95–166, May 17, 1995).

STRONG CONGRESSIONAL OVERSIGHT NEEDED TO ENSURE GPRA INTEGRATION INTO DAILY OPERATIONS

As was to be expected during the initial efforts of such a challenging management reform effort, the integration of GPRA into program operations in pilot agencies has been uneven. This integration is important because Congress intended that outcome-oriented strategic plans would serve as the starting points for agencies' goal-setting and performance measurement efforts. Ultimately, performance information is to be used to inform an array of congressional and executive branch decisions, such as those concerning allocating scarce resources among competing priorities. To help accomplish this integration, GPRA requires that beginning with fiscal year 1999, all agencies are to develop annual performance plans that provide a direct linkage between long-term strategic goals and what program managers are doing on a day-to-day basis to achieve those goals. These plans are to be submitted to OMB with the agencies' budget submissions and are expected to be useful in formulating the president's budget.

Congress can play a decisive role in the implementation of GPRA by insisting that performance goals and information be used to drive day-to-day activities in the agencies. Consistent congressional interest at authorization, appropriation, budget, and oversight hearings on the status of an agency's GPRA efforts, performance measures, and uses of performance information to make decisions, will send an unmistakable message to agencies that Congress expects GPRA to be thoroughly implemented. Chairman Clinger and the Committee on Government Reform and Oversight took an important first step last year when they recommended that House committees conduct oversight to help ensure that GPRA and the CFO Act are being aggressively implemented. They also recommended that House committees use the financial and program information required by these acts in overseeing agencies within their jurisdiction.[12]

A further important step toward sharpening agencies' focus on outcomes would be for congressional committees of jurisdiction to hold comprehensive oversight hearings—annually or at least once during each Congress—using a wide range of program and financial information. Agencies' program performance information that can be generated under GPRA and the audited financial statements that are being developed to comply with the Government Management Reform Act (GMRA) should serve as the basis for these hearings.

GMRA expanded to all 24 CFO Act agencies the requirement for the preparation and audit of financial statements for their entire operations, beginning with those for fiscal year 1996. Also, consistent with GMRA, OMB is working with six agencies to pilot the development of consolidated accountability reports. By integrating the separate reporting requirements of GPRA, the CFO Act, and other specified acts, the accountability reports are intended to show the degree to which an agency met its goals, at what cost, and whether the agency was well run. I have endorsed the concept of an integrated accountability report and was pleased to learn that OMB plans to develop guidance, which is to be based on the experiences of the initial six pilots, for other agencies that may wish to produce such reports for fiscal year 1996.

QUESTIONS FOR CONGRESS TO ASK

I believe that by asking agencies the following or similar questions, Congress will both lay the groundwork for communicating to agencies the importance it places on successful implementation of GPRA and obtain important information on the status of agencies' GPRA efforts.

How Well Is the Agency Measuring Outcomes?

The experiences of many of the leading states and foreign countries that have implemented management reform efforts similar to GPRA suggest that striving to measure outcomes will be one of the most challenging and time-consuming aspects of GPRA. Nevertheless, measuring outcomes is a critical aspect of GPRA, particularly for informing the decisions of congressional and high-level executive branch decisionmakers as they allocate resources and determine the need for and the efficiency and effectiveness of specific programs.

As expected at this stage of GPRA's implementation, we are finding that many agencies are having difficulty in making the transition to a focus on outcomes. For example, to meet the goals in its current GPRA performance plan, the Small Business Administration (SBA) monitors its activities and records accomplishments largely on the basis of outputs, such as an increased number of Business Informa-

[12] House Committee on Government Reform and Oversight, 104th Cong., 1st Sess., *Oversight Plans for All Committees*, (Comm. Print 1995).

tion Centers. Such information is important to SBA in managing and tracking its activities. However, to realize the full potential of outcome-oriented management, SBA needs to take the next step of assessing, for example, the difference the additional Centers make, if any, to the success of small businesses. SBA also needs to assess whether the Centers and the services they provide are the most cost-effective way to achieve SBA's goals.

Similarly, the goals in the Occupational Health and Safety Administration's (OSHA) GPRA performance plan are not being used to set the direction for OSHA and the measurable outcomes it needs to pursue. For example, one of OSHA's goals is to "focus resources on achieving workplace hazard abatement through strong enforcement and innovative incentive programs." Focusing resources may help OSHA meet its mission, but this represents a strategy rather than a measurable goal. Officials leading OSHA's performance measurement efforts recognize that OSHA's goals are not sufficiently outcome-oriented and that OSHA needs to make significant progress in this area to provide a better link between its efforts and the establishment of safer and healthier workplaces.

How Are GPRA Performance Goals and Information Being Used to Drive the Agency's Daily Operations?

We also are finding instances where pilot agencies could better ensure that their GPRA performance goals include all of their major mission areas and responsibilities. It is important that agencies supply information on all of their mission areas in order to provide congressional and executive branch decisionmakers with a complete picture of the agency's overall efforts and effectiveness.

For example, the Bureau of Engraving and Printing's GPRA performance plans contain a goal for the efficient production of stamps and currency. However, these performance plans do not address an area that the Bureau cites as an important part of its mission—security. The Bureau has primary responsibility for designing and printing U.S. currency, which includes incorporating security features into the currency to combat counterfeiting. The importance of security issues has been growing recently because of heightened concern over currency counterfeiting. Foreign counterfeiters especially are becoming very sophisticated and are producing very high-quality counterfeit notes, some of which are more difficult to detect than previous counterfeits.

How Is the Agency Using Performance Information to Improve Its Effectiveness?

The value of an agency's performance information arises from the use of that information to improve the efficiency and effectiveness of program efforts. By using performance information, an agency can set more ambitious goals in areas where goals are being met and identify actions needed to meet those goals that have not been achieved.

Our recent review of selected fiscal year 1994 performance reports submitted to OMB by GPRA pilots suggests that agencies are missing an important opportunity to show how they are using performance information in cases where goals are not met.[13] In the pilot reports we reviewed, 109 of the 286 annual performance goals, or about 38 percent, were reported as not met.

GPRA requires that agencies explain why goals were not met and provide plans and schedules for achieving those goals. However, for the 109 unmet goals we examined, the pilot reports explained the reason the goal was not met in only 41 of these cases. Overall, the pilot reports described actions that pilots were taking to achieve the goal for 27, or fewer than 25 percent, of the unmet goals. Moreover, none of the reports included plans and schedules for achieving unmet goals.

Discussions of how performance information is being used are important because GPRA performance reports are to be one of Congress' major accountability documents. As such, these reports are to help Congress assess agencies' progress in meeting goals and determine whether planned actions will be sufficient to achieve unmet goals, or, alternatively, whether the goals should be modified.

What Progress Is the Agency Making in Building the Capacity Necessary to Implement GPRA?

As you are aware, I have long been concerned about the state of the federal government's basic financial and information management systems and the knowledge, skills, and abilities of the staff responsible for those systems. Simply put, GPRA cannot be fully successful unless and until these systems are able to provide decisionmakers with the program cost and performance information needed to make decisions. Because these financial systems are old and do not meet users' needs,

[13] *GPRA Performance Reports* (GAO/GGD-96-66R, Feb. 14, 1996).

they have become the single greatest barrier to timely and meaningful financial reporting. Self-assessments by the 24 CFO Act agencies showed that most agency systems are not capable of readily producing annual financial statements and do not comply with current system standards. The CFO Council has designated financial management systems as its number one priority.

In addition to problems with the federal government's financial and information management systems, we also have expressed concern about the absence of strategies in agencies for GPRA training and staff capacity-building.[14] Leading states and foreign countries that had implemented management reforms similar to those under GPRA made substantial investments in training managers and staff throughout their organizations and said that such training was critical to the success of their reform efforts. We are concerned that most federal agencies have not made progress in developing plans to provide this essential training in the creative and low-cost ways that the current budget environment demands.

I fully appreciate that, in this environment, maintaining existing budgets devoted to management systems and training is a formidable challenge. However, continued—and in some cases, augmented—investment in these areas is important to ensure that managers have the information and skills needed to run downsized federal organizations efficiently.

What Steps Is the Agency Taking to Align Its Core Business Processes to Support Mission-Related Outcomes?

In passing GPRA, Congress recognized that, in exchange for shifting the focus of accountability to outcomes, managers must be given the authority and flexibility to achieve those outcomes. GPRA therefore includes provisions to allow agencies to seek relief from certain administrative procedural requirements and controls. Agencies' efforts to focus on achieving results are leading a number of them to recognize the need to change their core business processes to better support the goals they are trying to achieve. For example, the U.S. Army Corps of Engineers' Civil Works Directorate, Operation and Maintenance program, changed its core processes by means of several initiatives, including decentralizing its organizational structure and delegating decisionmaking authority to project managers in the field. In exchange for this delegated decisionmaking, managers at the Corps of Engineers increasingly are being held accountable for achieving results. The Corps has estimated that, by changing its core processes, it has saved about $6 million annually including 175 staff years.

In summary, GPRA, along with the CFO Act, can be an important tool for congressional and executive branch decisionmakers as they grapple with the formidable policy, program, and resource challenges of reducing the deficit and managing the federal government. Now is the time for Congress to fuel the momentum established by the GPRA pilots by reinforcing to agencies the importance that it places in the successful and thorough implementation of GPRA. Congress can, for instance, support GPRA by using the performance information that agencies provide to help guide decisionmaking and by asking about the status of agencies' implementation of GPRA during congressional hearings. Your continued leadership and the leadership of your colleagues on authorization, appropriation, budget, and oversight committees across Congress is critical to continuing the momentum needed to ensure the aggressive implementation of GPRA.

This concludes my prepared statement. I would be pleased to respond to any questions.

RELATED GAO PRODUCTS

GPRA Performance Reports (GAO/GGD–96–66R, Feb. 14, 1996).

Office of Management and Budget: Changes Resulting From the OMB 2000 Reorganization (GAO/GGD/AIMD–96–50, Dec. 29, 1995).

Transforming the Civil Service: Building The Workforce of The Future, Results Of A GAO-Sponsored Symposium (GAO/GGD–96–35, Dec. 20, 1995).

Financial Management: Continued Momentum Essential to Achieve CFO Act Goals (GAO/T–AIMD–96–10, Dec. 14, 1995).

Block Grants: Issues in Designing Accountability Provisions (GAO/AIMD–95–226, Sept. 1, 1995).

Financial Management: Momentum Must Be Sustained to Achieve the Reform Goals of the Chief Financial Officers Act (GAO/T–AIMD–95–204, July 25, 1995).

[14] *Managing for Results: Status of the Government Performance and Results Act* (GAO/T–GGD–95–193, June 27, 1995).

Managing for Results: Status of the Government Performance and Results Act (GAO/T–GGD–95–193, June 27, 1995).

Managing for Results: Critical Actions for Measuring Performance (GAO/T–GGD/AIMD–95–187, June 20, 1995).

Managing for Results: The Department of Justice's Initial Efforts to Implement GPRA (GAO/GGD–95–167FS, June 20, 1995).

Government Restructuring: Identifying Potential Duplication in Federal Missions and Approaches (GAO/T–AIMD–95–161, June 7, 1995).

Government Reorganization: Issues and Principles (GAO/T–GGD/AIMD–95–166, May 17, 1995).

Managing for Results: Steps for Strengthening Federal Management (GAO/T–GGD/AIMD–95–158, May 9, 1995).

Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms (GAO/GGD–95–120, May 2, 1995).

Government Reform: Goal-Setting and Performance (GAO/AIMD/GGD–95–130R, Mar. 27, 1995).

Block Grants: Characteristics, Experience, and Lessons Learned (GAO/HEHS–95–74, Feb. 9, 1995).

Program Evaluation: Improving the Flow of Information to the Congress (GAO/PEMD–95–1, Jan. 30, 1995).

Managing for Results: State Experiences Provide Insights for Federal Management Reforms (GAO/GGD–95–22, Dec. 21, 1994).

Reengineering Organizations: Results of a GAO Symposium (GAO/NSIAD–95–34, Dec. 13, 1994).

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG–95–1, Dec. 5, 1994).

Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery (GAO/AIMD/GGD–94–90BR, Feb. 11, 1994).

Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD–93–41, Feb. 17, 1993).

Mr. CLINGER. Thank you very much, General Bowsher.

Senator Thompson.

Senator THOMPSON. Thank you very much.

I certainly appreciate your being here with us today. Hopefully, as we said earlier, this will be one of the first steps toward directing a little more attention toward the fact that this law is on the books, No. 1, and then getting us to talk to these agencies about getting prepared to do what they have to do in terms of more accountability.

In reading the materials, it does seem to me like it's going to be a long process and take a while. It's difficult around here to get much enthusiasm for something that doesn't show immediate outcomes, but I suppose it is going to be a while before we get the results of what we're doing here.

Apparently, we're lagging somewhat behind other countries. I think other panels will have some people address that, but you mentioned briefly that you have taken a look. From an overview standpoint, where do we stand with regard to our outcome-based efforts vis-a-vis other countries?

Mr. BOWSHER. I think there are three countries that are definitely in the leadership arena, you might say, on this type of effort: New Zealand, Australia, and the U.K. They started some years ago. In Australia and New Zealand, of course, you have smaller countries, and therefore, in some respects, it's always easier to turn a smaller organization around than sometimes the larger organization.

But in the U.K. today, 60 percent of their government operations have now been turned around, you might say, and put more on an outcome-oriented basis. And they have changed the relationship of

the heads of those agencies into a contract basis and things like that.

So I would say those three countries are ahead of us, and I think some of the States and even some of the local governments are ahead of us as well. I think now, in the last 2 years, there has been quite a bit done at the Federal level, but it has only been in the recent, I'd say, couple of years that the Federal Government here has got going on this type of an effort.

Senator THOMPSON. What about the corporate world? Is this not something that basically is pretty much stock in trade?

Mr. BOWSHER. Yes. I think when the Japanese brought in some of their management techniques and some of the corporate companies felt the pressure of that competition, they started to have to make changes here in the last decade or more. And one of the things that I found very impressive here is trying to get the Government to change, especially a place like DOD, is not easy.

We did a study sometime back between the inventory of medicines and surgical supplies they had at Vanderbilt University Medical School and Walter Reed Hospital. And we found that Walter Reed Hospital had three times as much inventory as what Vanderbilt had.

Now, Vanderbilt was more along with the corporate world. What they were saying is, the important thing is to get that medicine or that surgical instrument or item to the doctors or the patients when they need it, faster, not to stock inventory. The Army was more in its traditional mode of stocking warehouses at a central place, a regional place, and then at the hospital itself, then on different floors in the hospital.

The way the corporate world has done it is, they have actually got the suppliers to deliver on a much more, they call it, "just-in-time" basis. So that's really what was happening down there at Vanderbilt. They were getting a prime contractor, as they called it, to do the warehousing and to do the delivering right there.

Now, the Army was not quick to change, but they finally hired a retired Navy captain, if you can believe that, who had worked for Wal-Mart, and he had learned how Wal-Mart did it. So he started making the change out there, and now they are terrific believers in that. I was recently up in Philadelphia at one of the big defense logistics centers where we had done quite a few audits, and they are making a big change now on what they call the retail items in the inventory.

If you think about it, in the 1980's, in the early 1980's, when we built up the defense budget, we doubled the defense inventory. We went from 45 billion to 90 billion. Worse, we went from 10 billion to 30 billion of nonmoving items. In other words, what we did is, we filled the bins; we filled the warehouses. To a great extent, that's what that organization and the people in that organization were being tested on or reported on. But the truth of the matter is, that shouldn't have been the results or outcome, and now they are just starting to turn it around.

So I think we have a lot to learn from industry. I think we have some other models here in the State and local governments and even some of these other countries.

Senator THOMPSON. You mentioned the problem of overlapping programs, job training, for example, over 100.

Mr. BOWSHER. 160.

Senator THOMPSON. 160 job training programs, I think, over about 15 different agencies.

Mr. BOWSHER. Right.

Senator THOMPSON. Now, this new approach surely can have something to do with determining the effectiveness of each individual job program. How will it help the overlapping programs? Will this, in some way, facilitate the consolidation of these?

Mr. BOWSHER. If OMB and some central organization steps in and play the role that they should play, which they are presently, I think, trying to do, why then you should get to the overlapping issues.

In other words, if you leave it just to each individual agency, without some effort to get rid of the overlap and the duplication, a lot of times it won't happen. But if you have that kind of a central effort, or if Congress takes an interest, as many of the members have in this one area because of the GAO reports, reporting to Senator Nancy Kassebaum's committee, why they have taken a real interest in trying to do it.

So I think this process can be a big help in doing it. But if you don't have that focus and don't have the reporting so that you now have 160—one of the problems was, for a long time people didn't know that they had 160 problems. They didn't know what kind of results they were getting from those program either. And we went out and did those audits and came up with this huge problem.

Senator THOMPSON. Thank you, Mr. Chairman.

Mr. CLINGER. Thank you, Senator.

I now recognize the gentleman from Pennsylvania, Mr. Fox.

Mr. FOX. Nothing at this time.

Mr. CLINGER. Mr. Bass.

Mr. BASS. No questions at this time, Mr. Chairman.

Mr. CLINGER. Then let me ask a couple.

General, I think, as you know, one of the problems we have had with the Chief Financial Officers Act is that we didn't feel that the last administration or, indeed, in the early part of this administration, that they were really serious about getting top flight people into those positions. I think that the effectiveness of this Act is going to be equally dependent upon a commitment by top management in all these agencies to pursue it. Have you got a feel for whether there is that kind of a commitment?

Mr. BOWSHER. Yes. It's very important because none of these new management processes really ever work unless you get good leadership and talented people implementing them. I think the CFO Act, if I could go back to that for 1 second, was a good illustration. When the Congress passed it, we were in the middle of the Bush administration. They had a lot of the people in place; a lot of them didn't have the right background. They didn't move them out, which is what you would normally see in a situation like that. But when the new administration came in, the Congress spoke to them and they really have put in qualified CFO's. So I think we're making a lot of progress in the CFO Act in the various agencies.

I think, at this point in time now, this coming year, whoever wins the presidency, it ought to be a situation, I think, where the congressional leaders talk to the administration and point out how important this law is and what an important tool or process it is to really improve the Government and the congressional oversight. Again, I think, if we don't get really top-notch people in the agencies in leadership positions, like at the deputy secretary level, I don't think you will have the success with this program that the Congress is hoping for.

So I think the leadership is absolutely crucial here in, let's say, again, the 24 largest agencies of the Federal Government.

Mr. CLINGER. One of the areas that this committee and the Governmental Affairs Committee in the Senate are going to be concerned with in the future, and the administration is interested in pursuing, is civil service reform, which, I think, has not been really given serious attention for a long period of time.

How do you feel the concepts which are embodied in GPRA might be—could they be helpful as we address this?

Mr. BOWSHER. Yes. The civil service reform is very important, because, if you look at other countries, you will see that they really changed dramatically the reliance on their traditional civil service system and moved it over to a much more results-oriented personnel system.

I think that what you are seeing now is more flexibility being given to some of these experiments that they are doing in the executive branch. One of the areas that they are doing is trying to give the agency that is trying to carry out the program more flexibility in how they organize. You know, like at GAO, we have gone to literally 4 levels instead of 18 levels of GS ratings, so that we can really run the GAO more like a professional accounting or consulting firm in the private sector, and it has made all the difference in the world.

So I think that you have to—as each of the agencies come forward with their plans, I think the modification of some of the civil service rules is very crucial. We had a symposium some time back—I will let Nye may be make a few words on that—where we brought some of the leaders from the corporate world to the GAO and some of the Government officials who have worked in this area, even some from other countries, and there is no question that there is really a major effort to try to get organizations and the people in organizations much more trained and working in a results-oriented effort.

Nye, do you want to add to that?

Mr. STEVENS. Yes. One of the principles that emerged from that symposium was that we needed to get all of our systems in line within Federal agencies, that it's also the support system, like the personnel or human resource management system, that needs to be honed and sharpened so that it contributes the maximum to the mission of the agency.

The Civil Service Reform Act of 1978 did embody some of the same kinds of principles of individual responsibility, of setting goals for employees, holding them accountable for meeting those goals, differential awards and incentives, even some measures that were designed to get at the poor performers program. The manage-

ment of it, however, has been somewhat disappointing over the years, but it's not really a problem of the legislative framework really being there.

A number of the reforms that the private sector people suggested in our symposium, when you look at it very carefully, there are not statutory barriers to carrying out many of those things. There is no statutory barrier to allowing managers a good deal more flexibility in dealing with the employees that they have, for example.

Mr. CLINGER. Thank you.

I now recognize the gentlelady from Florida, Mrs. Thurman.

Mrs. THURMAN. I pass, Mr. Chairman.

Mr. CLINGER. Then I would be pleased to recognize the other gentlelady from the State of Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman.

I just want to thank you for calling this joint hearing today of the House Committee on Government Reform and Oversight and the Senate committee. It will help us focus our attention on a process that, as has been mentioned, has the potential to be a key element in fundamental changes going on in the way Government manages itself.

This process, set up by the Government Performance and Results Act of 1993, and to be phased in over a number of years, requires agencies to develop long-range strategic plans, develop annual performance plans, measure the performance against the goals, and, as a last step, report to Congress on how well the goals were met. Ultimately, GPRA envisions that agency budgets would be tied closely to this performance-oriented process. It really makes sense, if we can implement right.

GPRA, together with the Government Management Reform Act and the Chief Financial Officers Act, should help both Congress and the executive branch to carry out their responsibilities in a manner acceptable to the American people. I believe that the GPRA process, by concentrating on the results or outcomes of agencies' business, puts the emphasis in the right place.

I am concerned, however, that this process might be viewed as just another exercise or the latest fad, I suppose, and thus not get the attention and support that it deserves. To help dispel these notions, this is why we have this panel before us today and the subsequent panels, to gain additional insights into the process and about how it's actually being implemented, what is working, what is not working and why.

Your attention, Mr. Bowsher, to what is happening across the Government is particularly instructive. I know that we have other witnesses that are going to be sharing their experiences with performance-based management in other Governments, including State and local governments. I think it's important that these lessons that are learned help us to evaluate the Federal process.

Another concern that I have is that the GPRA process itself might be viewed as another drain on already scarce resources. I don't know whether you have addressed that, Mr. Bowsher. I might ask you about that. And you may have responded to some of the points that I brought out, but just in general, if you would like to pick up on what you consider to be the highlights of that.

Thank you.

[The prepared statement of Hon. Constance A. Morella follows:]

PREPARED STATEMENT OF HON. CONSTANCE A. MORELLA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. Clinger and Senator Stevens, I thank you for calling today's joint hearing of the House Committee on Government Reform and Oversight and the Senate Committee on Governmental Affairs. It will help us focus our attention on a process that has the potential to be a key element in fundamental changes going on in the way Government manages itself.

This process, set up by the Government Performance and Results Act of 1993 (or GPRA) and to be phased in over a number of years, requires agencies to develop long-range strategic plans, develop annual performance plans, measure their performance against goals, and, as a last step, report to Congress on how well goals were met. Ultimately, GPRA envisions that agency budgets would be tied closely to this performance-oriented process.

GPRA, together with the Government Management Reform Act and the Chief Financial Officers Act should help both Congress and the Executive Branch carry out their responsibilities in a manner acceptable to the American people. I believe that the GPRA process, by concentrating on the results or outcomes of agencies' business, puts the emphasis in the right place.

I am concerned, however, that this process might be viewed as "just another exercise" or the "latest fad" and thus not get the attention and support that it deserves. To help dispel these notions, I am looking forward to hearing from the witnesses scheduled to appear today in order to gain additional insights into the GPRA process and about how it is actually being implemented—what's working, what's not working, and why.

Here, Mr. Bowsher's close attention to what's happening across the government will be particularly instructive. Some witnesses will be sharing their experiences with performance-based management in other governments, including state and local governments. The lessons learned from those experiences should help us evaluate the Federal process.

Another of my concerns is that the GPRA process itself might be viewed as another drain on already scarce resources. One of the things I'll want to hear today is your thoughts on how that potential problem can he avoided or remedied.

I hope that today marks the beginning of a working partnership between the Congress and Federal agencies in carrying out GPRA. I believe that GPRA affords us a unique opportunity to work together to provide the most efficient and productive government possible.

Mr. BOWSHER. Sure. OK. I'd be pleased to, Mrs. Morella.

First, I think you brought up a very important point on the budget. In other words, I think one of your problems in oversight today and in doing the budget process is, you've got a budget chart of accounts in the Government that has no relationship to results. So I think, at some point in time, the budget, including may be capital budgeting, Mr. Clinger, could be considered, because to get a much better reporting, financially speaking, is needed.

Now, another issue that you raised, will this become just another paperwork exercise or another management exercise? It's a real danger. That's why the role of Congress is so important. In other words, if you don't use it as part of the oversight and get yourself organized to ask the right questions—and one of the things I've been advocating for some time is an annual oversight hearing, by this committee and the comparable Senate committee, for the larger agencies in the Federal Government, to just find out what happened during the past year.

Did you get your annual audit? Did you get a clean opinion? Where do you stand with your GPRA? Have you set the goals? Have you reported on how well you did? And everything like that. In other words, the authorizing committees are going to be much more interested in how well are the individual programs working.

But I truly believe that what you need, much like an annual stockholders meeting, you need a hearing once a year in the Congress as to just how well is the organization working and how are they working toward some of these program goals and that.

So if you did some of that, it seems to me, you would get the attention of the agency head. I think a good example right now, unfortunately, is the IRS, because the IRS has not been able to do well in their systems and their annual audit. And I know it's got the commissioner's attention. She really would like to get it straightened out and that, but it does take the problems of the training of the people in new systems, and everything else, to achieve that.

But I think, if Congress keeps the right focus, I think you can keep it from being just another management or paperwork exercise.

Your third major question, if I was following, is whether this is a drain on the people. There's no question, when you make change in an organization, you then have to allocate certain resources and certain talent to making those changes, and that is a drain, in a lot of people's view. But you have to make those investments every once in a while or your organization stagnates, and that is, to a great extent, what has happened in Government. It's also what's happened in a lot of private companies, too.

I remember when I went into the quality management effort at GAO, in 1991, I passed out, at my annual management meeting, the 1921 list of the Fortune 500. It's amazing how few of those companies are still on the Fortune 500. And many of them, if they were at the top, are no longer near the top, which shows that, even in the private sector, making change so that you are more in line with the current needs is not easy.

And it isn't easy in Government. But you have to make those kinds of investments every once in a while to modernize your organization. With technology that is becoming available today, the organizations that are going to survive and do well have to make that investment. So there's no question, it's not going to be an easy time for a lot of the people within the organization. Someone will complain about a drain.

Mrs. MORELLA. It's particularly important, I would imagine, to have administrative leadership that is strong.

Mr. BOWSHER. Very, very important to have the executive branch leadership that can carry this kind of a change out. That's right.

Mrs. MORELLA. And the leaders within the departments. Thank you.

Thank you, Mr. Chairman.

Mr. CLINGER. I thank the gentlelady.

I would like to recognize the gentlelady from Florida, Mrs. Meek, for any questions you might have.

Mrs. MEEK. No questions, Mr. Chairman.

Mr. CLINGER. Thank you. Then I now recognize my colleague from Pennsylvania, Mr. Fox.

Mr. FOX. Thank you, Mr. Chairman. I am pleased we are kicking off the first of three hearings to explore the overall goals of the Government Performance and Results Act, agency compliance procedures, and future objectives for this important legislation.

Government has a duty to the taxpayers to provide its services at the lowest cost possible without sacrificing the quality of necessary services. It also has a duty to provide its services to the public at the highest possible quality. This is a businesslike approach and one that the private sector often uses. Now we apply it to the Government, and we should get better results and more careful management of costs.

We have outstanding witnesses today that the Chairman has secured, and we look forward to continuing to hear their comments on strategic plans and recommendations that incorporate results-oriented performance measures.

I thank the Chairman for this time.

Mr. CLINGER. I thank the gentleman.

The gentlelady from New York, Mrs. Slaughter.

Mrs. SLAUGHTER. No questions.

Mr. CLINGER. No questions.

Senator Thompson.

Senator THOMPSON. Thank you. Before Mr. Bowsher and these gentlemen and their expertise get away from here, I would like to ask another couple of questions.

It is obvious to me, in listening to you, that this is going to require a major effort from congressional committees, authorizing committees, subcommittees. If we don't tell these agencies what we expect and work with them in developing their plans, for example, it's not going to work. And OMB is going to be reviewing all these plans.

From what I've seen from the pilots, it's not all that easy for these agencies to change their way of thinking in coming up with plans that really can be used for outcome-based analysis. You know, improve efficiency and things like that, that's not going to get it anymore, is it?

Mr. BOWSHER. That's right.

Senator THOMPSON. It's a quite a job. And when you think through it, I'm wondering, what your thinking is in really changing that kind of mindset. Because in many of these agencies, it's not like a business. A business can really tell bottom line, basically, how well they are doing, usually, and that's not what the Government is about.

The Department of Education doesn't educate anybody, and the Department of Justice doesn't arrest any muggers, with very few exceptions, unless they are on Federal property or something. What they do, basically, is give grants to other people to do these jobs. So how do you develop a plan to determine what your outcome ought to be when others really are where the rubber meets the road?

Second, when you get into some of these programs—I'm chairing the Juvenile Justice Subcommittee, for example, and I got into these questions when we started thinking about the reauthorization—how do you tell the effectiveness of these programs? We're giving money to States and grants, and some strings here, and may be no strings over there. And somebody comes up with a great idea, "This ought to do some good," and we appropriate so many millions of dollars for it, have no idea whether or not it's doing any good.

I don't know if we have any idea as to how to test it, because a lot of it is—and more and more is going to be—on the prevention side, which is a long-lead item, at best. And over here on the side you've got constantly changing factors, demographics, for example. The teen population is dipping now. The teen population, the troubled population, is going to be heavier. So the programs may be working very well, and you have even more and more crime.

I know this is a load all at once, but they are just scattered thoughts of problems that I see that are going to be extremely difficult if OMB and these congressional committees, at the lowest levels, are not constantly on these things. What are your insights into that?

Mr. BOWSHER. Well, I think you raise a very important point, and that is that a lot of the Federal Government money goes out to State and local governments or to the private sector; the program is not totally run by the Federal Government agency. I think what you have to do is, you have to get the Federal agencies thinking more along the lines of what are the results that they want, including the actions of the people that they are sending money out to.

In other words, one of the great problems we have fallen into in the Federal Government was that, if you go back 50 years, the Federal Government pretty much ran whatever they were doing, and all our focus was on that. I think the S&L crisis was a great example of where legislation and oversight got us into trouble or was a contributing factor to getting us into trouble, and then it cost the taxpayer $200 billion. And the Federal Government's role, they didn't play it very well, some of the regulatory agencies and that.

So I think—like I just received an annual report here from the Arizona Department of Economic Security, which is a little bit like our Labor Department and our HHS. And the person who is in charge of this, Linda Blessing, sent me the annual report that's got the financial reports and everything, but also it's got the results-oriented programs; in other words, for their Dislocated Worker Program, their Family Investment Initiative, the Child Support Enforcement, the Healthy Families.

Now, a lot of this, as you point out, Senator, is funded by Federal money. So the big thing is to get our HHS people and our OMB people, and eventually our congressional people, thinking, how does that money flow out of the Federal Government down to Arizona, out there to service these people, and are we really accomplishing something for the people out there that need this help. We haven't had that focus, generally, in the past. It was really, did we get the check out there to the State of Arizona, or did we get the Social Security checks out to the agent there.

So it is, a much broader thinking, but it's more in line with what the people that are sending their tax money in here are really relying upon the Government to do. So it's a big change. It's going to take a lot of change, as far as talent and training in the OMB staff, in the congressional staffs, and the congressional oversight. No question about it.

Senator THOMPSON. Right.

Mr. BOWSHER. Yes. I might point out, too, that when the United Kingdom went at this, they went after the areas that they thought

they could get the biggest payoff first. And I think that makes a lot of sense in applying some of these new techniques.

Senator THOMPSON. What was that, do you recall, what they went after first?

Mr. BOWSHER. Chris, you are probably more expert on this than I.

Mr. MIHM. Their big initiative now is called the Next Steps initiative, and what it seeks to do is look at the more direct-service-providing functions of Government and spin them off—still keep them within Government, but have very direct output-oriented performance agreements between the head of the agency and political leadership.

So, in the case of a Next Step agency, for example, that deals with visas and passports, or their social security administration, or even traffic licensing—that's nationalized over in the United Kingdom—those types of things that can be easily separated out, in which you can have clear agreements on levels of performance, are where they are starting.

As Mr. Bowsher mentioned in his opening comments, they have about 60 percent of the United Kingdom civil service now working in these Next Step agencies.

Senator THOMPSON. I see. Well, talking about spin-offs, this will help in the whole devolution debate also, I would assume.

Mr. BOWSHER. Yes. What properly belongs where.

Senator THOMPSON. What properly—what's working here and what's not working here, and what might work better at another level of Government.

Mr. BOWSHER. Exactly. Yes.

Senator THOMPSON. Thank you, Mr. Chairman.

Mr. BOWSHER. If I could just point out one thing, too, and that is, our Government, you know, is just a little more complicated than most other governments. Most other governments have a national government and a local government. So achieving this here, I think, is even more difficult, and also the size of our organizations.

Mr. CLINGER. Thank you.

I am now pleased to recognize the gentlelady from Florida, Mrs. Thurman.

Mrs. THURMAN. And I thank the Chairman.

I just have one question. You spend some time on the issue of better defining agencies' missions and goals, and then go through a series of areas where you feel that there have been some achievements through their outcome.

How do we best, as Congress and the agencies, work together to pull this information, so that when we do go in—for example, you mentioned the job training programs with disadvantaged, and it sounds like there has been some conversation or communication. But it really doesn't do any good—and I'm afraid that what happens is, sometimes these things will sit on a shelf and never get to the committees or to the congresspeople. What can we do to facilitate that happening?

Mr. BOWSHER. You can best hold oversight hearings and ask the questions—where are your reports? In other words, the law now requires those reports in the year 2000. They are doing pilots. So

agencies are generating those reports, and then they are supposed to have their strategic plan here in 1997, their 5-year plan. So the best thing that Congress can do is to work with the agency heads in oversight hearings as to how well is it all working, what progress are you making, things like that. Only if you do that will it really become real in their lives.

Mrs. THURMAN. As a follow-up, as we go through even the debates that are going on today, and there may have been some work that has been happening because of a result of this, and it gets ignored. I mean, it will kind of set over there, but yet there's a lot of work that's been going on. Very frustrating for those people in those agencies that have been doing that work. Then all of a sudden here's a bill on the floor that goes totally against what might have been projected as an outcome that could have been achieved a different way.

So while the oversight is important, I think there also has to be a mechanism by which, at the time legislation is going on and/or review in a committee of legislation, have access to that so that we're not just spinning our wheels out there.

Mr. BOWSHER. Yes. I think that's why it's so important to get the authorizing committees into the business.

Mrs. THURMAN. OK. So that's a suggestion.

Mr. BOWSHER. Absolutely. And I think, if you get working along these lines, then, hopefully, more of the legislation that is crafted would be done under the umbrella of this way of managing the Government. It won't happen overnight, but that's what you really want to achieve.

Mrs. THURMAN. May I ask another question? As you may know, we've been talking about the whole rules issue within this Congress, as well as to whether it should come back to the legislature or not. Have you had any thoughts on how that might work within this framework that we're talking about?

I mean, if agencies are out there doing outcome and they are trying to set certain areas, and part of their way is doing that through rules besides just waiting for the legislature or Congress to act on that, I'd be interested to know if you have any thoughts or if that's even been a consideration.

Mr. STEVENS. Basically, I think you're referring to the regulatory reform initiatives.

Mrs. THURMAN. Exactly.

Mr. STEVENS. Yes. And there is very much a GPRA connection there, in that the pattern that most of the regulatory agencies have followed up until now has been fairly prescriptive. It has been laying out quite detailed requirements for the height of guardrails in a working environment, for speed limits and that sort of thing in a highway environment. The challenge the GPRA raises is to have them look at what actual outcomes and real differences are made by those programs.

The Comptroller General used, in his opening statement, a Coast Guard example in which, when they focused on ship inspections, they defined their job as doing ship inspections. And they did more and more each year and thought they were doing fine, but they hadn't really asked the tough question: What does ship inspection have to do with marine fatalities?

When they really went into that, they discovered that, indeed, human error was the most common cause, and that caused them to completely revamp their approach to work much more closely with the industry and develop an approach to that, and it was very successful.

I think the whole regulatory problem is going to be to determine more, what are these agencies really trying to accomplish, and to define their activities to accomplish those results, and then to measure them by how well they do that. That's going to mean that regulations are simpler and, I should think, therefore easier for Congress to review than the very prescriptive details of whether the railing needs to be 18 inches or 20 inches.

Mr. BOWSHER. If I could give you one more illustration, too. We did a review a couple of years ago on EPA and how they were trying to work with industry on changing it. We went down to an oil refinery here in Virginia, and that was a case where they kept getting these different regulations and rules, and sometimes they thought it made sense; sometimes they didn't. Sometimes they thought it was too costly to make that fix, and everything like that.

Finally, the Government people and the industry people, the company people, got together and said, "What are we trying to do? We're trying to have an oil refinery here in a neighborhood that people will feel the environment is being protected;" in other words the air, the water, and everything like that. So they worked together and came up with a much more results-oriented outcome, and they are now pursuing that as part of this.

So I think, if that kind of effort starts to take place more often, then it would seem like the results would be better, and maybe a lot less frustration, and maybe less cost.

Mrs. THURMAN. Just a follow-up on the example that you used with EPA. Part of my concern with this coming back to Congress is that, if we don't allow that leeway between those agencies once some of this has been in place, are we going to put ourselves into a situation where we've actually slowed down the very thing that we're trying to make more efficient?

Mr. BOWSHER. Yes, I think you could fall into that trap, and Congress has historically done some of that.

Mrs. THURMAN. Thank you very much.

Thank you, Mr. Chairman.

Mr. CLINGER. General, it seems to me that what we're looking at here is going to have to be a very dynamic process. And the concern I have is that Government doesn't tend to respond rapidly to changing situations. As Senator Thompson pointed out, the results that we may want may change over time, and that we possibly could be behind the curve all the way along unless we have some way to ensure that the process can be responsive to changing circumstances, whether demographic or whatever may be involved.

I can see that we could get into a position where the results we achieve are not the results we should be achieving, given changed circumstances.

Mr. BOWSHER. I think it's a very good point. And I think, with technology moving as fast as it is, it is a good example of what you could achieve, say, 10 years ago was much more limited than what you could achieve today in some of these areas. So what you want

is the Government to keep moving, and they have traditionally not been doing as well in that area as what the private sector has in recent years.

But I think that's where Government has got to pick up and catch up because you can't keep doing it the old way.

Mr. CLINGER. I think you pointed out, and it's been stressed here throughout, that the authorizing committees definitely have a role to play to make sure this works.

Mr. BOWSHER. They have a big role, yes.

Mr. CLINGER. And I think, from our vantage point, we have to encourage the authorizing committees to become very deeply involved in this.

Mr. BOWSHER. Yes.

Mr. CLINGER. But, clearly, Senator Thompson's committee and this committee have an equally important role, because we're the only committees that really have an oversight over the whole panoply of what's going on here.

Mr. BOWSHER. That's correct. That's exactly right.

Mr. CLINGER. So we have to have a closer relationship with our authorizing committees as well as with the agencies themselves.

The gentlelady from Florida, Mrs. Meek.

Mrs. MEEK. Thank you, Mr. Chairman.

I have a question and a concern. My background has been in higher education pretty much all my life, and we did a lot of strategic planning—goals, objectives, rationale, and all those kinds of things—for many, many years. Many times this never got enacted. It never got used, because you must have people who are supposed to make this happen and must be sure that everyone else becomes a part of this. Otherwise, it just becomes another well done paper or well done document that ends up in File 13.

Also, the Florida legislature did something very similar to this, and it was effective to a point. But there has to be a way that we can keep this going and have it flexible enough so that new administrations and new congresspeople can react to it based on the needs of the people they represent as well as the Government agencies that serve all the Nation. So I hope you keep that in mind in your planning, that it does need flexibility. It does need some very long-range things that you can look forward to.

Also, now that I'm in Congress, I'm just wondering what kinds of safeguards or kinds of measures you put in that 435 congresspeople who sit on these committees can be made aware of this kind of process. It's a very important process, and it does help. But I see two things:

It's going to be very costly, because in order to do these kinds of performance reviews and kinds of things that are necessary, you need trained people to train the people to carry this out. I'm sure that's in your plan, and I'm asking you to be sure that it's there and to be sure that it's implemented. Because there may be a bad trainer training the people who are in the agencies as well as the congresspeople, and you need that kind of performance review.

I would also like to know, how does your implementation of this law interact with President Clinton's reinventing Government initiative?

Mr. BOWSHER. Well, first let me address the one big issue that you asked, and that is—or the big fear you have—and that is that it stays up at this level and doesn't really get down to the organization. That is a big part of any failure. When we've seen organizations—when we go out and look at organizations and find that they didn't really make a lot of progress, I think that's as much a factor as any.

In other words, people would do the big thinking up here. They would get a mission statement. They would get a set of goals and that, but they don't change the processes down in the organization, and that takes training. Just as you say, the emphasis has to be on training, and you've got to go through that to achieve it. And if you don't, why then you don't have a successful program.

I think, as far as the Congress, again, it's how you review how well this program is working, as part of your oversight function as well as the authorizing, on the program reviews and that, and you've got to make it real. It becomes real to the agencies if the Congress is asking the question, how well is this working that you're now trying to put in this new system?

Mrs. MEEK. Thank you. You didn't answer the latter part of my question regarding—Mr. Chairman, if I may have this opportunity—how does this work in or does it work in with the Clinton administration's plan?

Mr. BOWSHER. Oh, yes. The NPR efforts and the Clinton people—the OMB people are trying to—in other words, they are doing the pilot programs here, so there is that interrelationship.

What I don't think there has been enough of is, really, Congress asking enough of the questions about how well is this all working.

And I think this will be especially important as you go through either an administration change or a second 4 years of the Clinton administration. Whichever it turns out, you're going to have a lot of new people, probably, in the executive branch, and it's awfully important for the Congress and those new members of the team in the executive branch to be working together here. Because if you don't work together on this kind of an effort, it probably won't be successful.

Mrs. MEEK. Thank you.

Thank you, Mr. Chairman.

Mr. CLINGER. Thank you, Mrs. Meek.

Mr. BOWSHER. Mr. Chairman, if I could just take 1 minute. Chris has reminded me, too, that lots of times, if you can do this successfully, you end up with less cost. in other words, you have the investment that you have to make in the training and maybe some new systems and everything like that, but many times one of the things you're hoping to achieve is to produce the Government programs at less cost.

Mr. CLINGER. Thank you.

Mrs. Maloney.

Mrs. MALONEY. First of all, I'd like to ask if my opening statement could be put in the record.

Mr. CLINGER. Without objection.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

PREPARED STATEMENT OF HON. CAROLYN B. MALONEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Thank you, Mr. Chairman, for holding this important hearing on the Government Performance and Results Act of 1993. There is always room for improvement in government management techniques. Setting goals and priorities and ensuring satisfaction for the public is a major priority. The Government Performance and Results Act (GPRA) was one of the first major steps taken by the 103rd Congress to re-invent government. Currently in the process of implementation, GPRA has strong support from both sides of the aisle in Congress and in the Administration, as one of the key elements of the National Performance Review.

Federal managers today are impaired in their attempts to improve efficiency and effectiveness because they lack the program goals and performance measurements which GPRA requires. And as they work to provide public services, they are increasingly expected to perform with fewer resources. The implementation of GPRA will provide incentives for new ways of getting things done. Implementing it will not be easy, but its benefits will be great.

By the beginning of the next century, GPRA will hopefully have a dramatic effect on the way the Federal budget is prepared, and how agency performance is measured. This will produce profound change, both in the mechanics and in the culture of government. The Act is currently in its infancy, with only a small number of pilot programs being run. Nevertheless, oversight is very important—the best way to ensure that the plans of Congress are correctly implemented is to start early. GPRA will provide Congress with improved sources of information on government performance. We need to learn to absorb that data and act on it intelligently. So, I'm especially pleased that the Comptroller General is addressing this in his testimony.

Mr. Chairman, I hope that our colleagues consider carefully the information gathered at this hearing as they ponder the issues of government management and budget policy in the second session of the 104th Congress. It could prove invaluable in setting priorities as we look ahead to the next century. While these issues do not often generate excited public interest, they are essential to the proper functioning of government.

Thank you Mr. Chairman.

Mrs. MALONEY. I'd like to ask the Comptroller, you just made the statement and the point that Congress needs to encourage the agencies in the efforts to do better, but is there anything more specific that we can do?

Mr. BOWSHER. Well, I've always thought that Congress could do a better job of rewarding programs that are having success and maybe holding back some money from programs that aren't doing so well. I've always thought that Congress maybe fell into a trap of continuing to give as much money to lots of programs that weren't working very well. And I think this should focus a lot better as to what programs really are worthwhile and which ones are being run efficiently and effectively. Then I think Congress has got to use the money decisionmaking a little more effectively than maybe they have in the past.

Mrs. MALONEY. In your testimony, you discuss problems which appeared in evaluating the various GPRA pilot programs, such as the difficulty in shifting agency focus to outcomes. Are there specific patterns in these problems or errors which GAO has observed throughout these agencies in testing GPRA, and do these suggest any broadly applicable solutions?

Mr. BOWSHER. Yes. Let me ask Chris to answer that question, because he has been working directly with many of these agencies.

Mr. MIHM. The single greatest problem that we've seen—at this point, it's still a challenge rather than a problem—is shifting the orientation to begin to start focusing on those outcomes. One of the things, when we go into the pilots, and we're in a number of them now, that really sets off a red light for us is when we are told up

front that "Gee, GPRA won't change a lot here. We've been doing it for years."

That tells us or gives us an initial indication that an organization probably just doesn't get it, that they are thinking that what they have traditionally measured, what they have traditionally held themselves accountable for, and what they traditionally have reported to the Congress, things like activities, are going to cut it in the new environment. That's not what GPRA is about, and we spend some time trying to convince them on that.

What organizations typically find, and it takes some time, and this is why it took Australia and some other countries 10 or more years to get there, is, as you begin to start focusing on outcomes, the real results that you get from your program, it can really change over what you do on a day-to-day basis. The Coast Guard has found that, and other organizations all across the Government are beginning to see, once they focus on outcomes, it really changes what they do.

At this point, we don't see the need for any broad changes other than just to continue, on the part of the Congress, to press agencies and insist that they think in terms of outcomes, that they report to you in terms of outcomes, and that you hold them accountable for those outcomes. That's the advantage of the pilot period for all of us to test out how that works.

Mrs. MALONEY. Do you think, with Congress watching more closely, agencies would set their performance targets more accurately or not? Wouldn't there be the temptation to low-ball their expectations so that performance would look better in the end, so that they would be reported because they have done better than what they projected they would do? How do we guard against that?

Mr. BOWSHER. I think there's always that temptation, but I think, also, what I've noticed in organizations that get into this, they generally want to do it right. In other words, if you're going to try to figure out what your results-oriented efforts ought to be, I think there has generally been good motivation, myself. Now, I think one of the roles of OMB and of the Congress is do some checking; in other words, to make sure that people aren't falling into those traps of low-balling the targets.

Mrs. MALONEY. There has been testimony about the need to adopt new ways to measure performance, but there is not necessarily agreement among experts and Government administration about how best to do this. Can you outline for us what some of the basic concepts are which we can expect Government agencies to consider? How can we help ensure that there is some degree of consistency?

Mr. MIHM. Ma'am, in the work that we've been doing in the GPRA pilots, and work that we did in leading States that are implementing programs like GPRA, and in leading countries that are implementing programs like GPRA, there are a number of characteristics that we've seen that are common to successful performance measurement efforts.

First, they are very careful about linking what they do, linking their measurement systems to the goals that they are trying to achieve. All too often we find, in Federal agencies, they can be measuring literally dozens or more things, and then when you go

in and begin to probe, "What does this information tell you?" "How is it linked to really what you're trying to achieve?" They will say, "Well, it's really not" or "We think it's linked in some indirect way." So the first lesson we've seen is that there is a real focus on making sure what you measure is really linked to your goals.

A second thing that we've seen is that they focus on the "vital few," or what has been called the "vital few." They don't try and develop hundreds or more performance measures. They try and get it down to just those essential measures that are providing to Congress and the American people and themselves, as agency officials, the information they need to manage the programs, things like outcomes and financial information to tell them costs.

The third thing that they do is, they focus on trying to create a balanced set of indicators; that is, measures that pull them in different directions, create incentives that force them to balance off competing priorities.

And, finally, the fourth thing that they do, and they spend quite a bit of time, successful organizations, on this, is that they go about trying to make sure that the measures they establish are what are commonly referred to as "responsibility-linked"—that is, that there is a reasonable cause-effect relationship between something good that happens in the outside world and the action of the Federal agency, that it's just not what the Australians, when we visited there, characterized to us as an "end world hunger"-type measure, which is just—the only thing you conclude at the end of the year is, world hunger is still there, so you need to give the program more funding.

There's a real need to make sure that we don't get to the those types of measures. So the "responsibility-linked" measures are the fourth of the common characteristics.

Mrs. MALONEY. In this Congress, there has been a great deal of talk and focus and legislation to block grant to the States. How does the Federal Government obtain adequate measures for the performance of programs which it delegates to the States through block grants? As you know, many of our Federal programs came into existence because States were not performing responsibilities adequately. How are we going to measure performance on block grants?

Mr. BOWSHER. Well, we talked about that earlier, because what you've got to do then—and actually there is more of the Federal Government money that goes out to the State and local governments and to the private sector today, to actually implement the programs, than most people realize—so what you've got to do is, you've got to think through all the way down to that level, not just the Federal Government's role, but the role of, in that case, like a block grant to the State, as to what are you trying to accomplish and how well are you doing it.

You've got to go out there and look to see how well you're doing. I think, if the Congress was to decide on a block grant for Medicaid, which is one of the issues that you're debating, why it will be awfully important to go out and look at how the States are implementing that and what are the results, not only on an overall program, but in some of the very specific areas, like for the disabled,

for the elderly that are in the nursing homes, and, in addition, for the poor who are needing medical and hospital care.

I think some of the audits that we've done—like we've done audits on Tennessee's program and Arizona's program and Hawaii on that—each State implements it differently, but you can make judgments as to how well the program is doing and where are the problem areas, and things like that. So it's doable.

Mrs. MALONEY. So, in other words, we will be dependent on the States to develop their own measures, but then we will oversee the measures that they develop; is that what you're saying, that we are dependent on them to develop the measures?

Mr. BOWSHER. Yes, but also I think you can go out and take a look-see of how well is it happening. In other words, it's a partnership, really, that you've got to work out.

Mrs. MALONEY. What happens if a State isn't providing a service? What if they get a block grant for child care and they decide they need it for infrastructure, or something happens to it, what then is the Federal role?

Mr. BOWSHER. Well, then, at that point, you have a decision to make, either in the executive branch or in the Congress, if you find that to be the situation, whether you want that to continue or not.

Mrs. MALONEY. OK. Is Dr. Kettl here?

Mr. BOWSHER. He's coming later.

Mrs. MALONEY. He's coming later.

Mr. BOWSHER. Yes.

Mrs. MALONEY. He's coming later. OK. I got here late, so I didn't get to hear all of it.

Some activities, like the census, which occurs every 10 years, have a time horizon that makes performance measurement very difficult. How should an agency deal with planning activities when the results are years down the road?

Mr. BOWSHER. My census expert is right with me here today, so I'll let Nye answer that question.

Mr. STEVENS. Well, the census really is a quintessential planning exercise, and one of the points we made in examining it is that, unless you are investing right now in planning for the census in the year 2000, there's a very good chance that the decisions that need to be made in advance, so they can be carried out in time to measure those millions of people, won't be made.

In terms of the GPRA-specific planning process, it is difficult, because their cycle is such a long one. I would say, however, that the current budget environment, for all agencies including the census, which has got the agencies thinking in terms of a horizon that takes them all the way out to 2002, has actually had a beneficial effect on the GPRA kind of thinking, because no longer are agencies only thinking about what their budget is this year, their activities this year, their budget next year, but they are forced to think about a 5-year timeframe, by congressional action, which they really haven't had to do before.

The census is more used to that than most, and their problem is really something like the one we're talking about today, getting congressional attention early on to decisions they have to make, before anybody else is really thinking about the census. And they are having a little trouble doing that right now.

Mr. CLINGER. Carolyn, can you begin to wrap it up?

Mrs. MALONEY. OK. Well, later on today, we're having another hearing in another subcommittee.

I was looking for the time to come on. Is the time not on, not working?

Mr. CLINGER. No, I'm not using the time clock.

Mrs. MALONEY. You're not using it?

Mr. CLINGER. No.

Mrs. MALONEY. I kept waiting. Where's the time light, you know.

We're having a hearing later on today, and I was reading the GAO report last night of the IRS. They came out with a report 5 years ago to make certain changes. Five years later, they come out with another highly critical report that the changes haven't been made. Then, according to the IRS's own planning, and after spending $8 billion, they will only be processing electronically 17 percent of their paper. So, in other words, GAO has been coming out with a series of reports, making specific recommendations that an agency apparently isn't listening to.

Mr. BOWSHER. No, I think they are listening. What they are having a hard time with is achieving it. In other words, I don't think there's any problem that the commissioner over there is not trying to achieve what they were trying to do, and that is modernize those systems at the IRS. It's just, as we point out in the report that you read, that the talent and the success has not been there to the extent that she would like or we can report.

It's a big problem over there at the IRS to modernize the technology and the systems that they said they would do. So you're absolutely right, it's a major problem. I don't think it's lack of attention; I think it's a lack of getting themselves organized, recruiting the right people, and, in this day and age of technology, you have to have that talent there if you're going to go into that kind of a program.

Mrs. MALONEY. But it's 5 years later. You had the same report 5 years before. They still haven't acted. I mean, I'm sure they say they are. But that happens a lot of times. They say, "Yes, we're going to act," then they don't, for whatever reason. So what do you do in that case?

Mr. BOWSHER. Well, I think you have to keep them working at it. And I think, eventually, you have to make a decision as to whether this program is going to be successful or not. I think the Government has had a very poor track record here on these big, modern computer systems, whether you're at Defense, whether you're over at some of the social agencies, and certainly at IRS. They have not had a lot of success in modernizing those systems. And we keep reporting, just as you say.

Mrs. MALONEY. Thank you, Mr. Chairman.

Mr. CLINGER. The gentleman from Wisconsin.

Mr. BARRETT. Thank you, Mr. Chairman. Since the subject of this hearing is "Performance-Based Government," and implicit in that is efficient use of Government, not wasting time, and not having Government just go through the motions, I have no questions. Thank you.

Mr. CLINGER. Very refreshing, Mr. Barrett. Thank you very much.

The gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. I will associate myself with the gentleman from Wisconsin's remarks.

Mr. CLINGER. We're very grateful.

Senator Thompson, any further questions?

Senator THOMPSON. No.

Mr. CLINGER. General Bowsher, we want to thank you very, very much, and your colleagues, Mr. Stevens and Mr. Mihm, for your very helpful testimony. We appreciate it very much and look forward to working with you as we move toward effective implementation of this very important legislation.

Mr. BOWSHER. We look forward to working with the committee, both committees. Thank you.

Mr. CLINGER. Our next panel, if they would now come forward as I introduce you.

First is Dr. Donald F. Kettl, professor of public affairs and political science at the University of Wisconsin at Madison, and a nonresident senior fellow at the Brookings Institution here in Washington; Mr. Robert W. Lauterberg, director of planning and budget for the Commonwealth of Virginia; Mr. Frank Fairbanks, city manager for the city of Phoenix, AZ; and Mr. Malcolm Holmes, senior public sector management specialist with the World Bank, and former senior official for the Ministry of Finance of the Government of Australia.

Gentlemen, we are delighted to have you here today, delighted to have you with us this morning to share your expertise in this very difficult but, I think, very important exercise that we're engaged in here. I guess we would begin, if we may, with Dr. Kettl.

Mr. BARRETT. Mr. Chairman.

Mr. CLINGER. Oh, I'm sorry.

Mr. BARRETT. I just want to welcome Professor Kettl here.

Mr. CLINGER. Oh, indeed. I yield to the gentleman from Wisconsin.

Mr. BARRETT. He is not a constituent of mine, but I attended the University of Wisconsin, and he's got a good reputation there, and I am very pleased that he is here today.

Mr. CLINGER. Delighted. Dr. Kettl.

STATEMENTS OF DONALD F. KETTL, PROFESSOR OF PUBLIC AFFAIRS AND POLITICAL SCIENCE, UNIVERSITY OF WISCONSIN AT MADISON, AND NONRESIDENT SENIOR FELLOW, THE BROOKINGS INSTITUTION, WASHINGTON, DC; ROBERT W. LAUTERBERG, DIRECTOR OF PLANNING AND BUDGET, COMMONWEALTH OF VIRGINIA; MALCOLM HOLMES, SENIOR PUBLIC SECTOR MANAGEMENT SPECIALIST, WORLD BANK, AND FORMER SENIOR OFFICIAL, MINISTRY OF FINANCE, GOVERNMENT OF AUSTRALIA; AND FRANK FAIRBANKS, CITY MANAGER, PHOENIX, AZ

Mr. KETTL. Thank you, Congressman.

It is a great pleasure for me to be here. I am, as you introduced me, Mr. Chairman, a professor in the La Follette Institute of Public Affairs, at the University of Wisconsin, and also a nonresident senior fellow at the Brookings Institution Center for Public Management. The basic question that I want to try to address today is:

what are the stakes for Congress itself in the Government Performance and Results Act?

There are 10 different points, in fact, that I raise in my testimony, and I want to just summarize it briefly here. But begin with a quick story. I've got a dog who spends most of her days looking out the front window, trying desperately to get to the squirrel that's on the other side. She's struggling. She barks, she whines, she growls, and never quite manages to get the squirrel. And we've always managed to try and ask the question, what would happen if that ever happened? What would happen if she ever caught that squirrel?

That, in a way, is Congress' problem now of trying to figure out what to do about the deficit. What would Congress do if the budget ever got balanced? Or, put differently, what would Congress do if, in the search to balance the budget, the current balanced budget strategies don't succeed?

I think the most important stake for Congress in the Government Performance and Results Act is the leverage that it gives Congress to try to deal with those questions, to try to deal with those things that have to be done, and to try to move it from a debate over how much money ought we to spend for something to what kind of results do we get for the money that we provide in tax dollars. Where do we cut when we need to cut, where to spend where we will get the most value for the money that we do spend, how to deliver results in a world that inescapably leads us to the balanced budget debate?

There are, it seems to me, at least three basic stakes for Congress that I want to try to explore just briefly here. I ask that my full testimony be inserted in the record. The first is for authorizations; the second for appropriations; and the third for the basic budget debate between Congress and the administration.

First, on authorizations, there are two things in particular that it seems to me that performance-based management can do for the authorizations process. It can improve oversight and can improve policymaking. On the oversight side, there is the question of strategic planning and the question of what it is that agencies are doing, what it is that they think that they are doing, and how it is that they talk about what it is that they think that they are doing. In short, it is a window into the critical decisions that agencies have to make day-to-day on how they going about doing what it is that they do.

Too often we weigh these claims on the basis of competing claims by political forces out there. In fact, as the colloquy between Mrs. Maloney and the Comptroller General pointed out, simply having information about what it is that agencies do and how they do it allows discussion on a far different level than would be possible otherwise.

Being able simply to ask questions about the IRS computer modernization project would not have been possible without some kind of bottom line information about its results. It doesn't solve the problem but at least allows the conversation to proceed at a much different level and allows key questions to focus on the most important issues.

We need, in authorizations, to ask ourselves: which strategies work best and, if we have an extra tax dollar to spend, where should we spend it? Again, it won't solve the problem but it will allow us, at least, to ask the questions that we need to ask to be able to get to the questions that, in the end, matter the most. So those, I think, are the stakes for authorization.

On appropriations, the real key is to get leverage over the big questions, the overall levels of taxing and spending, the question of providing discipline, and how to get real payoff in the process. What happens if in our current search for a balanced budget, the balanced budget amendment and other things, in fact, fall short? We need, in any event, to secure some kind of discipline over Federal spending. I think that the Government Performance and Results Act provides a way of getting that discipline.

In talking with public officials in Phoenix, AZ, which has gone a fair way down this road, they told me the story about what happens with city contracts. I asked, "Explain the politics of this to me." And they said, "Well, what happens is, if someone comes before the city council with a proposal for a contract for garbage collection that is demonstrably more expensive than some alternative, no matter how well wired it is, it makes it very hard for someone to sit there and make the case for something that, while it makes political sense, is economic nonsense."

Simply having the ability to ask the questions makes it possible to get much better leverage over the truly important fiscal issues. When resources are scarce, we need smarter ways of asking the right questions. We need some way, on top of that, to provide some information about the payoffs.

Suppose that, in fact, we did manage to balance the budget. Suppose, in fact, that my dog managed to catch the squirrel. What would we then do? What would supply the further leverage over the budget? What would happen if it turns out, as I suspect and fear would be the case, that balancing the budget only becomes a proximate success and citizens are still looking for a Government that works better?

Balancing the budget will not, cannot, in itself, solve all the problems, and we need to establish the foundation for talking about what citizens, I suspect, in the end, really care about most, which is making Government work better. That, in many ways, is the key question that the appropriations process has to deal with.

In addition to authorizations and appropriations, there is a third point which is the relationship between Congress and the Office of Management and Budget on the question of the Federal budget itself. It seems to me very clear, over the last few years, that we have demonstrated that we need to transform the conversation between the President and the Congress about what the budget is and how it ought to work.

In particular, having debates over how much money to spend doesn't tell us what results the money produces. We need a much better piece of leverage to try to get to the question of what priorities should we focus on, what strategies should we use? What strategies, in fact, are likely to work best? We need, in short, to focus the conversation on what matters. This is a long way down the road; in fact, considerably past the requirements of what the

Government Performance and Results Act mandates. But it is clearly, it seems to me, the direction in which we need to head.

We need to have a strong Office of Management and Budget that asks Federal agencies to think about what they do in terms of what they produce, to think about that in performance terms, to use that performance language to communicate to Congress what it is that it is requesting, and therefore to allow Congress to focus more clearly on the questions that matter the most. This is a long step down the road, but it is a journey that we ought to be taking.

What does this all add up to? There are many more points in my testimony, but I just want to focus on one important issue, which is that this is not really a matter of measurement. It is too easy, deceptively easy, in the business of the Government Performance and Results Act, to think of it purely as a measurement exercise. And if we do, we will surely fail.

What it really is is a matter of political communication. It is a way of changing the way that we think and that we talk and communicate and ask questions about the issues that are most central to the political process. Nothing could be more central to Congress than the Congress' needs, and Congress needs to improve the way that it has leverage over what the executive branch does and over what the executive branch spends, and makes the Government Performance and Results Act a central strategy, inevitably for Congress, in doing what Congress has to do.

Congressional leadership, in short, is essential to making it work, and without it, it will go the way of a lot of other Government reforms that have been introduced in the past.

The other thing that is absolutely critical in all of this is a reformed civil service. We, at Brookings, are now in the process of sketching out an idea of what it is that civil service reform, if properly considered in this context, might look like. What would a performance-oriented civil service consist of for the future? We expect to have that report available within the next month or two.

But more than anything else, what that underlines and circles back around to is the central question that the symbols of a balanced budget get Congress part way but not all the way down the line to where it needs to go. In the end, what we need to do is to transform the conversation about what it is that we want to have happen, and the Government Performance and Results Act provides an invaluable way of doing just that.

[The prepared statement of Mr. Kettl follows:]

PREPARED STATEMENT OF DONALD F. KETTL, PROFESSOR OF PUBLIC AFFAIRS AND POLITICAL SCIENCE, UNIVERSITY OF WISCONSIN AT MADISON, AND NONRESIDENT SENIOR FELLOW, THE BROOKINGS INSTITUTION, WASHINGTON, DC

Few issues could be of greater importance to the work of these committees than the implementation of the Government Performance and Results Act of 1993 (GPRA). It is a great pleasure, therefore, to appear before you to discuss the critical stakes for Congress in effective implementation of this act.

I am a Professor of Public Affairs and Political Science at the University of Wisconsin-Madison. I am also a Nonresident Senior Fellow in the Brookings Institution's Center for Public Management, where we have been closely following GPRA and the broader issues of improving government performance.

What I want to share with you today are ten reasons why GPRA can help Congress solve problems that must be solved. My argument, in summary, is this:

> Citizens and public officials alike are all too correct in criticizing the way the federal government works. Performance is not what it could be—and the per-

formance measurement required by the act is the keystone for solving this problem. But Congress is critical to making performance-based management work. Without strong congressional leadership, GPRA's impact will fade away. For members of Congress to play that leadership role, GPRA will have to provide them with answers to questions they need to solve. GPRA can in fact do just that: It can provide the missing link between authorizations and appropriations, on the one hand, the worries about government performance on the other.

The ten points are these:

1. We must tackle both the performance and budget deficits.
2. Performance measurement is the keystone to reducing both deficits.
3. Performance measurement provides Congress with critical information about agencies' strategic decisions
4. Strategic plans provide a road map to achieving results.
5. Performance measurement connects plans with results.
6. Performance management can improve the authorization process.
7. Performance measurement can improve the appropriations process.
8. Performance measurement is no magic bullet—but it helps Congress do what has to be done.
9. Performance measurement can transform the President's budget submission to Congress.
10. Performance measurement can vastly improve Congressional policy making.

Let me explore these points in turn.

1. We Must Tackle Both the Performance and Budget Deficits

Too often, debate on cutting the federal deficit proceeds on the assumption that, should we ever truly succeed in eliminating the deficit, the nation's problems would end. Eliminating the deficit would demonstrate great political will, and that would be a huge accomplishment. Citizens worry that government doesn't work and can't make tough choices. A serious deficit reduction plan would show that government solve such problems.

Even balancing the budget, however, would not solve all the critical questions. Eliminating the deficit, whether by cutting programs or increasing taxes, would necessarily not ensure that government would work any better. Indeed, some programs might work even worse. Many of the downsizing and budget cutting decisions have been made with a blunt instrument. Government offices have often come out of the process ill-configured, with the wrong collections of people and technology to promote efficiency. (That has too often been the result of downsizing in the private sector as well.) Inefficient offices could frustrate citizens doing business with government; they could allow fraud, waste, and abuse to grow; and they could generate fresh news reports about a government that can't shoot straight.

Citizens are not likely to react warmly if, after having been promised a government that works better and costs less, they get a government that works worse and costs more. Applicants for social security benefits expect quick and friendly service, along with predictable and accurate checks. Midwest residents want timely tornado warnings, while coastal residents need good hurricane predictions. Workers expect their pensions to be safe; flyers, the air traffic control system to guide them safely to the ground; citizens, their drinking water to be free of toxins. The symbol of a balanced budget will have little meaning if citizens are angry that the services on which they rely are poor and unreliable.

That is not an inevitable outcome. But it is a likely result unless government's policy makers realize that shrinking government's size is not one problem but two: first, eliminating what can and should be cut; and second, ensuring that what is left—what policy makers determine is the core that government can and should manage—works well. So far, public debate has focused on the first problem. Sooner or later, we will have to turn to the second. And unless we solve it, public anger at government, its institutions, and its elected officials is likely to grow even bigger.

I have argued elsewhere that American government has not one deficit but two: a budget deficit, and a performance deficit. Unless we solve both deficits, citizens rightly will be unforgiving.

• GPRA frames a coherent attack on both the budget and performance deficits by allowing a serious discussion, for the first time in American government, on what we get for the money we spend. It provides members of Congress a way to bridge the gap between the budget and performance deficits.

2. Performance Measurement is the Keystone to Reducing Both Deficits

We are not alone in struggling with the twin deficits. Some nations have been working for well over a decade on cutting both deficits, while the American federal government has been single-mindedly focused on the budget deficit. Other nations

have had greater success in reducing both deficits than the United States has. And the most successful nations have build their efforts on performance measurement.

Although the private sector can provide interesting insights for performance, the really useful models on these questions are countries like Australia, France, New Zealand, and Sweden, and the United Kingdom. The drive to shrink government has been surprisingly global. Where it has been most successful, the government reduction movement has been coupled with tactics to improve government performance. In Australia, the focus has been on "letting managers manage" by working to remove barriers to energetic administration. In New Zealand and the United Kingdom, the focus has been on "making managers manage" by introducing market competition into government services. But in all of these cases, performance measurement has been at the core.

Performance measurement in these countries has been important for two reasons. First, performance measurement has helped government policy makers move from a focus on inputs—how much they spend on programs—to a focus on outputs—what results they get from the money they spend. The American reform effort has concentrated just on the first half of this equation. It is little wonder that it has proven so frustrating, because the input focus (how much money to spend) has proceeded independently of what really matters, what the money buys. With this disconnection, it is hard to ask the important questions or to provide answers that satisfy anyone for long.

Second, performance measurement has helped government policy makers move from process—how decisions get made—to results. For a decade, the American federal government has struggled to devise procedural solutions for tough substantive problems. Elected officials have tried automatic deficit reduction tactics like Gramm-Rudman and have proposed spending ceilings like the balanced budget amendment. No process, however, can force elected officials to make decisions they do not want to make. And no process can prove a guide through tough substantive problems.

• GPRA builds on the success of other nations by demanding that government agencies make performance the touchstone for their actions. It provides members of Congress with a way of focusing government on what it does instead of what it spends.

3. Performance Measurement Provides Congress with Critical Information about Agencies' Strategic Decisions

The fate of the laws Congress passes depends on how agency officials manage them. Members of Congress rightly expect that managers will administer the laws as passed. From the administrators' point of view, however, the situation is often far more complex and full of conflict. They face competing demands on how aggressively to administer these laws, which can lead to inconsistent decisions, and different laws can ask them to do conflicting things. They sometimes do not have enough money to do all that a program's beneficiaries might expect, which can produce frequent complaints. And they rarely have enough time to satisfy all legislative goals simultaneously, which means they must make hard choices.

Executive branch officials must constantly make strategic choices about where to invest their energy, how to balance conflicting demands, and how best to achieve the goals they seek. Sometimes they do it like explorers in a jungle, hacking their way with dull machetes through the policy forest. Sometimes they do it much more carefully, planning their steps to maximize legislative goals. One way or another, these decisions determine what gets done and what public programs produce.

Recent rounds of budget cutting have made this process much harder. Downsizing of the federal government's workforce have hit some agencies harder than others, so those remaining have frequently had to learn how to do new jobs with less help. If budgets have been cut, citizens' expectations rarely have shrunk, so government workers have faced even harder problems.

This leads to two implications. First, government managers can solve these problems only by thinking and acting strategically. They need to decide how to balance competing demands, which problems demand the most immediate attention, how to apply new technology to do their jobs smarter, and how to deliver more for less. In the midst of such turmoil, government managers often feel they have no time to plan strategically. But in the face of such hard problems, the only possible solution is for them to act and think carefully. The tougher the problems, the more important strategic planning becomes.

Second, congressional authorization and appropriation will increasingly need to build on these strategic plans. The more important strategic planning becomes, the more important it will be for members of Congress to review these plans. They will frame the important tradeoffs that managers deep inside agencies will make. GPRA

requires agencies to write strategic plans (which is important in itself), to publish those strategic plans (which is critical to Congress), and to use these strategic plans as the foundation for measuring results (which in the end is most important). This process might seem obscure and esoteric. The transparency it creates, however, can vastly improve congressional oversight, authorization, and appropriations processes because it opens a window into the most important decisions of executive agencies.

• The law and logic of GPRA requires government agencies to write strategic plans. These plans will guide members of Congress to the truly critical decisions that these agencies make in implementing the law.

4. Strategic Plans Provide a Road Map to Achieving Results

It is one thing to focus on results. It is another thing to determine how to achieve them. Strategic plans not only provide transparency to the process by which managers set their priorities. They also provide a road map for how managers propose to reach results.

Businesses, of course, have used strategic plans for years, but they are far newer to government. Good strategic plans have six steps:

• Define the mission. Legislation defines public programs. It does not—and cannot—prescribe the operating focus for an agency's operations. Talk about writing "mission statements" can sometimes seem like abstract consultant-speak. But mission statements can explain to the world outside the agency how agency officials view their work. And the process of producing such a statement can prove extremely powerful in stimulating a conversation within the agency about what really matters.

• Frame the goals. The mission and culture combine to describe the general purposes of the agency, what it seeks to achieve, and how it goes about achieving them. Framing the goals, in clear and specific language, provides the critical link between the law and the specific activities of agency officials to manage the law.

• Set the objectives. Operating managers must translate broad agency goals into specific objectives for managers. Framing objectives create a bridge between goals and the work plans for individual units. It charts how each manager's work fits into the agency's overall mission.

• Assign responsibility for achieving objectives. Not only is it important to define what ought to be done. It is also critical to decide who ought to do it. Performance measurement can improve accountability only if it helps link organizational goals with specific objectives and clearly defines responsibility for producing results.

• Specify output/outcome measures. Agency officials must define measures (or "indicators ") to assess whether managers are achieving their objectives, and then collect information on those measures.

• Compare results with goals. Finally, agency officials must compare results with goals. The outcome measures allow them to compare their actual performance with what they sought to achieve.

The Internal Revenue Service, for example, has already developed a strategic plan that charts the agency's path through these steps. The agency has defined a broad mission:

> Mission: The purpose of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost; service the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency, and fairness.

It has set three goals:

1. Increase voluntary compliance
2. Maximize customer satisfaction.
3. Achieve quality-driven productivity through systems improvement and employee development

Under the first goal, IRS has specified two objectives:

1a. Collect at least 90 percent of the total tax dollars due and owing, through increased voluntary compliance and enforcement.

1b. Achieve the recognition of the public, outside stakeholders, and IRS employees for the ethical conduct of IRS regarding: fair and uniform application of tax laws; maintenance of the highest standards of integrity; and confidentiality of tax information

The measurable indicators for the first objective is the amount that IRS collects of taxes due and owing. It has set performance goals of 86.6 percent in fiscal year 1995, 86.8 percent in fiscal year 1996, 87.2 percent in fiscal year 1997, increasing to 90 percent by 2001. IRS has also assigned specific responsibility to individual units for achieving these objectives. It has gone through a similar process for the other goals and objectives.

The IRS strategic plan tells everyone:

- what mission IRS seeks to accomplish.
- how IRS plans to meet its mission.
- what success IRS has had in achieving its mission.
- who has been responsible for successes and failures.

More than any other tool at Congress's disposal, strategic planning provides a road map to what agencies are trying to do and how well they are doing it.

- More than any other tool at Congress's disposal, the strategic planning that GPRA requires of government agencies will provide an important road map to what agencies are trying to do and how well they are doing it.

5. Performance Measurement Connects Plans with Results

What agencies do, in the end, matters much less than whether what they do solves the problems for which they were created. It is one thing to forecast the weather; it is another to provide timely information that minimizes the loss of life in a hurricane. The Customs Service can inspect passports and luggage, but that doesn't necessarily reduce drug smuggling. When we worry about performance, what we really want is to solve problems, not count how much activity agencies have.

This puzzle moves us directly into the arcane distinction between outputs and outcomes. Such talk immediately produces the MEGO (my eyes glaze over) phenomenon. But this distinction matters critically to Congress's ability to solve the problems for which it legislates, for this reason: Most federal agencies and most federal managers do not directly produce goods and services. Important exceptions include agencies like the State Department, the Social Security Administration, the Department of Veterans Affairs, and the National Weather Service. But most managers spend their time in partnership with other managers—in other federal agencies, at other levels of government, in nonprofit organizations, and in the private sector. It is this partnership that in the end actually produces the goods and services that the government pays for.

For example, the Department of Education actually provides little education; it makes grants to others who educate. The Department of Defense does not build missiles or fighters; private contractors do. OSHA does not make workplaces safe; it regulates and inspects workplaces to ensure that private companies keep their facilities safe. The Health Care Financing Administration does not provide Medicare services; it funds and manages a vast array of nonprofit and for-profit organizations who do so.

This creates a dilemma for measuring results. What matters most is what results federal programs produce. This leads logically to measuring program results. But most of these results depend on how well the partnerships work and therefore are out of the direct control of federal managers. Federal managers understandably are nervous about being measured and held accountable for results they cannot directly control. Instead, they argue that performance measurement ought to focus on their activity. Should GPRA focus on holding managers responsible for results they can control but risk losing sight of the bigger picture, or should it measure the broader impact of government program but risk losing a clear sense of who is responsible for what?

In the language of performance measurement, the question resolves itself to this: Should government measure outputs, the services produced? Or should government measure outcomes, the results achieved?

On the most basic level, the answer is simple. Government must seek to do both. We need information about the specific activities of government managers and about the broader results they produce. But we also need to be very frank: This is very hard to do. The measurement issues at play rank among the toughest technical challenges in public management. The degree of difficulty, however, should not prevent us from trying as hard as we can to do it right. If the solutions are hard, the questions are critical.

On a deeper level, moreover, the return even from basic information can be so great that we ought not be hindered in developing a system just because we cannot fully implement it immediately. The experiences of other nations demonstrate quite clearly that performance measurement emerges only from a very long—probably decades-long—process. In the meantime, however, getting better information about who is doing what, even if that information is rudimentary, can so substantially improve public debate that we ought not be hindered by the scope of the total task.

Does a federal job training program work? It makes much more sense to gauge how many people are trained, what their characteristics are, what kind of jobs they get, and how long they keep them, than simply to declare a program a success because it spends a certain amount of money. Does the air traffic control system work? Comparing delays with on-time arrivals makes far more sense than simply counting outlays. None of these measures gives a full picture. But basic output data is always

better than any input data. Advocates of the crime bill several years ago declared success by putting 100,000 more cops on the street. What really matters, of course, is whether the cops actually got to the street and what they did when the got there.

More experienced nations have developed different approaches to these tough questions. New Zealand officials are quite explicit in arguing that the system should be limited to output measures. That, they say, keeps the system firmly grounded and allows clear analysis of who does what. The British government, likewise, has focused on outputs. In Canada and Australia, however, the government has broadened the focus to assessing outcomes, although output measurement remained the basic building block.

We quite simply will not know what works best in the American system until we get more experience. But any output/outcome-based system will be vastly superior to our current non-system, which too often judges performance based on tax dollars spent. GPRA requires agencies to measure outputs; it asks them to move toward outcome assessment. It is thus the first step toward the more sophisticated performance measurement system the nation needs.

The output/outcome question is not an either/or choice. Output measurement is the building block for everything that follows. Moreover, it yields information far superior to input-based judgments. We ought to move aggressively through better strategic planning to output measures.

• GPRA builds an important foundation for better policy making by making managers identify and measure outputs.

6. Performance Measurement Can Improve the Authorization Process

Members of Congress face tough questions in authorizing programs: What is the best way to attack a problem? How much money should we spend on trying to do so? What works? Given impossibly competing demands, where should we spend extra money—and which programs should be cut? There are no easy answers to what inevitably requires tough political judgments. But performance measurement can provide some clues.

First, performance measurement generates real information beyond the usual round of claims made by program advocates. What does an agency do and how well does it do it? The experiences of other nations, as well as of state and local governments who have experimented with this system, is that performance measurement greatly informs political judgments. Hard data, moreover, can help counter strong political pressure.

Second, performance measurement provides a way to allocate scarce tax money. Economists talk about the marginal productivity of an extra dollar: Where can we invest the next dollar so that it produces the greatest impact? Performance measurement can identify which programs work best so that members of Congress can tell where money will be best spent.

Third, performance measurement suggests which policy strategies are likely to be most effective. The more agencies describe what they are trying to do, how they are trying to do it, and what they accomplish, the more members of Congress will know about what works. Should federally funded job training rely on federal grant programs to state governments or vouchers to those who need training? Do private companies provide better payroll services than the government's own operations? Performance measurement can never provide foolproof answers to hard problems. But it can shine a searchlight into the dark recesses of government programs and provide valuable clues about what works best—and why.

• By focusing conversations on outputs instead of inputs, on results instead of dollars, GPRA can help members of Congress make better decisions about which programs to authorize and how much money they ought to receive.

7. Performance Measurement Can Improve the Appropriations Process

The Appropriations Committees face even tougher problems: comparing the value of competing programs, and weighing how much to spend overall with the tax dollars available. The struggle revolves around how to create a picture of the whole, how to talk about critical tradeoffs, and how to move the debate from particularized claims to the big policy issues.

As long as the debate centers on how much to spend—that is, on inputs—it will be impossible to jump the gap to the big questions. The United States has spent a decade devising and debating procedural fixes to these questions. Results have proven modest because it is fundamentally impossible to join the symbol of a balanced budget (supported by everyone in theory) with the detailed decisions needed to reach it (contested by everyone in practice). This is a fundamentally unbridgeable gulf.

It makes far more sense to debate what to spend in the context of what results the federal government produces. First, the search for a balanced budget has produced some leverage in making hard appropriations decisions, but it cannot drive all of the tough decisions. Second, a balanced budget might some day be reached, but members of Congress will then need a new instrument to enforce spending discipline. Third, members of Congress are likely to discover that, despite widespread rhetorical support for the idea of a balanced budget, voters might provide little political payoff unless they are also convinced that a smaller government also works better.

Quite simply, Congress in general and the Appropriations Committees in particular need a far more sophisticated tool to make the decisions that lie ahead. The experience of other nations suggests that focusing on results helps provide that tool. It helps crack the door for more competition, and hence more efficiency, in providing government goods and services. It helps build a base for the badly needed restructuring of government agencies and processes. And most important, it changes the very language of the debate.

Information about results has changed the fundamental dynamics wherever performance measurement has been tried. One Phoenix city official told me that it is hard for politically well-connected contractors to push for expensive contracts if the data show that they are twice as expensive as the alternatives. Collecting the information cannot make hard decisions easy. It can, however, fundamentally alter the nature and language of the debate: about what the real issues are, and what the effects are likely to be. I like to think about performance measurement, therefore, as a system of political communication: how we think and talk about the fundamental issues of government.

- GPRA can assist the Appropriations Committees by providing a subtle tool to bridge the gap between deficit reduction goals and the decisions needed to reach them. More important, its performance focus can fundamentally alter the terms and language of the debate.

8. Performance Measurement is No Magic Bullet—But It Helps Congress Do What Has to Be Done

It would be easy to overpromise on what GPRA can do and then to be disappointed by what it actually produces. That, after all, has been the track record of previous reforms, like Planning-Program-Budgeting in the 1960s, Zero-Based Budgeting in the 1970s, and Total Quality Management in the 1980s. Frankness demands that we admit two things about GPRA: It is very hard to do; and even if done well, it cannot possibly solve all of our problems.

Indeed, as Australian officials have frankly admitted to me, they have been at the process for a decade and still don't have it right. But they have also had more than a decade to abandon the process, and they have not. That is because it gives them leverage over important problems that they can get no other way.

Performance measurement will never prove a panacea. It imposes huge technical problems. Quite frankly, it produces few immediate rewards. Doing it well requires time, patience, and investment in new technology and training for the workers developing it. It might well be, moreover, that voters will take excellence for granted and see anything less as a failure. The immediate political payoffs are likely to be modest.

But performance measurement is an inescapable step toward tackling decisions that cannot be ducked. It is, in a sense, the price of admission to the next set of decisions that will face members of Congress: what to do if the balanced budget campaign runs out of gas, and members of Congress need a new tool for gaining leverage over the budget; or what to do if it succeeds, and tough new questions surface—as they surely will. GPRA might be a low-visibility project, but like a strong foundation under a skyscraper, the government's work is likely to sink and sag even more without it.

- GPRA provides no magic bullet for solving government's problems. But it does provide the foundation for doing what must be done.

9. Performance Measurement Can Transform the President's Budget Submission to Congress

Because the congressional budget review builds on the president's submission, the form of that budget can greatly affect Congress's ability to make critical decisions. If the president's budget were to be submitted in a performance-based format, it would greatly increase Congress's ability to ask the important questions. It would also focus the debate between Congress and the president on the issues that matter most.

Office of Management and Budget Director Alice Rivlin has made GPRA the core of her OMB 2000 restructuring effort. OMB has sought to change the focus of its budget examiners from budget requests (inputs) to performance results (outputs). The budget office will have to complete this transition—and so, too, will executive branch agencies—before a budget submission in performance format would even be possible. It might well take the full seven-year GPRA phase-in period to get to a place where a performance-based presidential budget would be feasible. (All federal agencies are not required to submit annual performance reports until March 2000.) But such a performance-based budget surely is a next-round target at which to aim.

• GPRA can provide the foundation for even more sophisticated improvements in federal budgeting. Most notably, it could aid the transition to a performance-based presidential budget submission to Congress. Such a budget could enormously improve the ability of the president and Congress to grapple with the truly fundamental budgetary issues.

10. Performance Measurement Can Vastly Improve Congressional Policy Making

Members of Congress today are wrestling with immensely complex problems. And they need the best tools they can get. GPRA is an invaluable addition to the congressional toolbox. In reviewing the steps it requires, it would be easy to mistake GPRA purely as a set of techniques for executive branch managers.

However, GPRA is at its core a tool of greatest use to members of Congress. The very process GPRA creates shines a light on the issues that most demand congressional attention: the choices and tradeoffs executive branch officials make in implementing the law; which policy strategies and tactics work best, and which ones don't; who is responsible for which results; and where new resources can best be put to use.

In struggling with these issues, members of Congress often find themselves trying to straddle an unbridgeable chasm: on one side, with admirable goals that win enthusiastic support; and on the other side, with tough decisions on the details of policy. What performance measurement can provide is a bridge between them. It does not necessarily make the trip painless, but it can make it possible.

Effective implementation of GPRA therefore ought not to be a goal in itself. That can only promote mindless bean counting. Members of Congress, instead, ought to pursue GPRA because it provides a tool to do what has to be done: grapple with the truly important and fundamental issues that lie inescapably over the horizon, past the balanced budget debate.

• GPRA should not be viewed as an end it itself It provides, rather, a tool to help members of Congress do what they have to do, and to do it in ways that no other existing tool allows.

Mr. CLINGER. Thank you, Dr. Kettl, very much.

May I say to all the panelists, all of your testimony will be included in full in the record, and so you may summarize, if you choose.

Mr. Lauterberg.

Mr. LAUTERBERG. Thank you, Mr. Chairman.

My name is Robert Lauterberg. I am director of planning and budget in Virginia. I appreciate this opportunity to describe for you Virginia's performance budgeting process. The process that Virginia has implemented integrates strategic planning, performance measurement, and budgeting.

My background, prior to coming to State government, was in the private sector where I did strategic planning. My experience taught me that most successful large business organizations have already integrated these three elements: strategic planning, performance measurement, and budgeting. It helps them to remain competitive, to prepare for changes in technology, for changing competitive threats, and to improve the bottom line by focusing resources on their most cost-effective uses.

Government programs must also work to improve their competitiveness, in order to compete for scarce resources. Virginia's next biennial budget will have the third lowest rate of growth in the last 25 years, largely as a result of the slowing economy. At a 9.4 per-

cent rate of increase over the next 3 years, this will be about one-half of the rate of increase that we have seen throughout the 1980's and even the 1970's. Revenue growth has only been slower during recession times.

So budgeting has become much more difficult at the State. Even though revenue growth has slowed, the public is still demanding costly improvements, particularly in public safety and in public education.

Since a business-as-usual approach was not an option for us in developing our budget, Governor Allen implemented a process in Virginia that requires each agency to set priorities and to demonstrate, through the performance of programs, that current activities deserve to be continued. The process is called "Goal-Setting and Performance Budgeting."

It has three parts. The first part is that agencies develop strategic plans. We have modeled our strategic planning after a private sector approach where you ask, "who are my customers," "what are their requirements," and "what are the strengths, the weaknesses, opportunities, and threats that may impair our ability to meet these customer needs?" This fundamental examination of agency missions has led us to identify the critical issues and the corresponding strategies to be addressed during the next biennium.

The next step in the process is to have the agencies submit their budget requests. For ongoing activities in State government, we discarded the baseline budgeting approach that we have used in past years. Instead, we used an exercise to move beyond the status quo. Each agency examined the activities it performs and was required to answer this question: If this agency didn't exist today, would our customers and the taxpayers be best served if this activity were privatized, eliminated altogether, or transferred to another agency in State government?

As a result of this, we incorporated in the budget recommendations of 30 agencies to privatize 53 different programs. The annual value of those programs is $627 million. Thirty-one agencies recommended reorganizing or downsizing 46 other programs. For new activities, we required that agencies justify the new activities based on the strategic plans that they had already implemented.

The third element of our performance budgeting process is performance measurement itself. Each agency was required to submit, as part of its budget request, a minimum of three to five performance measures. One was to be a broad outcome measure, with the other measures relating to the highest priorities of the agency.

So let me conclude by saying a few words about performance measurement. In Virginia, the design and collection of performance measures is primarily the responsibility of the executive branch. Yet we believe it is very important to have the involvement of the legislative branch to ensure that there is continuity, as Governors change, and that the legislative branch has access to the data that will also help them to make better budget decisions.

Currently, we are working with the Joint Legislative Audit and Review Commission in Virginia, which is similar to your GAO, to review agency performance measures and to make recommendations for improvement. Later, we will be involving the House and Senate appropriations committees, as well. Now, there are a num-

ber of important roles for the legislative branch to play in a performance measurement system. At the Federal level, you could probably identify at least seven areas where the Congress should be involved.

First, Congress should help select the key program performance indicators that will be tracked. This is a fundamental policy issue, and it will be critical to your oversight that the agencies are monitoring performance measures that measure the success of programs that you consider to be most important.

You should review the design of how performance data will be collected, as well, to make sure that the data is meaningful, verifiable, and objective.

Third, the congressional committees should monitor actual performance measures at regular intervals to identify problem areas, unusual successes, and trends.

Fourth, performance data should be compared to benchmarks. You can compare the program results of Federal agencies, and the results of programs in those agencies, with programs in other agencies or with other subprograms at various levels of government and in the private sector.

Fifth, you should compare the efficiency and effectiveness of alternative programs that have substantially similar missions. In Virginia, when we prepared our budget, the Governor included a proposal for dealing with juvenile crime that had three different approaches. One was to establish boot camps. Another was the establishment of wilderness work camps. And then, third, we are implementing military school style discipline in some of the traditional youth detention facilities.

Now, these are three different approaches. They have different costs on a per-bed basis. The length of incarceration in each of those will be also different. So the real issue that we have to address is, which is most effective in terms of avoiding recidivism and will present the best combination of cost and effectiveness? Only through objective data collection will we be able to answer this question, and that will take several years to answer.

Sixth, your program funding decisions should be based, whenever possible, on historical relationships between funding and performance. In Virginia, when we budget for economic development programs, we are able to look at these historical relationships in terms of the amount of funding that is spent for economic development and the number of new jobs that are created and the millions of dollars in new investment that are generated by businesses attracted to our State.

Last, performance measures at the Federal level may be used to support the turning back of responsibilities to States. As Congress is looking to transfer more programs to the States, State governments are looking for more flexibility in administering the programs. Performance measures can be used to maintain accountability in those programs, even as strict mandates are being rolled back.

With that, I appreciate the opportunity to address the committee and look forward to your questions.

[The prepared statement of Mr. Lauterberg follows:]

PREPARED STATEMENT OF ROBERT W. LAUTERBERG, DIRECTOR OF PLANNING AND BUDGET, COMMONWEALTH OF VIRGINIA

Chairman Stevens, Chairman Clinger, and Members of the Committees, I am pleased to be here today to discuss our efforts in Virginia to meet our citizens' demands for a more responsive and cost effective state government. The management structures and processes that were satisfactory in years past are no longer effective in an environment of rapid change and intense competition for resources. The need to prioritize programs and spending and to ensure high performance and accountability has never been greater.

Until recently, strategic planning and performance measurement were employed only sporadically and to varying degrees by Virginia state agencies. Even in the agencies where these management tools were being used, there was little or no explicit linkage between strategic planning, performance measurement, and budgeting.

Beginning in the summer of 1995, Governor George Allen instituted a performance accountability system, known as the Goal Setting and Performance Budgeting process, throughout all executive branch agencies. Our system fully integrates the concepts of strategic planning and performance measurement with budget decision-making. While we recognize that this approach is not a panacea to address all of the challenges facing Virginia state government, we have begun to see positive results, even in the short time that the system has been in effect. We anticipate a still greater payoff will occur in future years, as objective performance data becomes available to policy makers in programs and agencies all across state government.

I hope my comments here today will help you understand the approach we are using to create increased accountability and a more results-oriented state government—and to identify the potential benefits of such a system for the federal government.

1. AN OVERVIEW OF VIRGINIA'S PERFORMANCE BUDGETING PROCESS

During the past ten years, state government in Virginia has been impacted by an economy in transition from boom times, to recession, to the current period of slower, more stable growth. The economic climate of the past decade at first produced automatic, double-digit increases in state revenues and rapid increases in state spending.

Today's economy, in contrast, has had a sobering effect on revenue growth. The biennial budget that Governor Allen introduced to the current session of the Virginia General Assembly calls for the third smallest increase in state spending at any time in the past 25 years. Only the budgets of the recent recession years grew more slowly.

But even as state resources become more constrained, a consensus is emerging among Virginia residents that state government must aggressively work to strengthen our system of public education, make our streets and communities safe from crime, and encourage sound economic growth. What is needed is a way to set budget priorities that focus scarce state resources on the programs that demonstrate the best results.

Goal setting and performance budgeting

Under the leadership of Governor George Allen, his Cabinet Secretaries, and agency management teams, the new budget process was implemented in 1995 to set priorities and ensure accountability in state government. The new budget process incorporates strategic planning and performance measurement practices, which have been successfully implemented in the private sector and are increasingly being used in the public sector. In state government, these tools are enabling policy makers to make informed decisions based on a thorough examination of the role, cost, and performance of programs and activities.

As a precursor to budget development, the new process guided each state agency through an exercise to evaluate which programs and services are an appropriate role for state government, and whether they are being delivered in the most effective and efficient way. Performance budgeting has enabled us to identify opportunities for eliminating wasteful spending and prioritize programs and services. It provides a mechanism for measuring performance, while enhancing the level of information available to the Governor and the General Assembly for formulating the budget.

State government is being increasingly challenged to effectively allocate resources to meet the needs of its citizens. An assessment of Virginia state government must therefore be an ongoing process. Past priorities and missions must be critically evaluated in today's context. Every agency must examine these factors to identify ways

in which state government can become more creative, flexible, and entrepreneurial in responding to the needs of Virginians.

Integrating strategic planning, performance measurement, and budgeting

In developing their budget submissions for 1996–98, state agencies applied a zero-based, bottoms-up approach. The steps entailed: (1) identifying the critical issues facing the agency, (2) developing strategies that address these issues, (3) preparing a budget submission, and (4) establishing the quantifiable measures of performance to be monitored in the upcoming biennium. This is how it worked:

1. Issues assessments. In the private sector, strategic planning seeks to answer the questions:

- "Who are my customers?"
- "What is important to them?"
- "What are the strengths that may be exploited, and the weaknesses, opportunities, and threats that must be addressed, to serve my customers better?"

In the competitive business world, those questions must be answered constantly. Entrepreneurs make adjustments based on their customers' priorities, or risk losing their business. Though not always facing external competitors, state governments can still behave like competitive enterprises to better serve their own "customers."

The identification of an agency's customers and their expectations was intended to meet the Governor's requirement that agencies fundamentally examine what they do. To encourage managers to look at their agencies in new ways, the strategic planning exercise posed the question, "If this agency did not exist today, would our customers and the taxpayer be best served if our activities were privatized, transferred to another agency, or eliminated?" Maintenance of the status quo was not an option.

Once an agency had identified its customers and defined its mission, it then turned to identifying the critical issues that must be addressed during a four-year planning horizon. The critical issues were derived directly from the listing of internal weaknesses and external opportunities and threats that were found to impede the agency in fulfilling its mission.

Although some 60 executive branch agencies in state government (out of a total of 91) have used strategic planning in the past, no formal mechanism existed to communicate the strategies to budget decision makers. The lack of linkage between strategic planning and budget development was a critical weakness of the old baseline budgeting process. Agencies would submit their budgets and hope for the best. If an agency received different funding than it requested, it was forced to arbitrarily readjust its priorities and goals. The flaw in the system was obvious.

The new process relied on strong lines of communication and understanding between the Governor, his Cabinet Secretaries, the agency heads, and the Department of Planning and Budget ("Planning & Budget"). Before an agency even began to develop its budget submission, its leadership had an opportunity to formally present a discussion of the critical issues that it proposed to address in the 1996–98 biennium. As a result, decision makers acquired more and better information upon which to develop later funding recommendations.

2. Strategy development. Having received feedback from the Governor's Cabinet, the agencies completed the development of their strategic plans by identifying goals, objectives, and strategies for the biennium. Virginia is now one of the few states in the U.S. in which strategic planning is conducted within every executive branch agency.

The strategies developed by the agencies serve a vital purpose beyond laying a foundation for budget development. Strategies typically include the entire range of issues that must be addressed by agency management teams, from such things as incorporating technology into agency activities, to providing for professional staff development. Accordingly, agency strategic plans outline the course of action an agency should follow, even when additional resources are not required.

3. Budget submissions. Strategies that entail additional resources were identified in the agency's budget submission, thus ensuring a direct linkage between the agency's strategic plans and its request for funding. The submissions included a breakdown of resources required for each activity the agency proposed to perform during the biennium.

Agency activities also were prioritized. Those identified as the lowest priorities were considered for elimination, in order to direct resources to more effective uses. The budget submissions contained decision packages that detailed the costs and benefits of undertaking each proposed strategic action. Again, this provided a critical link to the strategic planning process.

4. Performance measurement. The Goal Setting and Performance Budgeting process did not conclude with the introduction of the Executive Budget. Another major outcome of the process was the identification of objective performance meas-

ures that each agency will use in the coming biennium to monitor the fulfillment of its mission and the effectiveness of particular activities.

Performance measures provide an invaluable internal management tool for agencies to use in monitoring program performance and taking corrective action to improve service to "customers." The measures will also enable the Governor and the General Assembly to make future funding decisions based on hard evidence of program effectiveness.

Agency activities may be benchmarked against similar activities in other agencies, or even contrasted with activities conducted by other state governments, other levels of government, and the private sector. Benchmarking will support future budget decisions to increase or decrease funding; consolidate programs within selected agencies; privatize functions where appropriate; or eliminate programs entirely.

The Governor has assigned Planning & Budget to oversee the collection and analysis of performance measures throughout state government. In turn, Planning & Budget has enlisted the cooperation of the Joint Legislative Audit and Review Commission (JLARC) in carrying out its role. JLARC issued a study in 1995 calling for the implementation of a planning and performance measurement system in Virginia state government. This joint effort between the executive and legislative branches of government will strengthen the process.

The 1996–98 Executive Budget thus builds on the strategic planning conducted in every executive branch agency. It incorporates many of the proposed savings and efficiencies that were identified to result from privatization, reorganization, and downsizing. More than 30 agencies targeted 53 programs for privatization, which could result in major savings over the next two years. The estimated annual dollar value of the activities to be privatized is approximately $627 million. In addition, some 46 programs in 31 agencies have been identified for reorganization or downsizing in the coming biennium.

Virginia is thus beginning to realize the benefits of integrating strategic planning into its budgeting system. State budgets in the future will more fully integrate performance measurement, as well. The integration of strategic planning and performance measurement into the budget process will better enable state government to eliminate waste, prioritize resources and ensure accountability to the taxpayers.

II. VIRGINIA'S EXPERIENCE IN PERFORMANCE MEASUREMENT

Performance-based government vs. the previous system

As Virginia implements its performance budgeting system across state government, it is becoming clear that there will be significant benefits in terms of agency performance and accountability. In comparison with a budgeting system that does not incorporate objective performance measurement, the performance budgeting system will have several important advantages:

1) Changing the status quo. The Virginia Goal Setting and Performance Budgeting process guides agencies in establishing long-term strategies as a precursor to budget development. Performance measures then monitor the achievement of the strategies. Since strategies nearly always entail doing things differently in order to reach a long-term goal, performance measurement focuses on changing the way government operates. Performance measurement, therefore, ensures continued management focus on bringing about long-term change, rather than on day-to-day operational issues.

2) Furthering top-level policies. Policy makers in the executive and legislative branches can greatly influence an agency's policy direction through the selection of specific performance measures. Since agency management is likely to give priority to measures that will be publicly disseminated, policy makers may want to ensure that their policy priorities are among those being measured. Selected measurements should also be made widely available. Virginia intends to publish key performance measures in its budget document for the next millennium.

3) Providing more balance in budget debates. Constituencies and grantees seeking additional funding in the state budget frequently argue that more dollars are needed to achieve some level of spending on a per recipient or per capita basis, or to achieve a certain percentage rate of growth, or to achieve a national or regional average rate of spending. Such spending goals ignore actual or potential efficiencies that could be achieved in administering programs, and lessen the incentives to operate programs more cost effectively. Performance measurement will bring more substance to budget deliberations by focusing on services to be provided, rather than on budget baselines.

4) Reducing mandates on grant recipients. State government can facilitate a loosening of mandates on localities and other grant recipients by requiring performance measures. In this way a balance can be achieved between granting recipi-

ents more flexibility to be innovative, and overseeing program grants to ensure that program goals are met. The Virginia Board of Education, for example, has implemented a new set of rigorous, academic standards for each grade level in K–12, and is encouraging local school districts to implement innovative approaches to achieve the standards in their schools. At the same time, the Board has called for biennial testing to measure progress and to validate the effectiveness of alternative approaches.

5) Prioritizing how tax dollars are spent. In the absence of objective performance measurement, program funding is extremely difficult to discontinue once a program has been put into place. Performance measures will encourage funding decisions based on the relative effectiveness of competing programs. The Governor's proposed budget, for instance, contains at least three new alternatives for housing juvenile offenders: 1) boot camps; 2) wilderness work camps; and 3) incarceration in traditional youth facilities in which military school-style discipline will be implemented. The length of incarceration varies among the three alternatives, and the cost per bed also varies, sometimes inversely. Only empirical data will answer the question which approach, or combination of approaches, will yield the best results in terms of cost and effectiveness.

Virginia's performance measurement system: progress to date

As part of Virginia's 1996–1998 biennial budget process, each executive branch agency was required to submit three to five performance measures in its budget request. At least one of the measures was required to be an "outcome measure" that measured broad program results. The remaining measures were expected to relate to the agency's two to four highest priority activities.

Upon submission by the agencies, the measures were reviewed by analysts with Planning & Budget for both form and content. After some minor revisions, staff estimated that approximately 65 to 75 percent of the measures were determined to be technically usable. A subset of these, while usable, still required refinement or were not reflective of the agencies highest priority activities.

The most prevalent problem the budget analysts found in the preliminary agency submissions was an absence of outcome-related measures and/or a lack of understanding of what constituted an outcome measure. In some cases, a short term activity focus was presented (e.g., "complete Task A within 30 days") rather than developing true measures of a top activity's accomplishment over time. A misclassification of measures (input, output, outcome, efficiency, quality) by both agency staff and Planning & Budget analysts was relatively common.

With the first revision by Planning & Budget staff, analysts demonstrated a somewhat limited understanding of the true nature of performance management. This situation has since been remedied by providing budget analysts with extensive training on selecting and developing performance measures.

Planning & Budget also enlisted the assistance of the Joint Legislative Audit Review Commission in reviewing the measures submitted by agencies. Its findings are summarized below:

The positive aspects of the measures identified by the JLARC review indicated:

- Most agencies focused on improving performance, not just measuring it
- Measures often indicated a target or a standard
- In many cases, measures related to high-level administration priorities or statutory requirements
- Measures often related to the core mission of the agencies
- Measures created appropriate incentives
- Many measures were outcome focused

The largest concerns surfaced by JLARC included:

- Many measures lacked a reflection of statutory or constitutional missions
- Data availability issues were in evidence (some things may not be measurable due to the cost and/or availability of data)
- Success criteria were missing in several instances, or were very subjective
- An inconsistent level of detail was found across the measures
- Customers and clients were not well defined in the measures of some agencies

Planning & Budget has since designed a comprehensive performance measurement training program for agency staff that covers the issues and concerns that were identified in the review of the agency measures as initially submitted. In addition, the training addresses collecting data, identifying baseline data, and selecting performance standards/targets.

Secretarial liaisons have been identified and briefed to ensure coordination and follow-through at the cabinet level. The liaisons will review the measures to ensure they are reflective of the agencies' highest priority programs, and that the process is receiving appropriate attention by agency management.

Lessons Learned

Planning and performance information can assist in budget development in a number of different ways. It can help to develop appropriate state policies and goals, monitor the implementation of these policies by state agencies or others, communicate with constituents and the broader public about state programs and their results, and make budget decisions. In short, high-quality performance information can help in virtually all aspects of managing.

Agency officials can and already do use performance information in many aspects of daily management, not just to allocate funds internally or to justify budget requests. They may use this information to choose among competing contractors, or to choose among various approaches for accomplishing a goal. Performance information helps agencies to evaluate existing goals and priorities and to set new ones. An agency may use this information to compare the effectiveness of its regional offices or operating divisions.

While the use of performance information in budget decision making is an important tool, the relationship between funding and outcomes is indirect or not well-documented for many government services. Numerous variables can affect outcomes, some beyond the control of agencies. Also, it is often very appropriate to consider factors such as caseloads or workloads when setting agency budgets, even though these are not measures of outcomes. Ultimately, we think decisions about appropriations require the best judgment based on a variety of considerations—including, but not limited to, planning and performance information.

Virginia is undertaking specific steps to improve the development and use of performance information. We recommend that public sector organizations interested in embarking on a performance accountability system consider some of the following:

- Ensure that central and line agencies have sufficient training in strategic planning, performance measurement and performance budgeting, as well as opportunities to exchange information on these topics.
- Publish a consolidated state performance report that highlights key performance measures from agency performance reports.
- Consider ways to streamline agency budget narratives, highlight performance measures and link them to planning objectives, and present budget recommendations or options in terms of their expected outcomes.
- Create an ongoing dialogue between the legislative and executive branches for the purpose of refining measures and data used in the agency performance reports or the budget document.
- Find ways to more effectively link information on planning and performance with corresponding information on spending.
- Periodically review and discuss agency performance with individual agency heads, either in meetings related to budget development or in separate meetings.

III. HOW CONGRESS CAN USE PERFORMANCE MEASUREMENT DATA

There are a number of parallels between the states and the federal government in their potential uses of performance measurement data. While executive branch agencies should have primary responsibility for designing and collecting performance measures, the legislative branch will likely be a major user of the data. The legislative branch should also participate in the selection of performance measures and in reviewing their design.

Following are some ways in which congressional authorization and appropriations committees can, and should, participate in the development and use of agency performance measures:

1. Provide input on the selection of key program performance indicators. The identification of key performance indicators requires fundamental questions to be addressed concerning program objectives. Committees should express to agencies what they consider to be the key indicators to ensure the agency prioritizes the program elements considered most important by Congress.

2. Review and recommend design modifications to performance measures identified by agencies. Congressional committees should review the performance measures designed by the agencies to ensure that the data to be collected is meaningful, verifiable, and will address the concerns of Congress.

3. Monitor actual performance measurement data at regular intervals. Once actual performance measurement data becomes available, congressional committees should regularly review the data. Emphasis should be placed on empirical data points outside of the expected. By focusing on exceptional data, the committee can identify problem areas, unusual successes, and trends.

4. Compare performance data to benchmarks. Committees can judge the effectiveness of programs by comparing performance data to benchmarks in the pri-

vate sector or in other governments. For example, a clear basis of comparison exists where some states opt to administer programs that are federally-administered in other states.

5. Compare the efficiency/effectiveness of alternative program design models and programs with substantially similar missions. Performance measures may be used to indicate which of two or more programs with similar missions is the most efficient and/or effective. For example, if two federal programs provide job training assistance, performance measures may help to identify which should be expanded and which should possibly be curtailed.

6. Base program funding decisions on historical funding/performance relationships. Funding decisions should be based on desired outcomes, taking into account the historical relationship between funding and level of program performance. For example, Virginia's economic development programs are budgeted on the basis of their demonstrated ability to generate business investment (in hundreds of millions of dollars) and to create jobs (in thousands) in proportion to a given funding level.

CONCLUSION

Performance accountability systems are key tools in the effort to redefine and improve state government. They allow policy makers, agency directors, program managers, legislators and the general public to evaluate the effectiveness of government programs. If properly applied, they can enhance decision making, improve accountability, support long-term thinking, and evaluate resource use.

The benefits of performance measurement should be no less compelling at the federal level. At a time when the federal government is seeking to return more responsibilities to the states, a great debate is occurring between providing states with flexibility to administer programs, and maintaining federal mandates to ensure the continuation of program benefits. Performance measurement is one possible solution to this dilemma.

Performance measurement goes hand-in-hand with increasing program flexibility because it preserves an important element of accountability, even as strict program mandates are rolled back. The combination of performance measurement and flexible program design allows grant recipients to innovate and to constantly seek more cost effective solutions to public policy problems.

COMPONENTS OF VIRGINIA'S PERFORMANCE ACCOUNTABILITY SYSTEM

CONTINUOUS IMPROVEMENT

Performance Budgeting
Program Implementation
Performance Measurement
Program Evaluation
Issues Assessment/Strategic Planning

OFFICE OF THE GOVERNOR,
COMMONWEALTH OF VIRGINIA.

EXECUTIVE MEMORANDUM 3–95

GOAL SETTING AND PERFORMANCE BUDGETING

Purpose

To provide guidelines for agencies to undertake an assessment of their activities examining elements such as the agency's role and purpose, its customer needs, organizational structure, current activities and how they are accomplished, and the critical issues facing the agency. The results of this assessment will form the basis for developing proposals for the 1998 biennial budget and improving overall agency management and accountability.

Applicability

All Executive Department agencies except institutions of higher education.

Effective Date

June 2. 1995.

Introduction

By virtue of the authority vested in me as Governor under Article V of the Constitution of Virginia and the laws of the Commonwealth, including but not limited to Chapter 5 of Title 2.1 of the Code of Virginia, and subject to my continuing and ultimate authority and responsibility to act in such matters, I hereby establish an initiative for goal setting and performance budgeting, which will examine the ability of the state agencies to respond effectively to the changes facing state government. The guidelines and responsibilities set out in this Executive Memorandum will govern this initiative.

Virginia has a longstanding tradition of excellence in the area of financial management. Virginians demand that public spending be undertaken to achieve the greatest value for each tax dollar spent. As state government conscientiously strives to meet this objective, it is increasingly challenged to improve its skills in allocating scarce resources to meet the needs of Virginia's citizens in the most effective way. This requires reexamining the role and structure of state government to discover ways to better serve Virginians.

The complexities of modern-day society challenge any organization or institution. The way in which an entity responds to change is critical to both its short- and long-term viability. Agencies must be willing to examine opportunities, build on strengths, foster innovation and creativity, and stress continual improvement if they are to meet the needs of Virginia's citizens, the realities of shrinking resources, and the necessity to do more with less.

An assessment of Virginia state government is an ongoing process. Past priorities and missions must be reexamined not only in the context of today's needs, but also in light of tomorrow's expectations. Agencies must be customer-focused, results-oriented, and mission-driven. Today's well-informed citizens demand greater choice, increased customization, and quality. We must look toward relying more heavily on market mechanisms for resolving problems. Each agency must examine these factors to identify ways in which Virginia state government can become more creative, flexible, and entrepreneurial in responding to our citizens' needs.

The process outlined herein integrates planning and performance measurement with budgeting. This provides a framework for performance-based budgeting in which allocation of resources is based on agency achievement of established goals. The process of developing the 1998 budget will involve five major steps as follows:

Steps	General Time Frame
Governor issues general guidelines to agencies for the goal setting and performance budgeting process and specific guidance on policy and budget issues to Secretaries, who will communicate as needed to agencies.	Early June
Agencies conduct assessments and meet with Governor's Office and Secretaries	June–September
Agencies develop budget decision packages including goals, objectives, strategies, and performance measures and.	August–September
Submit draft packages to Cabinet Secretary	By October 2
Submit final packages to DPB	By November 10
Secretaries and DPB review and analyze budget submissions	October-November
Governor makes final budget decisions	By December 1
And submits recommended budget to General Assembly	December 20

Requirements

Governor's Office

1. The Governor will issue guidelines (attached) for use in implementing this process within the applicable Executive Branch agencies.
2. The Governor's Office and the responsible Secretary will meet with each agency to review the outcomes of the process and provide individual guidance.

Responsibilities of the Governor's Secretaries

1. Work with the Governor in developing any supplemental guidance for their respective agencies in carrying out their assessments.
2. Identify any specific issues that cross Secretarial lines and determine how these will be addressed.
3. Meet with agency management to disseminate and clarify guidelines and requirements.
4. Oversee and monitor implementation of the assessment process by all the applicable agencies within the Secretariat.
5. Review and approve all agency submissions generated through these activities.

Responsibilities of Affected Agency Heads

1. Designate agency staff that will participate in the process to ensure the broadest level of participation of agency employees.
2. Conduct the required activities in accordance with the guidelines provided with this memorandum and any guidance provided by the responsible Secretary.
3. Develop the materials and presentation of findings required by the guidelines.
4. Report on the outcomes to the Governor's Office and responsible Secretary, as required by the guidelines.
5. Develop the agency's 1996–98 budget proposals based on the guidance received from the Governor's Office and Secretary and the instructions issued by the Department of Planning and Budget.

Responsibilities of the Department of Planning and Budget

1. Develop the schedule for agency assessment meetings and notify each affected agency of the meeting date, time, and place.
2. Designate the appropriate DPB staff to attend the assessment meetings along with the Governor's Office and Cabinet Secretaries or their representatives.
3. Issue instructions to state agencies for developing the appropriate budget submissions for the 1996–98 biennium which support the achievement of the agency's identified goals.
4. Review the budget submissions and make recommendations to the Governor for inclusion in the Governor's budget to be submitted to the 1996 General Assembly.

This Executive Memorandum shall remain in full force and effect until December 20. 1995, unless superseded or rescinded by further executive action.

GEORGE ALLEN,
Governor.

Mr. CLINGER. Thank you very much, Mr. Lauterberg.

Before I recognize Mr. Holmes, I wanted to recognize Congressman Davis.

Mr. DAVIS. I am sorry I wasn't here to introduce you, Bob.

Bob Lauterberg, we consider him a native son of Fairfax, even though he came here in his early 20's and has been with the Governor just doing an outstanding job. I would just note for the committee—they have heard Mr. Lauterberg's thoughtful comments—but Governor Allen really has led the way in doing more with less and bringing efficiencies to State government, holding the line on taxes. His welfare reform measure, I think, could serve as a model for national welfare reform.

Bob has been instrumental in working on all these issues, and I am just really proud to have him here before the committee so that we can share some of the gains we have had in Virginia with the committee.

Thank you.

Mr. CLINGER. Thank you very much, Mr. Davis.

I now recognize Mr. Holmes.

Mr. HOLMES. Thank you, Mr. Chairman.

I welcome the opportunity to appear before you today. I am aware of the fact that a colleague of mine who once appeared at an OECD session, after speaking for 5 minutes, all the people listening asked could they have a translation into English. So if at any stage you have difficulty with my Australian accent, then please stop me.

I, of course, am going to draw from my experience and the experience of Australia's reforms but also am well-informed about New Zealand and the United Kingdom reforms. I wanted to, I think, perhaps take a slightly different perspective, and I will do this relatively quickly, and then talk a bit about performance measurement.

In a sense, picking up on a point of Don Kettl's that this is not about performance measurement, he says about political communication, I actually think it's about incentives, this issue. From where I sit and observe the Congress, I see the Congress as being very centrally located in the determination of those incentives.

I think the lesson from successful reform of national governments—and I think it is important to recognize a distinction between national governments, State governments, and local governments—is that their success has built fundamentally on changing the environment within which the public sector operates. And that certainly is the case in Australia and New Zealand.

Changing the rules of the game by which the budget is made, changing the rules of the game by which decisions are made, changing the personnel management rules have been much the most important factors in improving the performance of the public sectors in those countries. So I would certainly encourage attention to be given to the role of the Congress in that regard.

I am going to say something about performance information. I don't think there is any question that the increase in the availability of performance information, at all levels of government activity, has been a significant player in that improvement in performance, and I certainly will come back to that.

I would like to emphasize that it is very much, I would argue, at the management level where the greatest benefit is flowing from performance information. It is also very clear, in its use in reporting on government and agency activity, at this stage—and someone talked about Australia only getting there after 10 years—Australia has now been doing this for 12 years and still hasn't made it. This is, I think, as I say in my testimony, a pilgrimage, not a destination.

So one of the lessons that we are still finding out is that the use of performance measurement in high-level budget and decisionmaking has got a long way to go. It is very difficult, because of the incentive questions, to make that link very positively, but I will give some illustrations of how, in fact, that might be done, in a moment.

Perhaps I could characterize it by saying that I believe that what we have done in Australia, essentially, is to ask not what performance can do for the budget but what the budget can do for performance. I think that captures a lot of what you, in the Congress, might think about as you look at how GPRA is going to improve public sector performance.

One of the key elements, at the managerial level in Australia, has been providing considerably more autonomy in the use of budget resources to agencies. That itself, I believe, has been the most powerful force to encourage them to develop strategic plans, goals, performance measurement, to undertake assessments.

At the next level up, what has happened is that, within a tight top-down budget constraint, individual ministers, in our case, in a parliamentary system, have been given the responsibility to decide how to allocate resources. That shift in the nature of decisionmaking has led to the elimination of programs.

If I could use an illustration of one that I know is quite a sensitive issue in the Congress at this time, one is the area of subsidies to agriculture. For 20 years, my colleagues and I in the Min-

istry of Finance, the equivalent of OMB, had attempted to suggest to government that these subsidies were not a good use of public money.

For 20 years, the Minister for Agriculture had said, "They are absolutely crucial to the future of Australia." As soon as the Minister for Agriculture was given a large envelope, a tight envelope, consistent with, in our case, moving toward a surplus on the budget, the minister suddenly found that these subsidies were no longer high priority, and they were eliminated, because the incentives were there for the minister to reallocate resources. So I just want to emphasize that issue of incentives.

So I guess I am saying that, for GPRA to deliver, it is going to require a supportive environment. Let me just say something quickly about some examples of performance measurement and how it has been used, and I obviously look forward to responding to any questions on that later.

One of the things that I think has been particularly powerful and impressive in reforming countries has been the outward orientation of the public sector. There is no doubt that, certainly in the case of the British Commonwealth countries, 10 years ago the public service was very inward-looking, concerned with process, concerned with inputs. There has been a revolution in the extent to which now the public service looks outward to the people, the community, to the citizens.

That leads to questions being asked about what is it that citizens need. It leads to a whole new approach to performance measurement through the use of such things as surveys of clients of government activities. I might say that, even in the case of our own equivalent of the Internal Revenue Service, it has led to a mission statement which says that "Our mission is to assist the citizens of Australia to meet their legal obligation." There is no actual reference to collecting revenue. And it's that sort of state of mind that we are about shifting to.

One of the key elements of the Australian reform package has been a big focus on evaluation, a very comprehensive evaluation system. I will provide the committee with a paper which reviews the link between evaluation and budget decisions. I will just mention that the most recent one of those studies has found that at least 50 percent of the submissions to government to change policy were underpinned by evaluation results, which is a significant move forward and an important of improving decisionmaking.

Another document I have there looks very closely at how there have been resource agreements between the funders and the providers of services to focus attention on linking resources to outputs and outcomes. I would be happy to elaborate on those, but I think these are an interesting dimension, particularly when one thinks about intergovernmental relations. Australia, as the United States, is a Federal system.

If I could finish just on one example of what I think captures the spirit of what reforms of this nature are about. Within the Air Force in Australia, we have a program, obviously, for training Air Force pilots. And the people who are involved in that training program essentially saw their job as to make sure that no one got

through the net who would be a risk. The result was that the pass rate for pilots entering that program was 30 percent.

Someone at the head of the Air Force decided this was not a good way to go about this; we should actually be in the business of training pilots to fly planes. So they completely shifted the focus of the training program and the nature of the people involved in this, which was to say, "Your job is not to weed out the people who are going to fail, but it is to take these people to turn them into pilots who would be able to fly planes." There is now a pass rate of 70 percent. The quality of the pilots has gone up.

And just one of the fundamental reasons for this, what people have said, is, if there is a risk here with people not turning into pilots, we should eliminate that before they get into the program. So you are looking for prevention. You are looking for getting it right the first time, rather than as so often happens in the public sector, we will solve the problem as we go on. So that attitude, I think, captures very much what this is all about.

I have much more to say. I will stop there and look forward to responding to any questions you may have.

[The prepared statement of Mr. Holmes follows:]

PREPARED STATEMENT OF MALCOLM HOLMES, SENIOR PUBLIC SECTOR MANAGEMENT SPECIALIST, WORLD BANK, AND FORMER SENIOR OFFICIAL, MINISTRY OF FINANCE, GOVERNMENT OF AUSTRALIA

PUBLIC SECTOR PERFORMANCE

Thank you for the opportunity to make this submission. What I will say represents my own views ant should not be attributed to either the Australian government or the World Bank (although I am hoping that they will increasingly influence Bank thinking!).

Excellent performance in the public sector requires that the environment, rules, systems and processes are working together to support and require such performance. The why, what and how must be fully integrated

This means that decision-making, budget and personnel management systems and processes must be performance oriented.

These systems and processes provide much of the environment and embody many of the rules which confront those developing and implementing policies and programs. An enabling environment is as important for the public sector as it is for the private sector and the community.

This is reflected in my view that we should ask not what performance can do for the budget, but what the budget can do for performance.

I would like to highlight the role of the budget in part because it is often the only mechanism available to regularly discipline decision-making by government.

Another dimension is that the budget affects the three key levels of performance which governments influence, namely;

- macro-economic stability via fiscal policy
- the allocation of resources to reflect the strategic priorities of government
- the implementation of government policies and programs cost effectively

A key point is that budget decision-making impinges on all three levels simultaneously. For these reasons it is crucial that policy making, management and budgeting be effectively integrated.

The challenge is to design institutional mechanisms which support and require attention be given to these three levels, particularly the way that they interact.

In this context, an important lesson from reform efforts is that if you change the rules of the game, it is crucial that the players play by the new rules.

Performance, in terms of cost effective outcomes, also requires effective coordination mechanisms. One of the number of factors which distinguishes the public sector is the extent to which the wide variety of its policies impact on particular economic and social objectives. Coordination is essential if policies are to be harnessed in the public interest.

Within this environment, performance on the ground depends on organizations and the people in them. What is required is that organizations have:

- clarity of purpose
- clarity of task
- authority to perform their tasks and achieve their purpose
- accountability for the use of the authority given

It is at this organizational level that mission statements, strategic plans, program goal setting and performance measurement have so much potential to contribute to better performance in the public sector. But this requires that government provide objectives and allow organizations to get on with it. Reporting and the full range of associated components of transparency becomes the basis for assessing performance.

In a paper "Management Reform: Some Practitioner Perspective on the Past Ten Years" written with David Shand and published in the October 1995 issue of the Governance journal, we elaborate on many of the points raised above. I have provided a copy to the committee staff. The paper focuses on the reform experience of Australia, New Zealand and the United Kingdom.

The views expressed above are based particularly on the experience with public sector management reform in Australia and New Zealand. In both cases the reform effort was strongly supported by the budget agency. There was no suggestion that new mechanisms needed to be established to manage the reforms or to focus on something called management.

Australia's reform program in particular "attempted more than any other to balance the relationship between the center and its accompanying parts, between policymaking and the service-wide systems that support it (notably for budgeting and personnel management). It is the need for balance in these elements which is crucial if the "multitude of factors that need to be balanced at the level of strategic decision-making," are to be adequately addressed." Changing the decision-making, budgeting and personnel management rules so that they supported and required performance was seen to be the route to good outcomes (the extent to which Australia has sought to focus on outcomes contrasts with the greater focus on outputs in the New Zealand and United Kingdom public sector management reforms). An evaluation of the reform effort in Australia indicated that after ten years progress had been made, although reform remains a pilgrimage rather than a destination. The evaluation provides a wealth of material on the Australian experience and I commend it to interested parties. It is noteworthy that the development of a comprehensive evaluation strategy has been a key component of the performance focus in Australia. I would be happy to elaborate on this or any other aspect of the Australian experience.

PERFORMANCE MEASUREMENT

Performance measurement in the public sector as it is evolving around the world at the level of national government is having its major impact at the management level. This reflects the fact that it is of most relevance to learning and decision-making at the operational level. While performance measurement, particularly where it is derived from evaluation, can and must inform strategic decision-making it is a fact that in the public sector, there are a range of factors which affects decisions, including the relative place of particular policies and programs in the government's overall priorities. It is also important to recognize that the different roles of federal, state and local governments influence the uses of performance information.

The fact is that performance information is surrounded by ambiguity. At the operational level it may seem sensible to make a tight link between performance and resource allocation—if a two day waiting period is related to a certain level of resources then a reduction to one day should be achievable with a particular increase in resources. But the fact is that, even at this level of decisionmaking, a change in processes may lead to the same result without any increase in resources. Such improvements in performance will depend importantly on an enabling environment. Performance information becomes part of the learning process, which supports this enabling environment.

At a more strategic level, where performance measurement indicates that a program or policy is working well, decision makers are left with a question as to whether this should result in more or fewer resources. Again, performance measures aid decision-making, they do not replace it. They are part of the fabric of a learning process.

To quote from the document provided separately:

> Some countries' reforms have been criticized, and justifiably so, for a naive belief in the literal truth of performance measurement and untested assumptions about the impact of sanctions or rewards. This is particularly so at the level of effectiveness measurement. But there is a need not to throw the baby

out with the bath water. Equally naive is the view that performance measurement is impossible or merely attempting to "quantify" the unquantifiable. Our contention is that performance measurement and its wider use in performance management is a worthwhile exercise, as long as it is done in full knowledge of its limitations. At the very least it can provide improved information relevant to decision-making. It can usefully inform the budget process without a pretense that there can be a direct link between the budget and performance. It may also provide useful accountability information for public debate. Indeed, a major spin-off from the reforms has been a substantial increase in the amount of information of impacts of government policies and programs as reflected in budget documents, annual reports, etc. Despite the limitations of this information, we can say that, in most countries, there has never been so much available information. This has, for the most part, contributed to much greater transparency in government, a major factor in improving performance.

We would emphasize that a performance orientation is only marginally influenced by the existence of performance information. The need for much greater attention to be given to changing the incentives in the institutional framework—the budget and personnel systems, the approach to control and risk management, etc., so that performance is encouraged, rewarded and required.

I will provide separately to the committee staff copies of the following documents from Australia: *

- Performance Information and the Management Cycle
- Resource Agreements
- The: Use of Evaluation in the 1993–94 Budget

I would be happy to elaborate on the above in response to questions, either with specific illustrations of an enabling environment and/or of specific uses of performance information.

[* EDITOR'S NOTE: The information referred to can be found in the Committee on Government Reform and Oversight's files.]

Mr. CLINGER. Thank you very much, Mr. Holmes. We do look forward to asking you some questions, because the experiences that you have had are very, very helpful to us as we look at this.

Now I would like to call upon the gentleman from Arizona for an introduction.

Mr. SHADEGG. Thank you, Mr. Chairman. It is a privilege for me today to introduce a friend and a distinguished administrator.

Frank Fairbanks received his master's in business administration from UCLA in 1970, his bachelor of finance from Loyola University of Los Angeles in 1969. He joined the city of Phoenix in 1972, and was appointed city manager in April 1990. Since doing so, he has had a distinguished career. He has been cited by the American City and County Magazine, which named him, in 1994, its Municipal Leader of the Year. Governing Magazine named him Public Official of the Year in 1994.

He has been a fellow in the National Academy of Public Administration. In 1983, under his leadership, the city of Phoenix won the Carl Bertelsmann Prize as the best-run city in the world. It was jointly awarded, as we know, to Phoenix and to Christchurch, New Zealand.

Phoenix has been named one of the top-ranked cities for financial management in the United States by Financial World Magazine in March 1995. It has been cited in a number of books and magazines, including Reinventing Government, by David Osborne and Ted Gaebler, as being innovative in improving service quality, reducing costs, speeding processes, and developing new approaches to delivering services.

It is my privilege to introduce the city of Phoenix city manager, who flew all night last night to get here and flies all night tonight to get back to Phoenix, Frank Fairbanks.

Mr. MICA. Will the gentleman yield just a moment?

Mr. Shadegg, is Tempe different than Phoenix, the city of Phoenix?

Mr. SHADEGG. Yes.

Mr. MICA. They are two different cities?

Mr. SHADEGG. They are distinct cities.

Mr. MICA. That's good, because I'm from the University of Florida, and we are still having bad flashbacks about our experience with Tempe. Thank you.

Mr. SHADEGG. Thank you, Mr. Chairman.

Mr. CLINGER. Mr. Fairbanks.

Mr. FAIRBANKS. Thank you, Congressman. I think we'd still claim Tempe as a friend, though. We wouldn't abandon them.

I would like to speak today really as somebody who is in the trenches. I am directly involved in the dirty business of dealing with citizens and employees and delivering services directly to citizens. For me, this issue is probably a little different than it is from your perspective and from the perspectives of some of the other speakers. To me, this is really an issue of accountability and responsibility. It is an issue of the relationship between management and elected officials and employees, and how we work together to make sure the job gets done for the public.

In Phoenix, we are determined to be the best, and we want to be the best by delivering high quality services at the lowest possible cost. We want to make our community the very best community it can be. And it is not good enough for us to be the best among governmental entities.

One of the things that is happening today is, there are tremendous competitive pressures on businesses, and businesses, every day, are speeding up their processes, improving their service quality, finding faster and better ways to service the public.

What starts to happen to government is, the citizen walks into one of those businesses and gets excellent service done faster than it has ever done before, in a friendlier way than it has ever done before. And then they walk across the street to their government, and what happens there? All too often, they meet somebody that doesn't care, somebody that isn't in a hurry, somebody that isn't committed to doing a good product.

When that happens, we deserve the judgment that citizen makes of us. If we want to change that situation, we need to find ways, at every level, to create a situation, when that citizen walks in, that citizen gets the best service they got that day, the best service they got that week.

For us, measuring performance is a fundamental tool in this process. Measurement systems are fundamental because they focus the attention of employees and managers on results, on outcomes. Measurement systems create a bottom line for us. How often do we hear, government doesn't have a bottom line? A good measurement system can create that bottom line for us.

Many things go into working on a positive work environment. For employees, there are always a lot of things to do. There is always a lot of work that doesn't happen. It's easy to forget why we are working for government. It's easy to forget why we are there, unless we have measurements. Measurements direct the attention

of everyone at work to what is necessary to be successful. But measurements aren't easy, and we've heard a lot of good questions today about problems and obstacles to be overcome.

When the city of Phoenix started using measurements, we often counted the wrong thing and used the measurements in the wrong way. We created our first system of performance measurements in the 1960's. These systems helped us to improve at first, but then they became a barrier and they brought some real problems.

The most common problem was confusion between the measurement system itself and the service goal. We often focused on activity and intermediate steps in the process rather than on the outcome that we wanted, rather than what the council was trying to achieve through the program. All too often, we didn't focus on measuring the outcomes. We improved our ability to handle the measurement paperwork, and we got to be very good at the paperwork, but initially we did not see large improvements in producing results.

Another big mistake we made was in using measures in a negative way. Management, supervisors, and employees came to see the measures as a control system with negative consequences. When the data was good, nothing seemed to happen. When the data was bad, management sent a jolt of retribution to the people in the work unit. Everyone began to hate the system, and soon everyone was working hard to learn how to control and even falsify the data. Little or no energy was put at focusing on improving performance.

Over the years, we have made three major changes that have made measurement systems a very important part of our success. The first was to make sure we were measuring outcomes that we desired, the outcomes the council desired, in creating programs at the city, rather than focusing on activities and intermediate steps.

The second change was to make measurement a part of our learning process. Basically, what we did is to try to turn off the jolts. We built a reward system that recognized management and employees when results were achieved, but we also took action when there was poor performance. However, instead of sending a jolt to the employees, we built a strategy of focusing promptly on jointly developing action which could be taken to resolve the problem and improve performance.

The third key change was to involve employees in the process. We had to find ways that the employees saw that the outcomes were important to them, that the measures were important in their work, that the measures gave them something and gave them some meaning in the work they did.

As we improved our measurement systems, we acted to make them a part of everything we did. The city of Phoenix now reports performance trend information in our financial and budget reports. As a part of our annual budget process, the budget research department monitors the budget service levels against actual performance in every department.

Service level results for the prior year, as well as the expected results for the upcoming year, are published in the budgetary documents and are reviewed by the council as the council makes their budgetary decisions. This document is designed to be an easy-to-

read publication, not something for Ph.D.'s, not something for universities, but a document that could be read by the average citizen.

Each of our 24 city departments track their own series of objective, quantifiable results. The data is transmitted monthly through a local area network to be included in a monthly report. In fact, the departments get in a little bit of trouble if they don't have all their data in by the 15th of the following month. The monthly summary includes each department's results and is reviewed by the mayor and the council, and by senior management. It is also distributed throughout our organization and to the media. The measures include cost statistics and service outcomes.

One of the things we are working on now to make this even more meaningful to the work unit is developing unit cost measures for all of our services so that we can share them with employees. We are working to construct a financial system that will create unit cost figures for every work crew, and we expect to share these with our work crews and create a competition within our crews on who can do the best job of delivering services at the lowest price.

We also do a lot of benchmarking. Phoenix has adopted a 10-city list of U.S. cities of similar size which are known for excellent performance. We benchmark our performance against each of these well-managed cities. We are participating in a pilot project sponsored by the International City-County Management Association, ICMA, in which 37 cities in the United States are developing comparable measures that they can use to compare their output performance for police department, fire department, neighborhood services, and support services.

Phoenix also reaches out to benchmark private companies for better ideas for serving the public. Unfortunately, in a number of areas, the public sector greatly lags the private sector in performance. To develop good performance standards and measures, we have had to benchmark the private sector. We have modeled our water billing system after the American Express Company. Our development services department is partnering with the Motorola Corporation to take advantage of Motorola's process improvement practices.

In addition to our objective, quantifiable measures, we also measure citizen satisfaction. Because in the end, to all of us, and I'm sure to each of you, citizen satisfaction is the ultimate test of our services. Since 1985, we have conducted a biannual statistically valid community attitude survey that measures the public satisfaction with each of our major services.

These surveys ask our citizens to rate service quality. We also ask them, incidentally, how they would prefer that we spend their tax dollars in the budgetary process. And I might point out that some of the power of this system was pointed out in a recent survey.

In the early 1990's, Phoenix fell into a severe recession, more severe than most of the rest of the country. And the city of Phoenix has to balance its budget; it has no option. Each year we must balance our budget. Actually, 1 year we had a budget that was less, as an absolute dollar amount, than the previous year, so we had a declining dollar amount total budget.

We were forced to reduce our employment by about 5 percent. In some departments, because we saved the police and the fire departments and didn't cut them, in some departments that cut amounted to 10 or 15 percent of their employees. After all of those cuts were completed, about 6 months later, we swallowed hard and did a citizen attitude survey. We asked the citizens, "What is your satisfaction with our service level?"

During that time, instead of crying or worrying about how we couldn't deliver services, or focusing on how bad it was to lose all of these employees, our managers, our supervisor, our employees did everything in their power to deliver services as best they could.

When we asked the citizens, the citizens told us, on 25 services, the citizens gave us the highest rating we ever received on 24 of them, and on the 25th, we tied the highest rating we ever received. By our employees focusing on the results, even after losing staff, in the public's eye we were able to do a better job of delivering services than we did before we lost the staff.

In addition to surveying our customers, we bring them in to talk about their perceptions of the quality they are receiving from city departments. We use the focus group technique to field test new programs and improve old ones. We ask our customers to evaluate us immediately where they receive services.

At each customer service counter in the city you will find a card in a display box that reads, "You are our customer. How are we doing?" Our customers are asked about the quality of service they just received at that counter, on the spot, during the moment of truth, when that citizen was facing a city employee.

Some of the citizen comments are critical. Customers at our water department, for example, were angry about having to wait in line too long. So we pulled our crew together. We pulled our management, supervision, and employees together, and we redesigned our system to shorten their wait by cross-training all of our employees so that our clerical staff could serve as cashiers when needed, and we sent some of our paper employees, some of the administrative employees into the queue to accept payment checks, so that people wouldn't have to wait in line. We solved this problem without adding a single staff.

Most of the rating cards we get from the public, however, come back with positive comments about exemplary service. These remarks are then forwarded to deserving employees. Recognizing employees' good work is crucial in improving morale and in boosting employee productivity. When employees hear they have done good work, they want to do it again. They are willing to take that extra step, provide that extra energy, take that risk, make that change, be flexible, work harder, because they were rewarded when they performed.

Measurements do create priorities. Measurement systems themselves influence results. When we decided customer satisfaction must be a key goal for the city, we knew we must measure that satisfaction. We knew we had to convince the employees that it was important and that we cared, and we knew we had to reward the employees when they delivered.

As I close, I want to make it clear that, as important as measurement system is to us, it is clearly not the whole story. A variety

of other issues need to be dealt with. There is the need for strategic planning. In Phoenix, we have done strategic planning. We also have a strong quality program that focuses on citizen satisfaction.

We have worked a great deal with communications, because we think part of empowerment, part of pushing decisionmaking lower in the organization is increasing the communication flow upwards and downwards, and also communication flow sideways. Increasingly, our problems are complex, and a single department can't solve them. So we need to build the connections between departments and agencies so they can pool their resources, so they can pool their brain power.

We are working now on a vision and values effort, because we are finding that some of our regulations and procedures and rules get in the way. We know, if we are going to be more flexible, if we are going to respond more quickly to the community, we need to cut the rules and procedures, the bureaucracy that we inflict on ourselves. We need to build vision and values, broad schemes of where we want to go, in the employees' minds, so that, as employees make decisions and take actions, they have a sense of where the council wants to go in the community.

We are working in flexible budgets where the city council decides what the budget is, and then we delegate authority into the department to make changes, as long as those changes accomplish the goals and the results that the council has dictated.

Even with all of these efforts, I would have to close by saying that measurement is a crucial foundation for improving performance, because measurement creates that bottom line. It forces all of us to deal with the services we are really delivering, and it is critical to becoming the best.

Thank you very much.

[The prepared statement of Mr. Fairbanks follows:]

PREPARED STATEMENT OF FRANK FAIRBANKS, CITY MANAGER, PHOENIX, AZ

MEASURING SUCCESS

In Phoenix, we are determined to be the best. We must offer quality services at the lowest cost. It is not good enough to be the best among cities or even among governmental units. Citizens daily conduct their business in banks and stores, then they walk across the street or telephone their city. If we then perform in an inferior or slower or less-friendly manner, our public judges us to be incompetent and bureaucratic. If we are to win the respect and support of the public, we must win this daily competition with excellent service.

Measuring performance is a fundamental tool in this process. It serves as the foundation for our drive for excellence. In the limited time I have here today, I would like to focus on what we have learned in using measurement systems for over 25 years.

Measurement systems are fundamental because they focus the attention of employees on results. Many things go on in the work environment and it is easy to forget why we are at work—unless we have measurements. Measurements can direct the attention of everyone in the work unit to what is necessary to be successful.

But this isn't easy. When we started using measurements, we often counted the wrong thing and used the measurements in the wrong way. We created our first system of performance measurements and standards in the 1960's. These systems helped us to improve, but they also brought problems. The most common problem was confusion between the measurement system and the service goal. We often focused on activity and intermediate steps in processes. We didn't focus on measuring the output we desired. We improved our ability to handle measurement paperwork but initially we did not see large improvement in producing results.

We also erred in using measures in a negative manner. Management, supervisors and employees came to see measures only as a control system with negative con-

sequences. When the data was good, nothing happened. When the data was bad, management sent a jolt of retribution to the people in the work unit. Everyone began to hate the system. And soon everyone was working hard to learn how to control and even falsify the data. Little or no energy was focused on improving performance.

We have made two major changes to utilize measurement more effectively. The first was to measure the outcomes we desire rather than activities and intermediate steps. The second change is to make measurement a part of our learning process. Basically, we turned off the jolts. We built a reward system which recognized management and employees when good results were achieved. We also took action when there was poor performance. However, instead of sending a jolt to the employees, we built a strategy of focusing promptly on developing team action which could be taken to resolve the problem and improve performance.

As we improved our measurement systems, we have acted to make them a part of all of our systems. The City of Phoenix reports performance trend information in our financial and budget reports. As part of the City's annual budget development process, the Budget & Research Department monitors the budgeted service levels against actual performance of all 24 Phoenix departments to assure that tax dollars are being expended properly. Service level results for the prior fiscal year as well as expected results for the coming fiscal year are published for each City department in the budget document. This document is an easy-to-read publication targeted to our citizenry.

Each of the 24 City departments track their own series of objective, quantified service result standards. The data is transmitted through our local area network to be included in our monthly report. The monthly summary includes each department's results and is reviewed by the Mayor and City Council, and by senior city management. It is also distributed throughout the organization. The measures include cost statistics and service outcomes.

We also use bench marking methods. Phoenix has adopted a ten-city list of U. S. Cities of similar size which are known for their excellent performance. We benchmark our performance against these well managed cities. We are participating in a pilot project sponsored by the International City/County Management Association (ICMA), in which 37 cities are developing comparable measures for output for key Police, Fire, Neighborhood, and Support Services.

Phoenix also reaches out to benchmark private companies for better ideas for service to the public. Unfortunately, in a number of areas the public sector lags the private sector in performance. To develop good performance standards, we have had to benchmark the private sector. We have modeled our water billing system after the American Express Company. Our Development Services Department is partnering with Motorola Corporation to take advantage of Motorola's process improvement practices.

In addition to our objective, quantified measures, we also measure citizen satisfaction. (In the end, citizen satisfaction is the ultimate test of our services.) Since 1985, we have conducted a bi-annual statistically valid community attitude surveys that measure the public's satisfaction with each of our major services. These surveys ask our citizens to rate our service quality. We also ask them where they prefer to have their tax dollars spent to improve services.

In addition to surveying our customers, we bring them in to talk about their perceptions of the quality they're receiving from city departments. We use the "focus group" technique to field test new programs and to improve old ones.

We also ask our customers to evaluate us immediately, where we deliver service. At each customer service counter in the City, you'll find a card in a display box that reads: "You Are Our Customer: How Are We Doing?" Our customers are asked about the quality of the service they've just received—on the spot, during the "moment of truth" they've just experienced with City personnel. Some of the citizen comments are critical. The customers at our Water Department were angry about having to spend so much time standing in line. So we redesigned our system to shorten their wait by cross-training all employees to serve as cashiers when needed, and by sending employees into the queue to accept payment checks. Most of the rating cards, however, come back with positive comments about exemplary service—these remarks then are forwarded to the deserving employees. Recognizing employees' good work is crucial in improving morale and boosting employee productivity.

Measurements create priorities. Measurement systems influence results. When we decided customer satisfaction must be a key goal, we knew we must measure satisfaction. We had to convince employees that it is important and we must reward employees when they deliver it.

Let me make it clear that as important as measurement is, it is not the whole story. A variety of other issues must be dealt with. In Phoenix, we have imple-

mented a quality program that centers on citizen satisfaction. It emphasizes that it is the public that ultimately judges our work. Many of our measurement devices—such as the citizen surveys and "How Are We Doing Cards"—are seen by our employees not as measurements but as part of our quality program. They see them as a natural way to determine if we are meeting our joint quality goals.

We were one of the first cities in the United States to competitively bid City services, over 25 years ago. We continue to contract out more services than most other cities our size. However, we don't simply privatize by turning over City work to the private sector. We pull competition into the governmental environment by allowing our staff to bid against the private sector. Through this system, we have saved over $35 million through competitive bidding. We have also increased our competitiveness. When we started, we lost almost all our bids. Today we win—we out compete the private sector 60% of the time. This system has also forged new cooperation between operating level employees and management because they realized they had to share ideas and work together to create the most competitive bid.

We have also worked to decentralize decision making and encourage employees to take responsibility for cost savings. We have implemented flexible budgeting with our departments. Once the City Council sets the budget, we allow departments broad discretion in how they spend the budget to meet the City Council goals. If they can find savings they have discretion to meet service needs.

We also have several programs aimed at increasing employee commitment to organizational goals. For the last 14 years in a row, we have won the award from the American Association of Suggestion Systems, as the unit of local government with the highest per capita participation in suggestions. This program saves money and improves City processes but it also shows employees we care about their ideas.

We have an extensive employee recognition program which rewards employees publicly when they are innovative, dedicated and committed to serving the public. We celebrate these successes and we share them with the public. The public needs to know about our dedicated, competent employees.

We have recently been working on improving communications throughout the City. Problems are more and more complex these days and no one person has the answer. We are working to make communication easier and freer across departmental lines and between different levels of employees. Every City employee needs to be a part of a team that is working creatively with the public to make our City better.

A part of enhancing communications and building a stronger team is building common visions and values. And so we are implementing a Vision and Values program. As we involve employees more in direction setting, we need to move away from tight rules, procedures and regulations that stifle action and creativity. We need to move towards Visions and Values that give employees general guidance on the big picture and what we want to be. We started this program in a bottom up process by asking over 500 employees at all levels what are we today and what do we want to become. We are now moving to top down process to communicate our Visions and Values.

We believe that there is no single program that will alone guarantee excellent performance in government. But government can be excellent. Good systems of measurement provide a foundation for building that excellence Together with other programs measurement systems can help government employees to—as the Army says—Be all you can be.

Mr. CLINGER. Thank you very much, Mr. Fairbanks.

Senator Thompson.

Senator THOMPSON. Thank you very much, Mr Chairman.

Dr. Kettl, let me ask you, it seems like we are focusing a lot on the agencies and what they are going to have to do, but I get back to Congress. It seems to me like there's a good question as to whether or not congressional committees, individuals really are going to look at an outcome-based program as in their own self-interest. I mean, we've been in the habit, it seems to me like, a long time, of measuring our compassion in terms of the number of dollars we put into a program.

For that reason, I'm wondering whether or not, with these agencies being required to come up with goals and plans and so forth, so much is going to depend on Congress requiring them to do the right thing. I know there was some discussion at one time about

perhaps adding to this legislation a requirement that Congress, as a part of their appropriations process or authorization process, be required to set out their own goals.

First of all, do you think that my concern is a valid one or overblown? Second, do you think we're going to need that additional inducement to Congress to do its part?

Mr. KETTL. I think that's absolutely the central question, Senator. My experience, in talking to Federal executives around the Government here, both in Washington and elsewhere, is that, although the Office of Management and Budget holds the purse strings within the executive branch, most administrators I know look much more closely, much more directly, much more quickly to Congress for cues on what it is that they ought to be doing than to OMB.

So they are going to be looking to Congress for important clues about how seriously to take this legislation. If those cues are not coming back from Capitol Hill, that will tell them immediately that they don't need to take that seriously at all. They will, on the other hand, if Congress takes it seriously, because they are, just like the city workers in Phoenix and the State workers in Virginia, interested in doing their jobs well. So it is absolutely essential for Congress to send out the right signals.

The question is, how can Congress go about doing that? Asking Congress to be crystal clear on its objectives is, of course, obviously the easy but, in the end, probably impossible answer. It's very difficult to try to write legislation that you get everybody to agree and that has crystal clear goals.

But if you can at least establish the basis for a conversation back and forth, Congress makes the goals as clear as possible, asks agencies to determine what it is that they think they mean by that, to allow them to get strategic plans that take those broad goals and specify actions that come from that, have Congress have oversight over that, you can have the conversation back and forth.

So it's not just a one-time process but a continual effort to try to further refine what it is that Congress wants agencies to do and what agencies think they mean by that.

Senator THOMPSON. Yes. And there's not just a Congress. There are however many subcommittees we've got, how many committees we've got, and individuals on that. I mean, it requires everybody kind of doing the right thing. What do you think the odds of that are? And I get back to my question, are we going to need legislation to maybe ensure that that comes about, that really outcome-based performance is required?

Mr. KETTL. I think that there's no doubt that legislation asking Congress to specify more clearly its goals and objectives would surely help this process, but we've also seen that, if Members of Congress don't see this in their own self-interest, they will find ways of avoiding at least the intent if not the letter of the law.

In a way, my most hopeful view on all this is the experience that my friends in Australia have had, which is that they have been at this for a long time and have discovered that it gives them answers to questions that they need and to which they can get the answers in no other way.

I go back to the point I make in my testimony about the balanced budget. What if, on the one hand, we don't succeed, or, on the other hand, we, in fact, do manage to balance the budget? One way or another, we will surely discover that that's not going to answer all of our problems.

And Members of Congress are still going to be struggling with the question of how to get leverage over executive branch action and how to deliver better value to taxpayers, because my guess is that the dirty secret in all of this is that most citizens don't give a hoot about balancing the budget. What they really care about is making Government work better.

Senator THOMPSON. Let me ask you one more small line of questions here as to whether or not this Act and this approach really adequately takes into account the question of costs. You can have a program and set up a proper goal, set up a proper way of analyzing it, and come back and report you've met your goal and do very well on your outcome. But if it costs three times more than it should, that's not good either. Is that taken into consideration in this approach, do you think?

Mr. KETTL. What the program itself requires is for agency officials to specify outputs and then move to outcomes. There is nothing that explicitly, at this point, ties it back to the budget. It is inconceivable to me, however, that the questions that you're asking won't be raised, that, OK, you've done a good job, or you've done a poor job, or you've done a so-so job. We've got an extra dollar to spend; should you get it or not?

It's inconceivable to me that those links won't be made. In the long run, the potential for tying it to the executive budget and the executive budget submission to Congress is, I think, inescapable, as well.

Senator THOMPSON. Let me throw you one really from left field, then I will stop. But it just occurs to me, there's a big debate going on right now in the regulatory reform area about cost-benefit analysis, and that has to do with regulations. Here, under this Act, agencies are having to address programs. They are having to address programs, whether or not they are getting the right result. The cost-benefit analysis basically compares costs and benefits with regard to a particular regulation.

Do we have a bit of overlap here? Can this Act, in some way, serve the same purpose, perhaps, as cost-benefit analysis in the regulatory framework?

Mr. KETTL. I think these are, as you point out, separate questions that are linked. There's the one question of what kind of regulatory policy we ought to have, but the second question is how it would implement it.

Consider the case of OSHA, for example. We right now have enough OSHA inspectors to inspect every business in the country about once a century. So if businesses think that on the average of once a century an inspector will show up, then it's an invitation to everyone to pay no attention whatsoever to the regulatory regime.

If, on the other hand, OSHA thinks about, "what is it that we want to try to accomplish?" How would we know that we accomplished it? How do we know whether or not workplace safety has

improved, and talk to Members of Congress about that? They first would be in the position of having to organize themselves more effectively to do what has to be done. Congress is in a better position to know which kinds of regulatory strategies are most likely to work, which, in the end, is likely to tell Congress about what kind of regulatory laws to pass to begin with.

It's a cycle that, with luck, will provide, I think, far better information than even cost-benefit regulation about how best to regulate in this society.

Senator THOMPSON. Thank you, Mr. Chairman.

Mr. CLINGER. The gentleman from California, Mr. Horn.

Mr. HORN. Thank you, Mr. Chairman. I have two basic questions. I'm going to ask the first one. I hope I can get a fast answer and then ask the next one. We have to leave for a vote.

What is the one basic goal measurement unit that you can apply to most departments? I would like to start with Mr. Fairbanks. Have you found one basic unit that you ought to apply and is pretty relevant across the board, in terms of achievement of goals?

Mr. FAIRBANKS. I think, from years of having worked with this, it is fairly difficult to come up with a single measure to evaluate anything, and that it's more sensible to look at three or four or five measures that together describe the situation. You also get into a practical situation of, you've got to have a measure that you can keep data on, that you have access to data, and that you physically can keep accurate.

I would say that virtually everywhere we do create cost measures, and we try to make those cost measures relate to service delivery, so cost per transaction. Our financial system doesn't support that everywhere yet, but it will in the future. You also need outcome-based measures which get at the outcome that you're trying to achieve in that area, and that gets very specific to that area.

Mr. HORN. OK. Mr. Holmes.

Mr. HOLMES. If Mr. Fairbanks can't give you a single answer to that, then, at the national Government level, it's even more difficult. But I think the key point is clarity of objective; what are we trying to achieve here? I think this is related to what Don Kettl was talking about. This is not something that you can just leave up to agencies. I mean, this is something that is shared between the executive, between the legislature, and agencies. And I think that's where the strategic planning process maybe really does have potential.

Mr. HORN. OK. Mr. Lauterberg.

Mr. LAUTERBERG. Our approach in Virginia was to try to limit the number of measures, particularly as we get started with the performance measurement process, to limit the number of measures to those that are most meaningful. I think to try to come up with a single measure and apply it across the board is somewhat dangerous because you may end up with measures that don't mean very much, and can't be used to drive program or budget decisions.

Instead, I think the best approach is to have the legislative branch work with the executive to develop the most meaningful measures and design them to meet the needs of specific programs.

Mr. HORN. I'm going to have to ask you, Dr. Kettl, if you don't mind answering that for the record. My last question—you can an-

swer it for the record—is, what is the agency, department, or unit that has been most difficult to develop a qualitative measure in accomplishing the goals, and why has that been the most difficult? If you had any difficulty beyond the realm with any type of agency doing certain types of services, I'm fishing for.

If you don't mind answering that for the record. I don't want to miss this vote, so I've got to leave, and I apologize.

[The information referred to follows:]

Under Governor Allen's Executive Order, Virginia is now implementing a performance measurement system all across state government. Our system draws from the experience gained in a pilot program which was begun in 1993. Twenty-four programs from 21 different agencies participated in the performance measures pilot program, including such programs as grievance resolution services, offender day reporting, and environmental permitting. All eight secretarial areas were represented, and six of the programs involved inter-agency efforts. Eighteen of the programs were new initiatives, and six were ongoing programs.

Most agencies in the pilot did a good job of setting out their program objectives, and many measures that were developed addressed the objectives and were appropriate. In the first year of the pilot, a total of 376 measures were developed by 22 of the participating programs.

A difficulty encountered during the pilot program was measuring the outcomes of a program when a number of other variables came into play. For example, one of the pilot programs was responsible for providing planning assistance to rural communities to further their development. Measuring the success of this program was difficult because there were many variables beyond the control of the program that also influence development.

One way to deal with this obstacle may be to compare results in communities that participate in the program to development activities and results in a control group of communities not receiving assistance. Such an analysis must be carefully conducted, but would likely provide a clearer idea of the effectiveness of the program.

Mr. CLINGER. I thank the gentleman.

One of the questions that had been raised earlier with Comptroller General Bowsher was, how does the system work, or how could it work where we have block grants; in other words, where we are now talking about devolving things back to the States and, hopefully, to the local level? There's a need, obviously, to have some sort of control over the resources and the results. How do we achieve the kind of outcome, performance-based situation in a block grant?

Dr. Kettl.

Mr. KETTL. One of the things that I think this raises is a question that in the block grant debate has not surfaced yet, which is, we've talked about devolving responsibility to the States, but what will the Federal role be in block grants? And we have yet to have a very serious discussion or careful examination of that.

Ideally, what we would like to have is States like Virginia and cities like Phoenix doing precisely what they are doing, then having the Federal Government consider, review, summarize, learn from what it is that the States are doing. But the more that we devolve responsibility out to State and local government for the implementation of programs, the more central it is that that be based on a foundation of the measurement of performance.

One of the things that the Australian Government and the New Zealand Government have discovered, as they have devolved responsibility out, not only to the private sector, but also to their local governments, is the centrality of performance measurement as the sinews that hold the whole system together. It simply has to be crucial.

What that means is, the Federal Government's own role is going to have to change. It's going to have to promote the kind of learning that happens by sharing information, but also ensuring that the States conduct these measures to begin with, because, regretfully, not all States are now at the level that Virginia and Phoenix are.

Mr. CLINGER. Thank you. Too often, I think, at the Federal level, we take the view that we can't trust lower levels of Government to do anything, I mean, that we have to maintain a much more sort of omniscient control over everything they do. And I think it does require us to change that kind of thinking. We can't just automatically assume that every government is not going to be willing to do a good job.

How has this worked in Australia, for example?

Mr. HOLMES. Well, I mean, it is a very political issue, intergovernmental relations. So it requires a political commitment to the issue. I think I would support very much what Don Kettl was saying, that you have to be clear about what the roles and responsibilities are of the different levels of government. That, I think, helps you define what it is that they should be doing.

Then the responsibility of the national, Federal Government, in terms of the information that it should be, in a sense, demanding, I think should always be kept to a minimum. I think, consistent with your point about this trust issue, there are examples in this report here, which I am leaving, which illustrate some of the things that have been done in Australia.

But, increasingly, there are efforts to put together teams of people in common areas, such as education and health, to work together to develop outcome indicators and then to try and talk about who's responsible for what outputs within those outcomes and to develop cost information. It requires a tremendous effort to focus on the partnership which this should be.

Mr. CLINGER. One of the things that seems to be coming clear to me, as a result of this hearing, is that this is—you know, you've got to be in this for the long term. This is not going to be something we accomplish just passing a law and saying, "OK. Now we're dealing with performance-based operations." It's going to take a long period of implementation to make this happen. And that means that you've got to have consistency over several, perhaps, administrations.

You've just changed governments in Australia. Do you think that there will continue to be a commitment to this system under the new government, or is there likely to be a change in emphasis?

Mr. HOLMES. It is a change after 13 years, I should hasten to add.

Mr. CLINGER. Right.

Mr. HOLMES. I would think, for the essential public management dimensions, which I see GPRA as being importantly about, that there will be a great deal carried through with the new government. No doubt there will be a number of changes, but I think, fundamentally, it will continue.

Mr. CLINGER. It will continue.

Mr. HOLMES. It's bipartisan.

Mr. CLINGER. Right. Tell me a little more about the incentives that are built into the systems. I mean, I'm interested in—we establish goals, we establish measurements, but what kinds of incentives are provided to encourage the bureaucracy to try to make the goals that you establish?

Mr. HOLMES. Well, I mean, I would certainly encourage you—and I can provide material on the budgeting system in Australia, because I think it's, in a sense, the crown jewel in our reform effort. And it's because it fundamentally addresses the relationship between three dimensions of performance: one is fiscal, macro performance; one is the actual allocation of resources according to strategic priorities; and the third one really is about efficient and effective use of resources.

The budgeting system, as it operates in Australia, provides a set of incentives through, for instance, one of the very crucial ones, predictability in policy and funding. That makes a tremendous difference to performance at the agency level if you have some predictability. Now, that's not about making life easy. It's within a very tight budget constraint and a requirement to do evaluation and to produce performance information. But predictability I regard as being an essential element of an incentive system.

A second one that I think is very powerful is autonomy. I happen to believe that autonomy may well be the most important factor in improving performance in the public sector, both in Australia and in New Zealand. The New Zealanders may deny that, but I believe that that's what is the case even in New Zealand.

Giving people flexibility within an environment where it's clear what they are expected to do is a very powerful incentive to improve performance. I think that's what people have said here about the fact that, if people know what is expected of them and they are given the authority to do it, they will generally respond in a very positive way.

So it's a much longer and more complex set of relationships, but too often, I think, people jump, when they think of incentives, down to individuals and rewarding individuals through financial rewards and things, and I think there are many broader incentives that have an important role to play.

Mr. FAIRBANKS. Mr. Chairman.

Mr. CLINGER. Mr. Fairbanks.

Mr. FAIRBANKS. If I might quickly add, I think there are incentives just tied to the interest of Congress, because I would venture to say that nobody in the Federal Government would like to come before your committee and be embarrassed by the results that they have on their piece of paper. So merely the existence of measurements and an annual, moderately high profile review of those measurements is going to create interpersonal incentives for people to care about the results they produce.

I would imagine that virtually everybody in the Federal service is very anxious to perform and to have the reputation of having performed. Simply the interest of this committee and the Congress is a powerful tool in terms of motivating people to care about the numbers and the results that they achieve.

Mr. CLINGER. One of the things that we've found—we've just, basically, reformed the Federal procurement system rather dramati-

cally to eliminate a lot of the arcane and convoluted and very, very specific regulatory control over how procurement officers, for example, do their business. And the complaint that we heard from, again, Federal procurement officers was, "Give us some flexibility. Allow us to do our job. Don't just totally bind us in red tape and very specific regulations in how we do that job."

I think that it does provide an incentive if you have the kind of flexibility and the ability to really think and not just have to sort of slavishly go through and make sure you check off this regulation and that requirement, this requirement, and so forth.

I think that is why, it seems to me, it was suggested here that regulations should not be a part of this overall exercise, that they would somehow slow down the process of establishing performance-based goals. But it seems to me that regulation, we need to have that as part of the mix. I mean, if we're really going to be serious about trying to provide the flexibility, the autonomy that you mentioned, we're going to have to also have an ability to look at the regulations and determine if they are really helping or hindering our ultimate goal.

Mr. HOLMES. Could I just comment on that, Mr. Chairman?

Mr. CLINGER. Yes.

Mr. HOLMES. I think it's actually absolutely essential, because what you need to look for is, in a sense, unbiased choices between policy instruments. Very often, regulation is a mechanism which can replace a public expenditure.

I might just get a mention in here about concerns about separating capital and recurrent budgets. In that regard, the risk of biasing choices between those two budgets is, I think, a problem I'm very conscious of, working in the developing world. But exactly the same point, I think, applies. Regulation is another policy instrument available to government to achieve particular objectives. I can't see how it can be separated from the same broad principles.

Mr. CLINGER. Thank you.

Senator Thompson.

Senator THOMPSON. Nothing further, Mr. Chairman.

Mr. CLINGER. The gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Let me just ask Mr. Lauterberg, I understand from your testimony that the Commonwealth of Virginia last year moved directly into performance budgeting. How were you able to implement the system so quickly?

Mr. LAUTERBERG. Well, by necessity, really. The Governor has a 4-year term, and he has one budget, one biennial budget that he introduces, sees through the General Assembly, and then implements for the next 2 years. So, if we were going to implement this reform, it had to be done. So it was a necessity for us.

What we've done—and if you had the luxury, I think the way the Federal Government has here, to be more deliberate about it, one of the things I think we could have done differently was to have more front-end training for the budget staff, and for agency personnel who will be implementing the performance measures. We didn't have the ability to do that.

So, as part of the budget submissions, the agencies were required to submit the performance measures that they will be monitoring

over the next 2 years, at least, and we've had to provide the training subsequent to that. But we do have the system in place. We have relied on the strategic planning to craft this budget.

Mr. DAVIS. How successful have your efforts been at privatization? Recognizing that privatization is not the end that you strive for, what you strive for, of course, is delivering the most efficient service at the lowest cost, and privatization is a tool that can be utilized to do that, but what has your success rate been on that, successes, failures?

Mr. LAUTERBERG. It's been very successful. As part of the strategic planning that we incorporated into the budget process, we had the agencies identify the activities that they perform and then to look to see if there were private sector alternatives to the agencies performing those activities.

With performance measurement, once we have that fully in place and we're able to benchmark State government services versus those available in the private sector, I think we can make even further strides toward privatization. But in this budget, we've provided for privatizing over $600 million in activities.

Mr. DAVIS. We found—this is kind of an open-ended question to all of you—when I was the head of the county government in Fairfax, which has the second largest budget of any county in the country, just putting forward the option of privatization many times would make your public sector more efficient. All of a sudden, faced with the possibility of having whole sections privatized, they became suddenly more efficient in ways that, without that option hanging over them, you couldn't get the improvements.

Have any of you had any experience that you would like to relate to the committee?

Mr. Fairbanks.

Mr. FAIRBANKS. Congressman, our experience is exactly the same. And I have to say that we don't privatize. What we do is compete. Our city workers bid against the private sector. Whoever has the lowest bid gets the work. When we first started that, we lost them all to the private sector. Now we're winning about 60 percent.

But the effect is just as you say. Just the discussion of privatization often encourages cooperation. Recently, we began exploring privatization in water meter reading. And, amazingly, some fairly quick concessions were made on labor contracts that allowed some work rule changes that allowed a dramatic cost cut in meter readers.

The other odd thing that happened is, as we got into bidding, we found that employees, supervisors, and middle managers pulled together to try to come up with the best way to save money. Before, the middle managers would blame the supervisors and the employees; the employees would blame the services and the middle managers. As we got into to bidding, we found that everybody saw they were in the same boat, and we found that it actually created cohesiveness and it created a desire to work together and share ideas.

Mr. DAVIS. Any other comments on that? If not, that's fine. I yield back, Mr. Chairman.

Mr. CLINGER. Thank you, Mr. Davis.

Gentlemen, thank you all. It has been very, very instructive, very useful testimony. You may be receiving some requests to answer in writing, if you wouldn't mind doing that, but we really appreciate your testimony here today. I want to specifically thank my colleague, Senator Thompson, for coming over to share in this very important hearing which our two committees are going to be dealing with down the road. Thank you all.

The committee stands adjourned.

[Whereupon, at 12:05 p.m., the committees were adjourned.]

[Additional material submitted for the record follows:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, this hearing will examine the early progress of the Government Performance and Results Act (GPRA), one of the principal management reforms of the 103rd Congress which gave impetus to President Clinton's continuing initiative, the National Performance Review.

I commend the chairman for continuing the oversight begun last year by Chairman Horn and Congresswoman Maloney on GPRA, a significant management reform whose effects will not become fully apparent for some time yet. In the meantime, we can usefully monitor its progress, while offering encouragement and suggesting potential improvements

GPRA is the latest in a series of recent laws, such as the Chief Financial Officers Act and the Inspector General Act, intended to improve performance and to reduce waste, fraud and abuse. It is intended to improve the efficiency and effectiveness of Federal programs by requiring agencies to set clear goals for program performance, and to develop mechanisms to measure the results.

Once GPRA is fully implemented, Federal managers will be held more clearly accountable for the successes and failures of programs at their agencies. And Congress will have better information to use in evaluating agencies' future status and funding requirements.

A principal goal of GPRA is to create a Federal government that routinely operates with a "customer focus" which drives a continuous reexamination of key services, major business processes and the issues affecting their performance.

GPRA is also expected to help the President and Congress develop a budgeting process which funds programs according to more realistic expectations of goals and performance, rather than using funds to "reward" or "punish" agencies deemed to be "successful" or "less than fully successful" based on more amorphous or political considerations.

Implementation of GPRA throughout the government, beginning in 1997, includes a sequence of strategic plans which define the mission of an agency, performance plans which express an agency's goals in an "effective, quantifiable and measurable form" as required by the law; and annual performance reports which evaluate how realistic an agency's goals were and whether they were met.

In March, 2001, OMB would make recommendations to Congress and the President, based on the totality of the GPRA process to that point, on implementing performance budgeting throughout the government.

Mr. Chairman, the attention accorded to GPRA reflects both serious congressional initiative as well as the renewed sensitivity to management concerns in the Executive branch since President Clinton took office. It flatly contradicts those critics who think the Administration hasn't been doing enough.

This hearing on GPRA is particularly timely in view of the March 4 proposal by Vice President Gore's National Performance Review that eight agencies would be revamped in a pilot project to create "performance-based organizations", which would enjoy greater flexibility in handling the government's budget, personnel and procurement rules. These agencies would be headed by officials who might operate more like the CEO's of private corporations hired under contract, and whose tunure would be dependent on meeting specific performance targets.

Many questions must be answered about how these PBO's would work in practice. Passing legislation and conducting oversight relating to them will, no doubt, require some adaptation of the way we have done things here in the Congress. GPRA will require this as well.

This hearing will help to demonstrate the positive results that can be achieved if these tools we have put into place are allowed to work as we intended.

To provide an example, in the area of improving government procurement management practices, I have long advocated requiring Federal agencies to make more effective use of the cost-management tools and procedures known generally as value engineering, or VE.

VE is a long-standing and widely accepted technique in both the public and private sectors. Countless GAO and OIG reports as well as Senate and Housing hearings demonstrated that better implementation of VE would reduce capital and operation costs, and improve and maintain optimum quality of construction, administrative, program, acquisition and grant projects. However, despite its proven capabilities, VE was under-utilized in the Federal acquisition process.

Mr. Chairman, as you know, the House approved my amendment to the Department of Defense Authorization bill last year to requiring agencies to implement value engineering, and if the estimates prove correct, save potentially billions of dollars in lost opportunities to reduce costs to the Federal government. That VE provision was signed into law as a part of P.L. 104–106 on February 10, 1996.

We can always do more, and do better. We should continue oversight as GPRA initiatives take full effect over the next few years. Congress correctly gave GPRA a time line into the 21st century, and we can't rush to draw conclusions prematurely until it has been more fully implemented.

We have an important opportunity here to re-educate ourselves, as well as to improve government performance.

Our colleagues would be wise to take the opportunity and use it constructively.

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