STATEMENT OF JOHN MERCER

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

JUNE 19, 2001

THE RESULTS ACT: HAS IT MET CONGRESSIONAL EXPECTATIONS?

Mr. Chairman and Members of the Subcommittee:

I am John Mercer, and I am testifying before you today in my capacity as a former Counsel to the Senate Governmental Affairs Committee who led the development of the Government Performance and Results Act of 1993. I thank you for this opportunity to address some of the background behind GPRA, particularly its origin, purposes and original expectations.

I first want to say how much I sincerely appreciate the strong and continued interest this subcommittee has shown in GPRA over the past several years. Today's hearing is only the latest example of your leadership, Mr. Chairman, in ensuring the on-going oversight of this important law's implementation.

I served from 1989 to 1997 as Republican Counsel to the Senate Governmental Affairs Committee, most of that time under Senator William V. Roth, Jr. (R-DE) and then under Senator Ted Stevens (R-AK). During that time I had the privilege of developing on behalf of Senator Roth a legislative idea that we now know as the Government Performance and Results Act.

In one sense, the genesis of GPRA as a specific piece of legislation began with a conversation I had with Senator Roth in January of 1990. In that conversation, I described for him a real-life example of a sophisticated and comprehensive performance-based management and budget system that had proven to be very effective in an American government. I suggested to him that I knew of no reason why the federal government could not do something similar, so he asked me to develop the appropriate legislation.

In order to assess the effectiveness of GPRA's implementation to date, it is useful to understand what the law was intended to achieve. One way of looking at this issue of original intent is to understand that from the beginning, GPRA was intended to point the federal government in a particular direction toward a generally defined vision of improved government performance, and then to begin moving it down that road a ways toward fulfilling this vision. The law that was enacted in 1993 was not really expected to get us all the way there by itself. Subsequent reforms, either administrative or statutory, would likely be needed.

GPRA, in other words, was inspired by a comprehensive performance management vision, but was not drafted to be a comprehensive reform. It was intended to lay a firm foundation upon which to build a more complete structure of performance management.

Several of the remaining elements of that structure were even anticipated in the law's earliest drafts, though later removed before final enactment. For this reason, part of my own assessment of the law's effectiveness involves the degree to which it is inspiring further reforms necessary to fulfill the ultimate vision behind its origination.

The findings and purposes sections of the statute offer a fair indication of what GPRA itself intended to accomplish, or at least to encourage. In brief, it was to improve the effectiveness of federal programs as measured by their actual results, and to do this by improving the performance of those programs through better management. It was hoped that in the end, this would mean greater confidence by the American people in their federal government.

Transparency and Accountability

And how did GPRA intend to encourage this? Through two primary means – transparency and accountability. At bottom, those are really the two core values reflected in GPRA. They are the values suggested in its statutory language, and they are values essential to the broader vision of comprehensive reform toward which GPRA directs us.

Transparency and accountability in federal agencies is key to improving performance, particularly as measured by program efficiency and effectiveness. Transparency means being able to see clearly what an agency or program is doing, how it is doing it, what resources it is consuming along the way, how it is expending those resources, and what results it is achieving or impact it is having. Accountability is taking the information gleaned from that transparency, comparing it to pre-established goals or other expectations, and then initiating some appropriate action with respect to the program or responsible individuals, based upon the degree of fulfillment of those pre-established expectations.

GPRA mandates a significant increase in the transparency of federal operations, through its various requirements for agency goals and strategies, and for the reporting of results. It also encourages some degree of accountability, both by mandating necessary information on program results and by requiring agencies to describe what action they plan to take where a goal was not met. It is important to keep in mind that while agencies and programs are notably more transparent than they were even five years ago, not only is there still much room for improvement in meeting GPRA's own specific expectations, there is far more room for improvement in fulfilling the vision behind GPRA. And if anything, we have even further to go in instilling the type of accountability required for a truly performance-based, results-oriented government.

Competition within Government

I have described transparency and efficiency as being key to improving efficiency and effectiveness. I would like to add a point here about GPRA's effort to improve government efficiency. There are people who sincerely believe that government is inherently inefficient, due to the fact that government has little or no competition. They believe that because of this, efforts to motivate major improvements in government efficiency are largely doomed to failure.

I would agree that competition is probably essential to motivating sustained improvement in organizational performance – and that this rule certainly applies to government efficiency. And this is exactly what GPRA intended to provide – competition for every federal agency, bureau, and program. How? In the same way that competition is provided to the lone runner who goes out every morning and runs five miles, and steadily improves performance. They will compete against their own past performance.

This is the likely result for any organization, including government. When its own performance is tracked and reported over time, there is almost inevitably a built-in pressure to show steady, if even slow, improvement. In my own years of experience in a government noted for its high levels of performance, I found this sense of competition against past performance to be an even more powerful motivator over the long term than established goals.

The Inspiration for GPRA

The actual inspiration for GPRA was the performance-based management and budget system of the city of Sunnyvale, California. I had served there on the City Council between 1979 and 1987, part of that time as Mayor. To really understand what GPRA is all about, it might be useful to take a look at the system used in Sunnyvale. Such an examination would also suggest just how much further the federal government has to go to fulfill GPRA's vision, as well as some of the additional steps it needs to take.

I recognize it may seem to strain credibility to assert that the experience of a single city of 130,000 out in California is a meaningful lesson for an entity the size and complexity of the federal government. However, the very existence of GPRA today is evidence that Sunnyvale's example may be relevant to federal management reform.

The metaphor I sometimes use to justify this point is that the same principles of aerodynamics and physics that apply to a small, single-engine airplane also apply to a giant 747. This does not mean that to build the 747 you simply take the blueprints for the smaller airplane and magnify them 50 times. But it does suggest that if you first study the smaller, less complex model it may be easier to see and understand the fundamental principles at work that allow it to fly, and then you can begin adapting them to the larger, more complex subject.

This may be the singular lesson of the Sunnyvale experience – that there are indeed certain fundamental principles of efficient, effective government that can be applied to improve the operations of any government, regardless of size, complexity or mission. In fact, for over 20 years, governments from across the country and around the world have been coming to Sunnyvale to examine its system. A team from GAO and OMB visited the city ten years ago, and the next year in congressional testimony OMB stated the following:

> "As indicated, the City of Sunnyvale, California stands out as the single best example of a comprehensive approach to performance measurement that we have found in the United States. . . . One underlying reason for the success achieved in Sunnyvale is the fact that every program manager uses the system to plan, manage, and assess progress on a day-to-day basis."
>
> OMB testimony to the Senate Governmental Affairs Committee
>
> May 5, 1992

I am confident that some of the methods by which Sunnyvale applies those principles can be appropriately adapted to the operations of the federal government. I believe that if this is done correctly, federal program managers will themselves begin using their own performance management systems to "plan, manage, and assess progress on a day-to-day basis" – as OMB pointed out is the case in Sunnyvale.

This is not the time or place to give a full tutorial on all of the elements of Sunnyvale's management and budget system, but I would like to mention a few key highlights and then explain their relationship to the vision underlying GPRA and what they may suggest for further federal management reform.

Sunnyvale's planning and management system begins with a 20-year strategic plan, whose various elements are updated every five years. Directly linked to this plan is the performance budget. This budget is actually a fully integrated program performance plan and annual budget, using performance-based budgeting with full cost accounting. At the end of each year, there are performance reports for each program that, amongst other uses, are key elements in the city's managerial pay-for-performance system.

Relevance to Federal Management Reform

How is this relevant to GPRA and federal management reform? Clearly, the notion of having a long-term strategic plan that is updated periodically is reflected in GPRA. So too is the notion of having an annual performance plan that links to the strategic plan, followed by annual performance reports that compare actual results to original goals and objectives.

However, GPRA contains neither a requirement for real performance-based budgeting, nor for use of performance reports in any systematic pay-for-performance regimen. Nor do the existing requirements for strategic and annual performance planning reach every program, activity and employee of a department. I can say, however, that these missing elements – which are integral to the system that inspired GPRA – were important aspects of the vision underlying that legislation.

Performance-Based Budgeting

I would like to address at this point the subject of performance-based budgeting. "Performance-based budgeting" is an increasingly used, but little-defined term. In a general sense, it might be thought of as the practice of affecting a program's budget on the basis of its past or anticipated levels of performance, while still recognizing that politics also plays an important role in budgeting. In other words, it can simply mean that you intend to give more money to those programs that show better performance.

However, a more concrete definition may be important here, or else "performance-based budgeting" becomes little more that a slogan. There is another, more precise meaning of the term, which refers to a particular format or structure of budget presentation. I prefer this meaning of the term, as it is the one that inspired GPRA, and so it is the one I will address.

I think it is important to understand a true performance budget is not simply an object class budget with some program goals attached. It tells you much more than just that for a given level of funding a certain level of result is expected. Real performance-based budgeting gives a meaningful indication of how the dollars are expected to turn into results. Not necessarily with scientific precision, but with at least through a general chain of cause and effect. The most effective governmental performance-based budgeting does this by showing, for each program area, how dollars fund day-to-day activities, how those activities in turn generate outputs, and then what outcomes should result. Appended to this testimony is an example of governmental performance-based budgeting from the system that inspired GPRA.

This type of transparency makes much clearer the efficiency and cost-effectiveness of government programs. Efficiency is a ratio between inputs and outputs, while cost-effectiveness is a ratio between inputs and outcomes. In both instances, the input is generally dollars, though in some instances it might be measured in work hours or other resources.

In my experience, the most significant measure of a government program's efficiency is the cost per unit of output, or per other measure of result. The basic building block of a sophisticated performance-based budgeting and management system is the cost per unit of activity, which roles up into cost per unit of output. This is a powerful format, because it directly measures what most managers actually manage on a day-to-day basis: dollar expenditures and staff activity in order to achieve certain outputs. These elements serve as the underpinnings for achieving higher-level objectives, including program outcomes.

Admittedly, GPRA itself addresses only the output and outcome sides of the equations. However, I can say that if a law can have a hope, then GPRA very much hoped to see the cost side of the equation filled in some day. In its earliest drafts, the statute in fact contained provisions requiring agencies to include in their annual performance plans and reports, "trends in costs per unit-of-result, unit-of-service, or other unit-of-output." Unfortunately, I reluctantly had to remove those provisions from the draft when I later discovered that agencies did not have in place the requisite cost accounting systems to generate unit-cost information, and that despite previous enactment of the Chief Financial Officers Act, there was no requirement they do so.

I am pleased to be able to say that this began to change in 1998 with implementation of a new accounting standard for federal agencies. The Federal Accounting Standards Advisory Board issued a standard for Managerial Cost Accounting that requires agencies to be able to develop this type of information. To cite a few lines from that standard (emphasis added):

> "The managerial cost accounting concepts and standards contained in this statement are aimed at providing reliable and timely <u>information on the full cost of federal programs, their activities, and outputs</u>. . . . In July 1993, Congress passed the Government Performance and Results Act (GPRA) which mandates performance measurement by federal agencies. In September 1993, in his report to the President on the National Performance Review (NPR), Vice President Al Gore recommended an action which required the Federal Accounting Standards Advisory Board to issue a set of cost accounting standards for all federal activities. Those standards will provide a method for identifying the <u>unit cost of all government activities</u>."

I recognize that many agencies have scarcely begun to implement effective managerial cost accounting systems, but at least there is a requirement and GAO is watching and reporting on compliance.

There is more recent potentially good news. In the President's budget of April 9, he announced that, "Agencies will be asked to submit performance-based budgets this September for a selected set of programs." I know the devil is in the detail, and that instructions have not yet been issued on exactly what this means, but it is indeed an encouraging sign. I am hopeful that, however low the bar may be set this first year or two, the Administration's ultimate intention is to move agencies toward real performance-based budgeting. This would mean not only linking dollars to results, but actually giving some indication – through activities and outputs, and including unit costs – *how* those dollars are expected to translate into result.

So as I said, if a law can have hope, then GPRA is truly hopeful that we may be on the road toward real performance-based budgeting, building on the foundation laid down by this law and inspired by the same vision that inspired the law in the first place. This is what it tried to achieve from the very beginning. If this happens, then the law will have fulfilled one of its major expectations.

<u>Uses of Performance-Based Budgeting</u>

Having given some indication of what performance-based budgeting is, I should perhaps explain why this form of budgeting is important. From my own eight years of experience in a sophisticated application of the system in government, I can suggest a number of ways in which I have found it to be invaluable. To mention a few:

- It helps clarify the relationship between dollars and results, not just by showing that a certain budget amount should produce a certain set of results, but also by giving an indication of how those dollars are expected to generate those results.

- It facilitates resource allocation decisions, by showing how budget increases and decreases may affect program results.

- It allows for more informed contracting-out decisions, particularly if full cost accounting is used, by showing the real cost of achieving a specific level of service.

- It promotes performance management, when this budget system is used as a basis for ensuring agency information systems provide managers on-going data on the costs and results of their program activities.

- It provides an opportunity for two-part goals that measure performance in both dimensions of cost and result, particularly when merged into unit costs. For example, a program might have a goal of processing grant applications within 30 days at a unit cost of $1,250 per application. Improved performance could be defined as achieving either a shorter processing time or a lower unit cost. This is an example of how the competitive pressure to beat last year's performance can start to ratchet down the cost of government.

- It can play an important role in creating incentives in a pay-for-performance system. For example, once a sufficient level of result is achieved, managerial bonuses might be linked to maintaining that level of service, while decreasing the program unit costs. This creates a particularly strong incentive for managers not to spend every program dollar where it is not necessary for achieving the desired results.

<u>GPRA's Relevance to Day-to-Day Management</u>

While I had no real expectation that GPRA by itself would lead directly to performance-based budgeting, I did have higher hopes for the law in another area. I had expected that within a couple of years of the development of the first agency annual performance plans, these plans would have cascaded down to the lowest levels of the organization. This has not happened, and it is a major reason that the government-wide movement toward "managing for results" has been impeded. In this fact, I find perhaps my biggest disappointment about the law's implementation so far.

Let me be blunt. Too may federal managers still believe that GPRA does not apply to them and their responsibilities. I suppose that in a literal sense these managers may be right, because the law's provisions apply explicitly only to the department or independent agency as a whole. The departments themselves have generally pushed GPRA's strategic and annual planning requirements to the next lower organizational level, so we find bureau and agency plans, too. But this is not sufficient.

In my experience, for a law like GPRA to work, every agency employee must be involved. By this I mean is that the GPRA plans must be just the start of a series of directly linked plans that cascade down through every organizational unit and subunit in the agency. At the lowest organizational level, whether at headquarters or in the field, there must be an annual plan that shows how the activities of the manager and staff directly support achievement of the next higher-level plan. Each higher-level plan should in turn do the same, until all such plans can be traced clearly up through the organization to support of the agency or departmental plan.

When this is done, I will no longer hear the type of comment I recently heard at one federal department. It was explained to me that when some field managers were brought to headquarters for annual planning, they spent the first part of their stay helping with departmental GPRA-related planning. Then they put that aside, and turned to development of their own business plans for their field offices, which they considered to be the real planning and as completely unrelated to the department's GPRA plan. In other words, neither in their minds nor on paper was there an explicit, necessary relationship between what the department planned to achieve for the year and what they themselves planned to do. The connection was missing.

If this is not corrected, then departmental and agency plans will become not much more than wish lists. There will be a hope that the strategies are carried out and the goals achieved, but no clear methodology for ensuring this happens.

If I may refer back to my experience in Sunnyvale, we found there an added benefit to this type of planning. When you start with the major, agency-wide goals and objectives, and then drive down through various subunit planning and link to the day-to-day activities of program staff, something interesting happens. You sometimes find there are activities you have been engaged in that do not really support in any meaningful way the agency's defined objectives. As a result, this type of comprehensive, multi-layer, interrelated planning can stimulate changes in the way programs are executed and resources expended.

For this reason, it is my opinion that all federal managers should be instructed, either by statute or by executive order, to develop their own GPRA-related plans. Done properly, this will ensure that all agency dollars, staffing and activities are clearly supportive of executing the agency's strategies and achieving its goals.

When this type of planning is combined with an effective performance-based budgeting system – one that can drill down to the unit costs of day-to-day activities – we will be a long way down the road toward fulfilling the vision of performance-based, results-oriented government that first inspired GPRA.

Congressional Use of GPRA

The one other area of some disappointment for me has been the slowness of Congress to use the fruits of GPRA and to become more results-focused. I know that there will be a report on this issue soon, and that it is likely to report progress on this front. And I certainly do not have the best perch from which to view what is or is not happening. However, I do remain concerned about this.

From the beginning, I had hoped that the legislation would, at least after a few years, inspired Members of Congress to bring GPRA plans and reports to committee hearings, and use them in grilling Administration witnesses. I had hoped that there would be more debates over what specific measures should be used to track program success. I had hoped that amendments would be offered to nail down more tightly the goals and objectives of a particular proposal. And I had hoped that Appropriators would relish the opportunity to performance plans and reports in examining how well agencies used their funds and in getting specific commitments for improvement.

I had found during my 13 years on staff on both sides of Capitol Hill, that much of the time the partisan disagreements are on means rather than ends. Often, advocates on both sides of an issue actually want to achieve the same end results – they disagree over which approach works best. I believe that if Congress were truly inspired by GPRA, Members would challenge each other to be specific on how to test the merits of their own solution. It might be suggested that someone with the courage of their convictions ought not shrink from defining up front how to measure later whether their proposal was sufficiently effective.

In fact, the earliest drafts of GPRA did include a provision requiring authorization and appropriation bills in both the House and the Senate to contain “objective, quantifiable, and measurable standards and goals expected to be achieved” and to “include indicators of cost per unit-of-result, unit-of-service, or other unit-of-output” – or else be out of order. This provision was the one major item subsequently removed from our bill over Senator Roth’s objection.

I know that the House of Representatives, at the beginning of this session, amended its rules to require some sort of statement of goals in reports accompanying legislation going to the Rules Committee. It will be interesting to see just how high that committee sets the bar for compliance and how diligently it is enforced. My understanding is that the other committees strongly opposed any requirement that the actual legislation contain measurable goals for program results.

Again, I thank you Mr. Chairman and Members of the Subcommittee, for giving me this opportunity to explain a bit of the background, context, and intent behind GPRA and to give some assessment of progress to date. I would be pleased to answer any questions.