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Audit-Related Memorandum
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April 3, 1996

MEMORANDUM FOR: John A. Knubel, Chief Financial Officer, CFO

FROM: A. George Tilley, District Inspector General for Audit, OAGA

SUBJECT: Performance Measurement

The federal government is facing unprecedented scrutiny of its organizations and programs and their reasons for existence. This critical examination is coming from both the public and private sectors. There is growing consensus among the public, Congress and the administration that the federal government's performance must improve substantially. To meet the growing demands for better performance, federal executives and managers at all levels must be able to clearly show the goals, objectives, results, and costs of their programs in terms that customers, stakeholders, and the American taxpayer can understand. However, many federal agencies currently lack critical information on what to improve, by how much, and how rapidly.

Government-wide requirements for developing and implementing systems for measuring program performance are stated in the Chief Financial Officers Act of 1990 and the Government Performance and Results Act of 1993 (GPRA). The importance of GPRA is to put in place a process where agencies such as HUD can clearly inform the public, and other interested parties, of the purpose of their programs, how they are measured, and the results obtained with taxpayers dollars. GPRA also establishes accountability for results.

In response to GPRA, HUD is in the process of identifying and implementing performance measures and developing information systems to accumulate and report on the Department's progress toward meeting those measures.

In an effort to assist HUD in their transformation from a compliance monitor to a performance based organization, we performed a review in the area of performance measure development. During our review we accumulated information from governmental organizations that are recognized leaders in performance measurement and have years of practical knowledge on how to, and not to, go about designing and implementing a performance measurement system. As a result of our review we identified areas where the processes recommended by the agencies we contacted are different from the process currently underway at HUD. These areas (summarized in Attachment A) are:

- **Developing a Strategic Plan.** Strategic planning is the first step and forms the platform for developing a meaningful performance measurement system. Accordingly, HUD should make developing a strategic plan its top priority in its continuing efforts to develop and implement performance measures.
- **Developing Performance Measures.** HUD can improve its performance measure development effort by getting input on measures from all levels of their organization, customers, and stakeholders, and using strategic planning results as the basis for aligning and limiting the number of performance measures.
- **Measuring the Results of Grant Programs.** While it is difficult to measure the outcomes of grant programs, it is not impossible. Performance contracts with grantees and disincentives for non-performance are essential to the success of a performance measurement system for grant programs.

Recognizing that developing and implementing a performance measurement system is a complex, fluid, and ongoing process, we are providing this information for your use as you consider appropriate in your continuing effort to develop a performance measurement system.

We provided a draft of this memorandum to your staff for their review and comments. We have incorporated their comments as we considered appropriate. If you have any questions on the results of this review or if we can be of assistance, please contact Jerry Hite or Robert Woodard in the OIG Seattle office on (206) 220-5360.

Attachments

SUMMARY: PERFORMANCE MEASURE DEVELOPMENT

DEVELOPING A STRATEGIC PLAN

GPRA requires each federal agency to develop a five year strategic plan no later than September 30, 1997, that identifies the major functions and operations of the agency, a comprehensive mission statement, outcome-related goals and objectives, and strategies for achieving those goals and objectives. GPRA also requires that this strategic plan be developed with input from Congress and entities potentially affected by or interested in the plan. Under GPRA this strategic plan becomes the basis for annual performance plans that identify how the agency will meet the goals in the strategic plan and establishes performance goals and measures to monitor progress.

The organizations we contacted during our review identified strategic planning as the first step and an essential component of developing a meaningful performance measurement system. A strategic plan is necessary, according to the organizations we contacted, to ensure that HUD:

- Has a clear understanding of what its customers want,
- Has a mission that will serve the needs of its customers, and
- Develops performance measures that provide the information necessary to determine if it is achieving its mission.

In January 1996 HUD's CFO office and HUD Senior Officials established a steering committee, various subcommittees and held off-site retreats to initiate the strategic planning process. The CFO's office indicated that they expect OMB to request selected parts of their strategic plan for use in FY 1998 budget submissions and future Presidential Performance Agreements.

According to the experts we consulted with during our review, the results of strategic planning provides the framework for the development of a performance measurement system. Therefore, HUD should make strategic planning their top priority in their continuing effort to develop

and implement performance measures. HUD should also take steps necessary to include all levels of the organization and customers in their strategic planning. A comprehensive strategic plan takes time to develop and implement. HUD should use care and take the time it needs to ensure an integrated system.

DEVELOPING PERFORMANCE MEASURES

We did not perform a detailed analysis of the specific measures HUD is using or whether the strategic performance system produces meaningful and/or accurate information. Based on the results of our review we concluded it was premature to determine if the current measures were good or bad because, as discussed previously, HUD has just recently taken steps to start the strategic planning work necessary to provide the basis for this determination. We did, however, review HUD's process for developing their measures and compare it to the process recommended by the organizations we met with during our review. The following describes:

- What HUD currently has for measuring performance,
- The process HUD used for developing performance measures, and
- Areas we identified where HUD can improve their process.

What HUD has now

HUD currently has two sets of measures and multiple systems gathering information on performance. There are the measures developed in consultation with OMB for use in HUD's fiscal year 1997 budget submission, and HUD's original measures developed and entered in the CFO's strategic performance system. This system contains over 500 measures. In addition, each office we talked with had their own management systems with program management goals that were used for everyday management information. The systems in individual offices do not contain measures that are different than the strategic performance system. However, maintaining two systems doubles the work for no additional information. HUD's strategic performance system does not classify the types of measures it contains. The list of measures

developed with OMB classifies measures as either output or outcome measures.

According to the CFO's office the measures in the strategic performance system relate to a number of Departmental initiatives and are grouped around the Secretary's six priorities. The number of measures reflect varying commitments or goals that senior management wish to track such as Presidential Performance Agreements, management, and management control plans. The strategic performance system contains measures for GPRA and Budget purposes, as well as day-to-day management of the Department.

HUD's process for performance measure development

According to officials in the CFO's office, the Office of Housing, and the Office of Public and Indian Housing, the initial performance measures entered into the CFO's performance monitoring system were derived from existing program and management goals used by HUD. In the spring of 1995 the Office of Management and Budget began a series of "spring reviews" to assess agencies efforts toward implementation of GPRA and generate an initial set of performance measures for Fiscal 1997 budget submissions. When approached for their spring review HUD provided OMB with their performance measures from the strategic performance system. This list contained 500-600 performance measures for the Department. HUD and OMB went through a series of meetings and negotiations on performance measures over a period of several months that ultimately resulted in a set of output, outcome, and input measures to be used in HUD's FY 1997 A-11 budget submission. According to the CFO's Office, HUD and OMB are very pleased with the performance measures developed through the spring review process. Our discussions with officials in other offices in HUD produced mixed reviews on the measures. The input we received ranged from a feeling that measures were essentially forced on them, to indifference because the final measures were the same as the management plan they were using already.

Areas for improvement

Two issues surface when comparing HUD's process to that of other entities. The first issue is obtaining input and buy-in from all levels of the organization, customers, and

stakeholders. The second issue is aligning measures with key results areas and limiting the number of measures.

Get input and buy-in

Information we accumulated from experts during our review identified input from all levels of the organization, customers, and stakeholders as essential to the success of any effort to develop and implement performance measures. This is increasingly essential with HUD's current efforts to move toward more block grants and local partnerships in their reinvention proposal, Blueprint II. Providing increased flexibility to localities will require obtaining accountability from the localities through performance measures. Local agencies developing programs at the local level in consultation with HUD, and reaching mutual agreement on measures of program results will be the keys to obtaining accountability.

Our discussions with HUD officials revealed that the performance measures currently in place at HUD were developed by HUD headquarters staff and officials at OMB. Our conclusion based on the comparison above is that if HUD wants a performance measurement system that is useful as a daily management tool throughout the organization, not just a reporting mechanism to comply with GPRA, they need to get all levels of the organization, customers, and stakeholders involved with the development process. Continued development and implementation efforts cost time and money for work that may have to be redone depending on the results of strategic planning and input from field staff, customers, and stakeholders.

Align and limit the number of measures

As discussed previously according to GPRA requirements and the results of our work, strategic planning should be the starting point and basis for all performance measurement programs. The strategic plan provides a clear mission, and identifies major program areas and activities. Organizations we met with recommended that measures be developed to address strategic planning results based on HUD's current organizational structure. Once this process is completed HUD can adjust to a new structure if necessary. The results of our work also show that performance measurement should be focused on the areas identified during strategic planning as the major functions and operations of the agency.

HUD currently compiles data for and reports on over 500 measures and has just recently taken steps to start strategic planning. According to the CFO's office their strategic performance system is designed to provide performance information for various purposes such as GPRA measures, budget information, and day-to-day management. In our opinion the fact that HUD currently identifies GPRA requirements, Secretary's priorities, and day-to-day management as separate items shows the need for comprehensive strategic planning to focus and align their performance measures.

In addition the measures developed in consultation with OMB were based on the assumption that HUD's original reinvention blueprint legislation submitted to Congress would be passed. Our most recent discussions with HUD officials during this review indicate that this legislation will most likely not be passed as submitted and in fact HUD now has Blueprint II dated January 1996. This puts HUD in a position of having a very large number of performance measures based on an organizational structure that does not currently exist.

MEASURING THE RESULTS OF GRANT PROGRAMS

During our review grant programs were identified as the most difficult programs for measuring outcomes because of the flexibility and wide latitude grantees have in uses of the grant funds. However, while measuring outcomes in grant programs is difficult, it is not impossible. In fact given the current focus of the federal government and specifically HUD on increasing the number of programs operated by local agencies through grants, measuring outcomes of these programs is essential. Some of the organizations we met with do measure outcomes of grant programs. They do this by establishing performance contracts with their grantees. These contracts establish the expected level of performance with measures that align to the organizations overall mission. Also essential according to the organizations we contacted are negative consequences for not meeting performance measures.

HUD's current reinvention proposal establishing three performance based funds does require recipients to establish performance measures. The reinvention proposal also establishes a system for bonuses for exceeding established performance measures. However, according to the

organizations we contacted with experience in this area HUD needs an additional element in their program that establishes some negative consequence for organizations that do not achieve their agreed upon level of performance.

CONCLUSION

In this time of critical scrutiny of governmental organizations and programs, HUD's ability to provide meaningful information that clearly shows goals, objectives, results, and costs of their programs is important to establish HUD's accountability and responsibility to the public. Creating a performance measurement system that generates this information is not a quick or easy task. This task is complicated even more by HUD's continuing effort to reinvent and transfer more authority and flexibility to the local agencies that understand their local needs.

HUD has taken initiative and made progress in developing performance measures. However, the experiences of top organizations in the area of performance measurement suggest that HUD needs to make strategic planning their top priority in their continuing efforts to develop and implement a performance measurement system. A comprehensive strategic plan as required by GPRA and recommended by top organizations will provide HUD the framework necessary to work with local agencies on common goals and understand how local issues relate to HUD's overall strategies. Once strategic planning is completed HUD will be in a position to work with all levels of the organization, customers, and stakeholders to develop the number and kind of meaningful performance measures necessary to determine if HUD is achieving its mission. A performance measurement system built on this strategic information will also allow HUD to provide interested parties information that clearly shows its goals, objectives, results, and costs of its programs.

Entities Visited

We identified government organizations that are nationally recognized leaders in performance measurement. The following is a list of the organizations we visited

- State of Oregon
 - Department of Transportation
 - Department of Housing and Community Services
 - State Office of Administrative Services

- City of Portland, OR
 - City Auditor's office
 - Office of Housing and Community Affairs

- State of Texas
 - Governor's Budget Office
 - Legislative Budget Office
 - Department of Housing and Community Affairs

- Minnesota Housing Finance Agency

- Providence Housing Authority, Providence, RI

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Other Studies Obtained and Reviewed

We also obtained and reviewed studies on generally accepted methods for developing and implementing performance measurement systems, and the experiences of organizations using those methods. The following is a list of some of the major studies used in our review.

DOCUMENT TITLE	DOCUMENT SOURCE	DATE
Implementation of the Government Performance and Results Act. A Report on the Chief Financial Officer's Role and Other Issues Critical to the Government-wide Success of GPRA	Chief Financial Officers Council GPRA Implementation Committee	May 1995
Using Performance Measures in The Federal Budget Process	The Congress of the United States Congressional Budget Office	July 1993
Managing for Results: Critical Actions for Measuring Performance	US General Accounting Office	June 1995
Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms	US General Accounting Office	May 1995
Managing for Results: State Experiences Provide Insights for Federal Management Reforms	US General Accounting Office	Dec 1994
Managing for Results: Status of the Government Performance and Results Act	US General Accounting Office	June 1995
Oregon Benchmarks, Standards for Measuring Statewide Progress and Institutional Performance. Report to the 1991 Legislature	Oregon Progress Board	January 1991
The Oregon Option	Oregon Progress Board	July 1994
Performance Measurement in Oregon State Government, Using the Productivity Matrix. Special Edition for Oregon State-Government Operations	Glenn Felix	copywrite dates 1983, 1985, 1987, 1989, 1991
Prioritizing with Performance Measures	State of Oregon	(none)
Strategic Budgeting: Strategic Planning and Performance Budgeting. Presentation to the Association of Government Accountants	Governor's Office of Budget and Planning, State of Texas	July 1995
Budgeting for Results, Iowa's Outcome Based Performance Budget	State of Iowa, Department of Management	July 1995
U.S. Army Corps of Engineers National Operation and Maintenance Program: Performance Measurement Guidebook.	U.S. Army Corps of Engineers	August 1995
Managing for Results in the Governmental Environment. The role of service efforts and accomplishments measurement and reporting	Government Accounting Standards Board Testimony	June 19, 1995

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