United States General Accounting Office

GAO

Report to the Honorable Dan Burton, Chairman, Committee on Government Reform, House of Representatives

October 2000

# MANAGING FOR RESULTS

# Emerging Benefits From Selected Agencies' Use of Performance Agreements

Accountability * Integrity * Reliability

GAO-01-115

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## Abbreviations

| | |
|---|---|
| CFIT | Controlled Flight into Terrain |
| CFO | Chief Financial Officer |
| CIO | Chief Information Officer |
| CNO | Chief Network Officer |
| COO | Chief Operating Officer |
| DOT | Department of Transportation |
| FAA | Federal Aviation Administration |
| GPRA | Government Performance and Results Act |
| MSAW | Minimum Safe Altitude Warning |
| NHTSA | National Highway and Traffic Safety Administration |
| PATS | Performance Agreement Tracking System |
| PBO | Performance-Based Organization |
| PI | Prevention Index |
| RSPA | Research and Special Programs Administration |
| SES | Senior Executive Service |
| SFA | Office of Student Financial Assistance |
| VAMHCS | Veterans Affairs Maryland Health Care System |
| VHA | Veterans Health Administration |
| VISN | Veterans Integrated Service Network |

United States General Accounting Office
Washington, D.C. 20548

October 30, 2000

The Honorable Dan Burton
Chairman, Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

The Government Performance and Results Act (GPRA) provides a strategic management framework intended to improve federal performance and hold agencies accountable for achieving results. Effective implementation of this framework requires agencies to clearly establish results-oriented performance goals for which they will be held accountable, measure progress towards those goals, determine the strategies and resources to cost effectively accomplish the goals, and then use performance information to make the programmatic decisions necessary to improve performance. One way to embed such a framework throughout agencies is to align individual employee performance expectations with agency goals so that individuals understand the connection between their daily activities and their organization's success.

As a first step towards this end, you asked us to review federal agencies that have begun to use performance agreements to align executive performance expectations with organizational goals. As agreed, this report identifies the common emerging benefits, if any, from the Veterans Health Administration's (VHA), the Department of Transportation's (DOT), and the Office of Student Financial Assistance's (SFA) implementation of performance agreements that may be applicable to other agencies as they too seek to use performance agreements as one tool to improve organizational performance and accountability. We selected VHA and DOT because of their experience with performance agreements since the mid-1990s, and SFA because of its statutory requirement to use them.

VHA uses performance agreements with career executives to help translate its strategic goals into day-to-day operations and to hold those executives accountable for achieving program results. VHA's performance agreements between its Under Secretary for Health and each of its 22 Veterans Integrated Service Network[1] (VISN) directors include goals within each of VHA's five domains of health care—quality, functional status, satisfaction, access, and cost—as well as other areas of special interest, such as patient safety. The agreements also specify executive "core competencies," such as interpersonal effectiveness, flexibility/adaptability, or technical competency, that are considered during the evaluation process. VHA considers progress towards the goals in the agreements when evaluating VISN director performance and making performance reward decisions. (Additional information on VHA's implementation of performance agreements appears in app. I.)

DOT implements performance agreements between the Secretary of Transportation and the heads of its eleven operating administrations and bureaus or "modal administrators," its Assistant Secretaries, and Office Directors. DOT's annual performance plan developed under GPRA serves as the basis for its performance agreements and DOT assigns its annual performance goals and the activities intended to achieve those goals to the appropriate executive's performance agreement. The agreements also include "corporate management strategies" that cut across organizational boundaries and set additional expectations for administrators, such as to use customer feedback to improve programs. These agreements represent what modal administrators have agreed to accomplish, but because administrators are appointed by the President and confirmed by the Senate, the administrators are not eligible for cash awards. (Additional information on DOT's implementation of performance agreements appears in app. II.)

Additionally, Congress has recognized the role that performance agreements can play in holding organizations and executives accountable for results. In 1998, Congress chartered SFA as a Performance-Based Organization (PBO) and required SFA to implement performance agreements. SFA's performance plan required under its PBO legislation also served as the basis for the performance agreements at SFA. The performance agreement between the Secretary of Education and SFA's

[1] A VISN is a VHA regional office that has primary responsibility for health care delivery and coordinates the activities of hospitals, outpatient clinics, nursing homes, and other facilities.

Chief Operating Officer (COO) set three goals for the COO, which are in the areas of customer satisfaction, the cost of delivering student aid and services, and employee satisfaction. The performance agreements between the COO and the senior managers include corresponding goals. For example, the General Manager for Schools, who is responsible for working towards SFA's performance objectives related to higher education institutions, is expected to contribute to SFA's overall goals, as well as to improve customer satisfaction among school administrators and financial aid advisors, reduce his or her organization's unit costs, and improve satisfaction among employees who work to support school services. Under the PBO legislation, progress towards the goals in performance agreements is to serve as the basis by which to determine the amount of any annual performance bonuses for the COO and the senior managers. (Additional information on SFA's implementation of performance agreements appears in app. III.)

## Results in Brief

As part of a series of concerted management reform efforts designed to improve organizational performance, VHA, DOT, and SFA used results-oriented performance agreements for their senior political and career executives to define accountability for specific goals, monitor progress during the year, and then contribute to performance evaluations. Although each agency developed and implemented agreements that reflected their specific organizational priorities, structures, and cultures, we identified five common emerging benefits from each agency's use of results-oriented performance agreements. These emerging benefits are shown in figure 1.

Figure 1: Emerging Benefits of VHA's, DOT's, and SFA's Use of Results-Oriented Performance Agreements

1. **Strengthened alignment of results-oriented goals with daily operations:**

   Performance agreements define accountability for specific goals and help to align daily operations with agencies' results-oriented, programmatic goals.

2. **Fostered collaboration across organizational boundaries:**

   Performance agreements encourage executives to work across traditional organizational boundaries or "silos" by focusing on the achievement of results-oriented goals.

3. **Enhanced opportunities to discuss and routinely use performance information to make program improvements:**

   Performance agreements facilitate communication about organizational performance, and provide opportunities to pinpoint improved performance.

4. **Provided results-oriented basis for individual accountability:**

   Performance agreements provide results-oriented performance information to serve as the basis for executive performance evaluations.

5. **Maintained continuity of program goals during leadership transitions:**

   Performance agreements help to maintain a consistent focus on a set of broad programmatic priorities during changes in leadership.

Source: GAO analysis based on VHA's, DOT's, and SFA's implementation of performance agreements.

A shift in the orientation of individual performance expectations and accountability from an adherence to process or completion of activities to a greater focus on contributions to results will require a cultural transformation for most federal agencies. In this respect, officials at VHA, DOT, and SFA stressed that they are continually refining how they develop and then use their agreements. They are also addressing ongoing implementation issues, such as refining their understanding of how their activities contribute to results, providing executives readily accessible performance information in a useful timeframe and format, and further cascading accountability to the appropriate levels. As they—and the federal government as a whole—gain experience with the use of performance agreements, on the basis of the benefits seen thus far, it appears that such agreements can become an increasingly vital part of overall efforts to improve programmatic performance and better achieve results. VHA, DOT, and SFA generally agreed with the contents of this report.

## Background

A number of the world's major democracies have initiated performance agreements as one element within a broader series of public sector reforms to enhance government performance and strengthen accountability for results. For example, in 1995, we reported on four countries—the United Kingdom, New Zealand, Canada, and Australia—that implemented performance agreements between department leaders and their top civil service managers to instill a sense of personal responsibility for performance and to reinforce the connection between employee performance and organizational missions and goals.[2]

In the United States, the federal government is also seeking ways to reinforce the connection between employee performance and agency goals. The Office of Management and Budget's Circular A-11 which provides guidance on the preparation and submission of agencies' budget requests, including GPRA plans and reports, calls for executive agencies to discuss in their fiscal year 2002 annual performance plans goals and strategies to make their workforces more performance-oriented, such as linking personnel appraisals to program performance. In addition, a February 2000 report to the President's Management Council recommended linking employee goals to their agency's strategic goals. The report highlighted a number of initiatives, including the use of performance agreements, that can contribute to improving performance and enhancing accountability.

Finally, the Office of Personnel Management recently issued amended regulations that change the way agencies are to evaluate the performance of members of the Senior Executive Service (SES).[3] Agencies are to place increased emphasis on holding executives accountable for results, appraising executive performance on those results balanced against other perspectives, and using results as the basis for performance awards and other personnel decisions. The amended regulations also give agencies

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

[3] The amended regulations, 65 Fed. Reg. 60837 – 60845, can be found in their entirety at http://www.opm.gov/fedregis/2000/65-60837-a.pdf.

more flexibility to tailor their performance management systems to their unique organizational requirements and climates. Agencies must develop systems to implement the new policies for the SES appraisal cycles that begin in 2001.

## Scope and Methodology

As agreed, we examined VHA and DOT because of their experience in using performance agreements as part of broader efforts to improve their performance. Our assessment of agencies' fiscal year 2000 performance plans produced under GPRA indicated that VHA and DOT were using performance agreements as a mechanism to link employee performance to organizational results.[4] Additionally, we selected SFA because the legislation chartering it as a PBO requires it to use performance agreements, which we have described as a way to align organizational goals and clarify accountability.[5]

To meet our objective, we collected and analyzed these agencies' current and previous performance agreements; strategic plans, annual performance plans, and performance reports; personnel policies and memoranda; and other related management documents. We discussed (1) VHA's performance agreements with the Chief Network Officer (CNO), former Under Secretary for Health, and all but 1 of the 22 VISN directors and spoke with the director's designee at the remaining VISN; (2) DOT's performance agreements with the Deputy Secretary of Transportation, the Assistant Secretary for Administration, and knowledgeable officials at each of DOT's 11 modal administrations; and (3) SFA's performance agreements with its COO and five senior managers. We also contacted planning and human capital officials at each agency to discuss their experiences with performance agreements. We performed our work in Washington, D.C., with additional visits to two VISN headquarters in the field, from January through September 2000 in accordance with generally accepted government auditing standards.

[4] *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans* (GAO/GGD/AIMD-99-215, July 20, 1999).

[5] *Management Reform: Elements of Successful Improvement Initiatives* (GAO/T-GGD-00-26, Oct. 15, 1999).

## Common Benefits Emerge From Agencies' Use of Performance Agreements

VHA, DOT, and SFA used results-oriented performance agreements with their senior political and career executives to define accountability for specific goals, monitor progress, and contribute to performance evaluations. Although each agency developed and implemented agreements that reflected their organizational priorities, structures, and cultures, we identified five common benefits that emerged from their use.

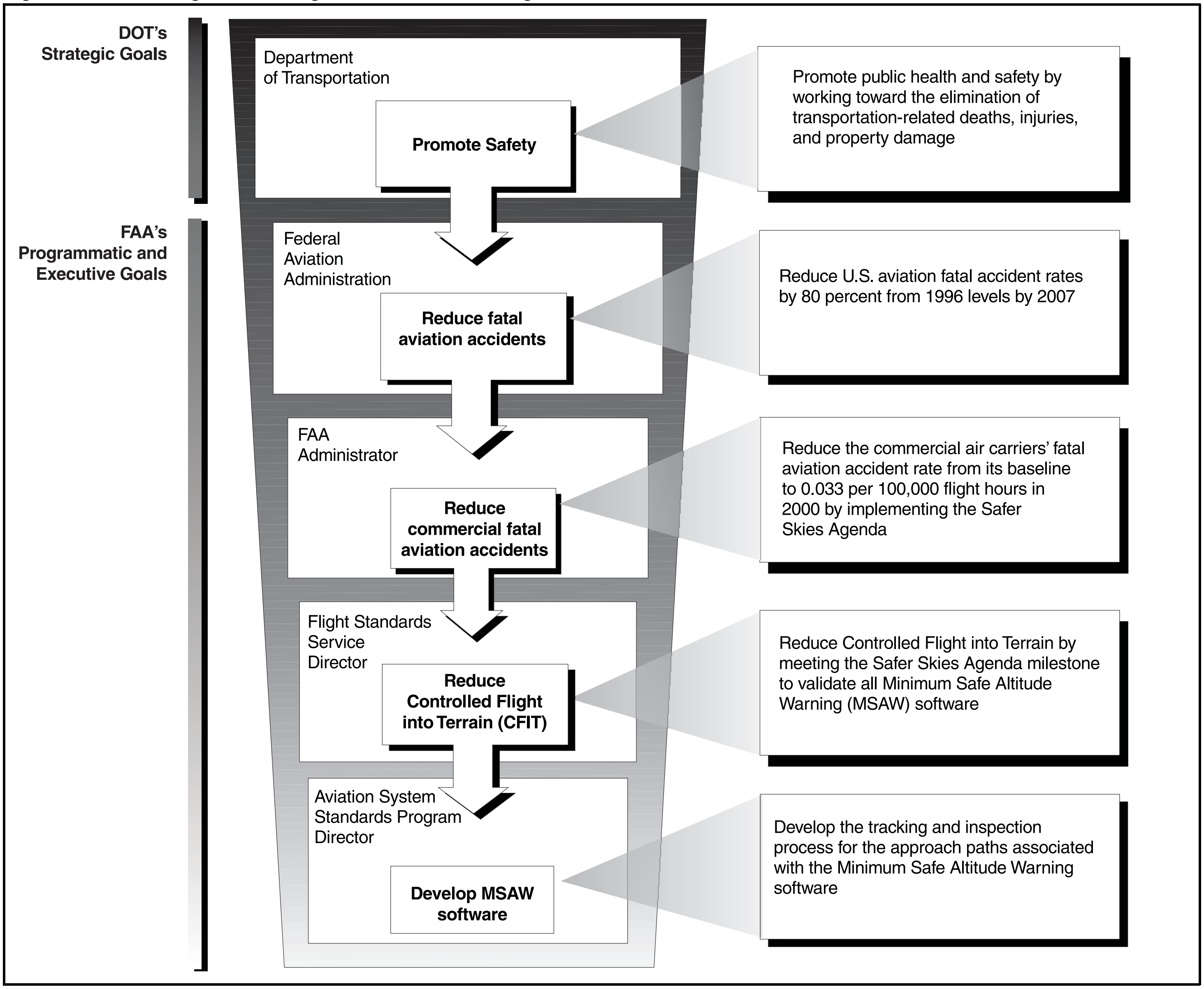
### Strengthened Alignment of Results-Oriented Goals With Daily Operations

High-performing organizations know how the products and services they deliver contribute to achieving results. In fact, an explicit alignment of daily activities with broader results is one of the defining features of high-performing organizations. At the federal level, we have found that such alignment is still very much a work in progress.[6] Many agencies continue to struggle with clearly understanding how what they do on a day-to-day basis contributes to results outside of their organizations. The experiences of VHA, DOT, and SFA suggest that results-oriented performance agreements can be effective mechanisms to define accountability for specific goals and to align daily activities with results.

For example, at the Federal Aviation Administration (FAA), a program director's goal to develop software to help aircraft maintain safe altitudes in their approach paths is intended to contribute to DOT's strategic goal to promote public health and safety (see fig. 2).

[6] GAO/GGD/AIMD-99-215, July 20, 1999.

**Figure 2: Translating DOT Strategic Goals Into FAA Programmatic and Executive Goals**




Source: GAO analysis based on DOT and FAA planning documents.

The FAA Administrator's performance agreement for fiscal year 2000 includes a goal to reduce the commercial air carrier fatal accident rate by implementing the Safer Skies Agenda. As part of implementing the Safer Skies Agenda, the Flight Standards Service Director has a goal to meet milestones for reducing a type of crash called "Controlled Flight into Terrain," which occurs when pilots lose their sense of the plane's relation to the surface below. These milestones include validating Minimum Safe Altitude Warning software, which is to be developed by the Aviation Systems Standards Program Director. This software system is expected to aid air traffic controllers through both visual and aural alarms by alerting them when a tracked aircraft is below, or predicted by the computer to go below, a predetermined minimum altitude.

At VHA, a goal included in the VISN directors' performance agreements to improve their VISN's scores in the Prevention Index (PI) is intended to contribute to VHA's, and subsequently the Department of Veterans Affairs', goal to improve the overall health care of veterans. The PI measures the percentage of patients who receive eight medical interventions, such as alcohol screening, and is designed to assess how well VHA follows nationally recognized approaches for primary prevention and early detection of diseases with major social consequences, such as alcohol abuse. To gauge its progress in this area, VHA has a performance goal to increase the scores on the PI, from a fiscal year 1998 baseline of 85 percent, to 98 percent of patients receiving the intervention by fiscal year 2003. VHA has then translated this goal into the performance agreements for each of VHA's VISN directors. For 2000, for example, 85 percent of patients receiving the interventions is considered "fully successful" performance, and 90 percent is considered "exceptional" performance.

For SFA, the COO's goal to improve SFA's customer service is intended to contribute to the Department of Education's strategic goal to ensure access to postsecondary education and lifelong learning and its strategic objective that student aid delivery and program management are efficient, financially sound, and customer-responsive. This objective is then translated into a goal in the COO's performance agreement to raise SFA's score on the American Customer Satisfaction Index.[7] SFA's score on the index is based on surveying first-time and continuing postsecondary education students about the fairness of the application process, usefulness of the information that SFA provides, and professionalism of SFA's staff. The corresponding goal in the COO's performance agreement is to raise SFA's score, from its

[7] The American Customer Satisfaction Index measures customer satisfaction for public and private sector organizations and is produced by a partnership of the University of Michigan Business School, the American Society for Quality, and Arthur Anderson. The highest possible score on the index is 100.

fiscal year 1999 score of 63, to the private sector industry average of 74 by 2002. The COO then translates this goal into the performance agreements for each of SFA's five senior managers. For example, in support of this goal to improve customer satisfaction, the General Manager for Students has goals to increase aid awareness among students and their families and to simplify the application process.

## Fostered Collaboration Across Organizational Boundaries

Collaboration, interaction, and teamwork across organizational boundaries are key characteristics of high-performing organizations.[8] To this end, all three agencies were including results-oriented goals in performance agreements to encourage executives to work collaboratively across traditional organizational boundaries or "silos." For example, to encourage collaboration, the VISN headquartered in Cincinnati has implemented separate performance agreements that focus on its patient services, such as geriatrics, in addition to agreements that focus on traditional organizational boundaries, such as medical centers. The VISN director has a performance agreement with each of the VISN's "care line" directors for patient services in primary care, medical and surgical care, mental health care, rehabilitation care, geriatrics and extended care, and clinical support. For example, the mental health care line director's performance agreement includes mental health-related improvement goals for the entire VISN. To make progress towards these mental health-related goals, the care line director must work across each of the VISN's four medical centers and with corresponding care line managers at each medical center. As part of this collaboration, the care line director needs to establish consensus among VISN officials and external stakeholders on a strategic direction for the mental health care line, develop and implement integrated clinical programs, and allocate resources among the centers for mental health programs.

DOT officials said that performance agreements provided a mechanism by which to collaborate and interact on a regular basis across modal administration boundaries. DOT's "flagship" initiatives designate certain modal administrations with lead responsibility for specific annual performance goals. These lead administrations work with other administrations to collaboratively achieve the flagship goals by identifying barriers to success, sharing best practices, and streamlining procedures.

[8] *Human Capital: Managing Human Capital in the 21st Century* (GAO/T-GGD-00-77, Mar. 9, 2000).

For example, the Research and Special Programs Administration (RSPA) conducts cross-cutting research and programs with other DOT modal administrations to make the nation's transportation systems more integrated, effective, and secure. As set forth in the administrator's performance agreement, RSPA has lead responsibility—under DOT's flagship initiatives—for DOT's safety goal to reduce the number of serious reportable hazardous materials transportation incidents and their related human and economic costs. To make progress towards this goal, RSPA works with other DOT modal administrations that also contribute to this goal. For example:

- FAA will examine the feasibility of using new noninvasive screening technologies to detect hazardous materials in baggage and cargo for air transport.
- The Federal Highway Administration, and as of January 1, 2000, the Federal Motor Carrier Safety Administration, will identify key risk factors affecting highway safety for carriers transporting hazardous materials.
- The Federal Railroad Administration will participate in developing and conducting symposiums on best practices to address major causes of hazardous materials incidents, such as non-accident releases of hazardous materials from rail tank cars.
- The Coast Guard will complete training of all its units and begin keeping records on the occurrence of undeclared shipments of hazardous materials.

In addition to these activities, these agencies formed a team to evaluate the effectiveness of DOT's hazardous materials safety program. The team found that the program worked reasonably well, but among other things, DOT needed to strengthen its training on industry safety practices and compliance with regulations in order to reduce human error—the single greatest contributing factor to hazardous materials incidents.

To encourage collaboration across its senior managers' operations, SFA officials told us they plan to evaluate the senior managers' performance and then make bonus decisions based on (1) SFA's overall performance and (2) the extent to which the senior manager meets the goals in his or her performance agreement. For example, for the General Manager for Students, 50 percent of his or her performance evaluation will be based on his or her contribution towards SFA's overall performance goals for customer satisfaction, unit cost, and employee satisfaction. The remaining 50 percent will be based on progress towards the goals in his or her agreement that specifically relate to students, which are to improve customer satisfaction among aid applicants and their families, reduce his or her organization's unit costs, and improve satisfaction among employees who work to support student services.

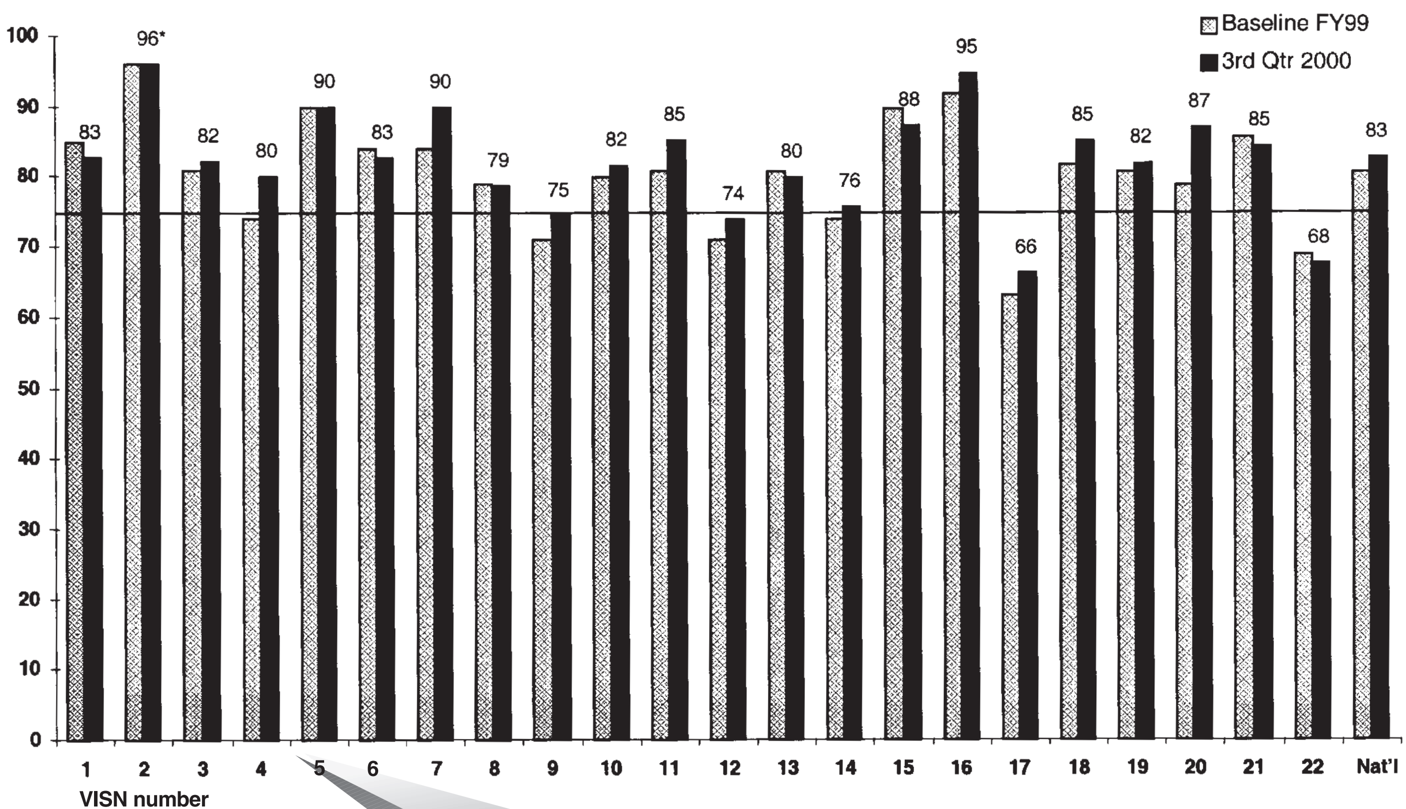
## Enhanced Opportunities to Discuss and Routinely Use Performance Information to Make Program Improvements

High-performing organizations use performance information on a routine basis to pinpoint opportunities to improve their performance. Towards this end, the experiences of VHA, DOT, and SFA show how results-oriented performance agreements can be an effective vehicle to foster routine communication about progress towards achieving goals, existing and emerging performance gaps, and strategies to better achieve results. Officials at all three agencies noted that data on progress in meeting goals in the agreements were examined in light of the internal or external factors beyond the control of the agency that can influence the degree to which goals are achieved. This contributed to more specific discussions and decisions to mitigate or leverage these internal or external factors, as appropriate, to better achieve results. In addition, this more routine use of performance information highlighted the implementation issue of making performance information more accessible and helpful to executives. For example, VHA's CNO meets quarterly with each VISN director to discuss that VISN's progress towards the goals in the director's performance agreement. At these meetings, the CNO and directors also discuss the impact of internal or external factors and strategies to address their effects. To inform these meetings, VHA produces a quarterly Network Performance Report that presents both VHA-wide and VISN-specific progress on each of the performance goals in the VISN directors' performance agreements. In turn, some VISNs also report information on a more frequent basis to communicate progress, identify performance gaps, and consider possible actions to improve performance.

VHA's quarterly Network Performance Report, an example of which is shown in figure 3, shows each of the 22 VISNs' progress towards the goals in the VISN directors' agreements, such as the goal for follow-up care after hospitalization for mental illness. For example, 90 percent of the patients within VISN 5, which is headquartered in Baltimore, received follow-up care for the third quarter of fiscal year 2000. In between VHA's quarterly reports, the Baltimore VISN also produces biweekly reports that allow it to monitor even more frequently progress on a consistent set of goals by its three medical centers. As shown in the lower part of figure 3, the VISN's biweekly performance report for August 2000 allowed it to see that its VISN-wide rate remained at 90 percent; its medical center at Martinsburg, WV was at 91 percent; its Veterans Affairs Maryland Health Care System (VAMHCS) was at 89 percent; and its medical center at Washington was at 91 percent. For this goal, a VISN's performance is fully successful when 75 percent of discharged patients received follow-up care after hospitalization for mental illness, and its performance is exceptional when 90 percent of patients received follow-up care.

**Figure 3: Excerpt of Performance Information on Follow-up Care After Hospitalization for Mental Illness in VHA's Quarterly Network Performance Report and VISN 5's Biweekly Performance Report**

VHA Quarterly Network Report




VISN 5 Biweekly report

| | FS[a] | E[b] | Date | VISN | | Martinsburg | | VAMHCS | | Washington | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 7. Mental Health Follow-up - FY Data | 75% | 90% | Jul-00 | 90% | E[b] | 91% | E[b] | 89% | FS[a] | 91% | E[b] |

[a]"FS" stands for fully successful, which a VISN attains when 75 percent of its discharged patients receive follow-up care.

[b]"E" stands for exceptional, which is attained when 90 percent of discharged patients receive follow-up care.

Source: VHA Quarterly Network Performance Report, May 8, 2000; and VISN 5's Biweekly Performance Report, August 17, 2000.

The Baltimore VISN's Executive Leadership Council, which comprises the VISN director, its medical center directors, and other staff, such as nurse executives, uses the VISN's biweekly performance report during its monthly meetings to discuss the VISN's progress. VISN officials said that having this performance information routinely available provided a foundation to discuss the VISN's progress each month and, where appropriate, discuss strategies to address any performance gaps.

As agencies use performance agreements to enhance opportunities to communicate progress and discuss strategies to address performance gaps, they have been pushed to make performance information more accessible to executives in a time frame and format that corresponds to what is most helpful to them. For example, in attempts to provide timely and readily accessible performance information, VHA provides VISNs access to the VISN Support Service Center, which has a Web site that offers on-line access to reports and databases related to a range of VISN operations, including VISN progress towards performance goals. According to VHA, this allows VISNs to access and use performance information on a more frequent and timely basis than was possible with previous VHA data collection and reporting systems. To further encourage staff to access performance information more frequently, some VISNs have also developed their own intranet-based data systems to make data more easily available to staff.

VHA can continue to make progress in providing timely and readily accessible performance information. For example, some VISN directors told us that they still need to receive more timely performance information on additional measures, such as customer satisfaction. Specifically, VHA collects data for customer satisfaction annually, and officials indicated that receiving data so infrequently made it difficult to change strategies during the year to improve their VISNs' customer satisfaction ratings. In addition, as illustrated by our recent report on VHA's patient waiting times, it needs to continue its efforts to develop reliable performance information that is readily accessible to all of its VISNs.[9]

Performance agreements at DOT—and the bimonthly meetings between the Deputy Secretary and modal administrators to discuss progress towards the goals and activities in the agreements—also provided

[9] *Veterans' Health Care: VA Needs Better Data on Extent and Causes of Waiting Times* (GAO/HEHS-00-90, May 31, 2000).

opportunities to enhance communication about results, identify performance gaps, and then consider actions the modal administrations can take to further improve performance. For example, the 1999 performance agreement for the National Highway and Traffic Safety Administration's (NHTSA) Administrator included a goal to "continue progress toward meeting or exceeding the President's goal to increase safety belt use nationwide by 85 percent by 2000 and 90 percent by 2005." Nationwide seatbelt usage, however, hovered between 68 and 70 percent from 1995 to 1998 and declined slightly to 67 percent in 1999. Although DOT remains committed to the national seat belt goal, NHTSA officials told us they will need to rethink strategies to meet the goal and focus on increasing seat belt use among groups with lower use rates and expanding information and educational campaigns to target diverse audiences. The strategies NHTSA plans to use in the coming year to increase seat belt use include expanding its Buckle Up America Campaign to all 50 states and working with states to strengthen their programs and pass primary enforcement of seat belt laws. Officials said they will then evaluate the success of these initiatives to determine if further adjustments are needed to achieve the 2001 seat belt use goal.

In order to further enhance communication about progress towards its goals, DOT is seeking to implement a revised and streamlined system that will be more widely accessible within each modal administration. Currently, DOT's Performance Agreement Tracking System tracks and provides information for each of its executives' performance agreements. DOT officials said this current system has evolved into multiple databases that do not efficiently sort and analyze results across DOT, which detracts from the usefulness of the performance information.

## Provided Results-Oriented Basis for Individual Accountability

High-performing organizations hold executives accountable for contributing to the achievement of results-oriented goals.[10] In pursuit of this characteristic, officials at VHA and SFA told us that performance agreements were a vehicle to bring results-oriented performance information into evaluations of executive performance. For example, VHA officials said that progress towards the goals in the agreements played an important role in determining the VISN director performance evaluations and bonuses—which in 1999 were up to $20,000. Progress towards VHA's

[10] *Human Capital: Key Principles From Nine Private Sector Organizations* (GAO/GGD-00-28, Jan. 31, 2000).

health care-related goals accounts for 50 percent of the agreement, areas of special interest 30 percent, and the core managerial competencies 20 percent. VISN directors also submit self-assessments of their performance that include examples of actions or accomplishments, which VHA also considers in director evaluations.

Similarly, SFA said performance agreements play a major role in its evaluation process. Progress towards the goals in performance agreements is the basis by which SFA determines how much of the allowed bonuses its COO and senior managers receive. According to SFA's PBO legislation, the COO is entitled to a bonus of about $61,000 in 2000, and the senior managers are entitled to salaries and bonuses of up to $153,000 in 2000. Specifically, the COO's evaluation is based on SFA's progress towards the three goals in the COO's performance agreement. According to SFA officials, SFA plans to evaluate its senior managers' performance on the extent to which the senior manager meets the goals in his or her performance agreement, as well as SFA's overall performance in customer satisfaction, unit cost, and employee satisfaction. Under its PBO legislation, SFA is required to submit copies of both the COO and senior manager evaluations to Congress along with its annual performance report.

Whereas VHA and SFA consider progress towards the goals in performance agreements as part of the process to determine executive ratings and bonuses, DOT's modal administrators, however, are appointed by the President and confirmed by the Senate, so they are not eligible for cash awards. Since 1998, however, the Deputy Secretary has "tallied" for each administration the percentage of activities it accomplished that are intended to achieve DOT's goals. The tally also showed where each administrator stood relative to other administrators in achieving the goals in his or her agreement, which in turn underscored to the administrators the importance of their performance agreements.

## Maintained Continuity of Program Goals During Leadership Transitions

High-performing organizations recognize that they need to reinforce accountability for organizational goals during times of leadership transitions. To this end, DOT and VHA noted that their results-oriented performance agreements helped provide continuity during times of leadership transition by maintaining a consistent focus on a set of broad programmatic priorities. They said that because the agreements clearly and concisely outlined top leadership priorities during a given year, the agreements served as a convenient vehicle for new leadership to identify and maintain focus on the most pressing issues confronting the organization.

More generally, the existence of an established process for developing and using performance agreements provides new leadership with a tested tool that it can use to communicate its priorities and instill those priorities throughout the organization. VHA, DOT, and SFA are in the initial phases of implementing performance agreements beyond the senior political and career executive levels and are exploring how far and how best to cascade them.

- For staff at lower levels of VISNs, agreements are being cascaded to varying extents—for example to facility directors, chiefs of staff, and service-line directors.
- For fiscal year 2000, DOT is requiring all modal administrations and other offices, as appropriate, to align the performance plans of the associate administrators, executive directors, and other SES who report directly to modal administrators with their respective administrator's performance agreement.
- SFA's PBO legislation also requires it to establish a performance management system that creates goals for employee, group, or organizational performance that are consistent with the PBO's performance plan. According to SFA officials, SFA is in the initial stages of developing this system.

Looking at potential SES retirements underscores the importance of having stabilizing mechanisms, such as performance agreements, in place to ensure continuity through leadership transitions. We recently found that the federal government as a whole may need to replace a substantial number of career SES members who will become eligible to retire between September 30, 1999, and September 30, 2005.[11] Although not all of this group of SES members who become eligible will actually retire within that time, a sizeable percentage likely will. The Office of Personnel Management estimates that of the almost 6,000 career SES members, about 45 percent will retire during fiscal years 1999 through 2005.

[11] *Senior Executive Service: Retirement Trends Underscore the Importance of Succession Planning* (GAO/GGD-00-113BR, May 12, 2000).

## Concluding Observations

As agencies continue to shift towards a greater focus on results, there is also growing recognition on the part of Congress and the executive branch that agencies need to make progress connecting employee performance with agency success. The emerging benefits we identified from VHA's, DOT's, and SFA's experiences suggest that performance agreements are one management tool agencies can use as they seek to improve performance and accountability. The experiences of VHA, DOT, and SFA also suggest that as agencies move forward in using performance agreements, they will need to address several key implementation issues, as highlighted throughout this report.

For example, our work has shown that many agencies continue to struggle with clearly understanding how what they do on a day-to-day basis contributes to results outside of their organization. VHA, DOT, and SFA used performance agreements to strengthen the alignment of daily operations with results-oriented performance goals. In addition, while the experiences of VHA, DOT, and SFA show how performance agreements can be effective vehicles to foster routine communication about progress towards goals, existing and emerging performance gaps, and strategies to better achieve results, their experiences also underscore the need to ensure that executives and managers have the performance information they need, when they need it, and in a format that meets their needs. As such, agencies are seeking to improve the timeliness and accessibility of data to executives and line managers. Finally, all three agencies appreciate that to be fully effective, performance agreements need to cascade beyond the senior political and executive level into lower organizational levels. All three are therefore undertaking initial efforts in this regard. As part of these initial efforts, they are exploring how far and how best to cascade the use of agreements.

Nevertheless, the experiences of VHA, DOT, and SFA suggest that as they and other agencies continue to gain experience with performance agreements, it appears that such agreements can become an increasingly vital part of overall efforts to improve programmatic performance and better achieve results.

## Agency Comments

We provided drafts of this report in October 2000 to the Acting Secretary of Veterans Affairs, the Secretary of Transportation, SFA's Chief Operating Officer, and the Secretary of Education, or their designees, for their review and oral comment. They responded through their GAO liasons that they agreed with the contents of the draft report and in some cases provided clarifying technical comments. Where appropriate, we have made changes to this report that reflect these technical comments.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will provide copies of this report to Representative Henry Waxman, Senator Fred Thompson, and Senator Joseph Lieberman in their respective capacities as the Ranking Minority Member of the Committee on Government Reform, Chairman of the Senate Committee on Governmental Affairs, and Ranking Minority Member of the Senate Committee on Governmental Affairs; the heads of the agencies we reviewed; the Honorable Janice Lachance, Director of the Office of Personnel Management; and other interested parties. We will also make this report available to others upon request.

If you have any questions about this report, please contact me or Lisa Shames on (202) 512-6806. Justin Brown and Janice Lichty were key contributors to this report.

Sincerely yours,

J. Christopher Mihm
Director, Strategic Issues

# VHA's Implementation of Performance Agreements

The Veterans Health Administration (VHA) operates an approximately $18 billion health care system and serves the medical care needs of veterans by providing primary and specialized care at hundreds of service delivery locations across the country. Between 1946 when VHA was established, and 1995, VHA grew into the nation's largest direct provider of health care. VHA served veterans at more than 600 locations and focused primarily on hospital care, the use of high technology, and medical specialization. During this time, however, our work showed that VHA did not keep pace with societal and industry changes, such as a market-based restructuring of American health care and the increase of managed care.[1]

Beginning in October 1995, VHA sought to shift its emphasis from being a hospital operator to a health care provider that relied on community-based, integrated networks. In fiscal year 1996, VHA furthered this transformation by decentralizing its management structure from 4 regions to 22 Veterans Integrated Service Networks (VISN). The VISNs were designed to coordinate the activities of hundreds of hospitals, outpatient clinics, nursing homes, and other facilities within a given geographic area. VHA expected the VISN structure to improve efficiency by reducing duplicative services and shifting services from costly inpatient care to less costly outpatient care. To accomplish its reform goals, VHA gave each VISN substantial operational autonomy and established performance goals to hold network and medical center directors accountable for achieving performance improvements.

## Define Accountability for Specific Goals

One key VHA initiative to drive its reforms was to have each of the 22 VISN directors enter into a performance agreement with the Under Secretary for Health. VHA began implementing these performance agreements in 1996. These performance agreements included performance goals with specific targets that each VISN was responsible for accomplishing during the next year. The VISN director; the Chief Network Officer (CNO), whose office administers the performance agreements; and the Under Secretary for Health initiate the agreement at the beginning of each year. As illustrated in figure 4, the agreements for fiscal year 2000 consist of three weighted parts—A, B, and C.

[1] *Veterans Affairs: Progress and Challenges in Transforming Health Care* (GAO/T-HEHS-99-109, April 15, 1999).

- Part A accounts for 20 percent of the agreement and outlines "core competencies" that define the behaviors VISN directors are expected to exhibit as they manage the VISN during the coming year. Core competencies within Part A include such areas as interpersonal effectiveness, flexibility/adaptability, and technical competency.
- Part B accounts for 30 percent of the agreement and outlines "areas of special interest" that reflect priority areas for VHA during the coming year. Areas of special emphasis within Part B include such areas as patient safety.
- Part C accounts for 50 percent of the agreement and contains the majority of the performance goals that gauge each VISN's progress towards VHA's health care mission. Part C is further divided into VHA's five domains for health care: quality, functional status, satisfaction, access, and cost. Within each of these domains, the agreement sets measurable goals for each VISN. For most goals, the agreement also sets achievement levels that VISNs are expected to attain for "fully successful" and "exceptional" performance. For example, under the domain of access, VISNs were to decrease the average waiting time for patients to obtain appointments in ophthalmology, audiology, orthopedics, cardiology, urology, and primary care by September 30, 2000. For this goal, a VISN's performance was fully successful at 45 days and exceptional at 30 days or less.

**Figure 4: Excerpts of VHA Performance Agreement Template for 2000**

## Part A: Core Competencies

**I. Interpersonal Effectiveness:** The ability to build and sustain relationships, resolve conflict, handle negotiation effectively, and develop collaborative working relationships. The successful executive displays empathy, empowers others, and possesses written and oral communication skills.

**IV. Flexibility/Adaptability:** The ability to quickly adapt to change, handle multiple inputs and tasks simultaneously, and accommodate new situations and realities. The successful executive works well with all levels and types of people, welcomes divergent ideas, and maximizes limited resources.

**VIII. Technical Competency:** The knowledge and skills to perform and evaluate the work of the organization based upon a clear understanding of the processes, procedures, standards, methods, and technologies of the organization. The successful executive demonstrates functional and technical literacy and measures results of work.

## Part B: Areas of Special Interest

**4. Patient Safety:**

**a.** All facilities will participate in distribution of the National Center for Patient Safety's culture and attitudinal survey addressing patient safety.

**b.** Each facility will have at least one person trained in performing Root Cause Analysis (RCA) in accordance with process as defined by the National Center for Patient Safety.

## Part C: Performance Measures

### Healthcare Value: Domain of Quality

**1. Prevention Care Index (PI)**
By September 30, 2000, the performance on the PI will increase.

**Achievement levels**
Fully Successful: PI is 85% based on entire FY 2000 data
Exceptional: PI is 90% based on entire FY 2000 data

### Healthcare Value: Domain of Access

**8. Waiting Times**
By September 30, 2000, the average waiting time will decrease for the following DSS identifier categories (clinics): ophthalmology, audiology, orthopedics, cardiology, urology, and Primary Care.

**Achievement levels**
Fully successful: 45 days
Exceptional: 30 days or less

______________________________
Network Director Date

______________________________
Chief Network Officer Date

______________________________
Under Secretary for Health Date

Source: VHA 2000 Network Performance Plan.

In addition to the goals in the agreements, the CNO uses a list of "monitors" that represent important areas of focus for VISNs. These monitors can cover areas that for the most part have been accomplished, yet still deserve attention; or they can also be used to focus on certain areas that may be emerging departmental priorities. Recent monitors have included the percentage of long-term care patients who received pneumococcal vaccinations and the percentage of patients in ambulatory or long-term care who have received a pain assessment. The monitors can also be tailored to local needs and VISNs can use monitors to highlight up to six initiatives that they believe require attention.

Each year, the CNO and the Office of Performance and Quality refine the previous year's performance agreement template. These two offices, along with the Performance Measurement Working Group, which comprises VISN directors and other staff, work to develop the goals and measures for the VISN director performance agreements. To define the performance measures that are included in the VISN director agreements, VHA provides a document that provides definitions and data collection strategies for each goal in the agreement, with a particular focus on health care-related performance goals.

## Monitor Progress During the Year

VHA has a standardized approach to monitoring VISN directors' progress during the year that consists of formal reporting of progress towards the health care-related goals and areas of special interest included in their agreements, which is then followed by meetings to discuss performance. The Office of Performance and Quality produces a network performance report each quarter, which is provided to each VISN. This report provides a status of each VISN's and VHA's overall progress towards the goals included in the performance agreements. Following these quarterly reports, the CNO meets with each VISN director to discuss progress towards the goals and any internal or external factors that may be affecting progress. VHA officials told us that these meetings are valuable opportunities to monitor progress and discuss performance.

To support their efforts to monitor progress, VHA has several data systems. VISNs have access to the VISN Support Service Center, which has a Web site that allows both VHA headquarters and VISN officials access to reports and databases on these systems that track VISN progress towards some of the goals in the performance agreements. VHA also uses these collection systems to produce the quarterly performance reports. To verify and validate some of its performance information, VHA has an External Peer

Review Program, which is designed to provide a national database that ensures more objective performance information. As part of this program, an independent contractor assesses the data's accuracy by reviewing samples of patient records and then generates data files and reports for each quarter of the fiscal year on specific aspects of clinical care.

## Contribute to Performance Evaluations

To evaluate the performance of VISN directors at the end of each fiscal year, the CNO, Under Secretary for Health, and Performance Review Board use both quantitative and qualitative performance information to contribute to their judgement when making evaluation decisions. The quantitative performance information includes progress towards the health care-related goals and areas of special interests included in the performance agreements. The qualitative performance information includes the VISN director's self-assessment of his or her performance during the year that describes actions or accomplishments that reflect each competency and the CNO's assessment of the director's management competencies included in the agreement. VHA officials indicated that having the quantitative performance information related to the agreements helped them assess VISN director performance when making performance rating and bonus decisions. In 1999, VISN directors could receive bonuses of up to $20,000.

A key aspect of VHA's evaluation of VISN directors is its annual network performance agreement report, which takes the place of a fourth-quarter report. Most recently, the 1999 performance report included a summary of VHA's overall progress towards the goals in the VISN director performance agreements and individual VISN progress towards the goals. Charts and graphs allowed senior political and career executives, as well as employees, to compare each VISN to the entire agency and to other VISNs across the country.

A VHA official indicated that although VHA has not evaluated the discrete contributions performance agreements have made to its performance, including corresponding goals in the performance agreements of VISN directors contributed to improvements in those key organizational goals. For example, between fiscal years 1997 and 1999, VHA reported that its performance on the Prevention Index had improved from 69 to 81 percent. A goal requiring VISNs to produce measurable increases in the Prevention Index has been included in the directors' performance agreements each year between 1997 and 1999.

To further define accountability at lower levels, most VISNs are implementing performance agreements between the VISN directors and individuals reporting to them, such as medical center directors, clinical managers, and quality managers. Some medical center directors also then have agreements with individuals who report to them, such as associate directors or chiefs of staff.

# DOT's Implementation of Performance Agreements

The Department of Transportation (DOT) has for a number of years faced critical challenges in its efforts to help ensure the safe and efficient movement of people and the cost-effective investment of resources in the nation's transportation infrastructure. Although DOT has contributed to improving the nation's transportation systems, we have reported that it has also experienced problems, such as cost overruns and delays in air traffic control modernization programs and highways and transit projects.[1]

According to DOT, its efforts to implement performance agreements were in response to the National Performance Review's initiative to improve performance and accountability at executive agencies and a specific 1993 recommendation to "develop performance agreements with senior political leadership that reflect organizational and policy goals." In 1994, all DOT administrators were asked to sign DOT's first performance agreement, which was between the Secretary of Transportation and the President. DOT has implemented performance agreements with its administrators in each subsequent year.

## Define Accountability for Specific Goals

As of 1999, DOT had implemented a total of 26 annual performance agreements with its modal administrators, all Assistant Secretaries, and Office Directors within the Office of the Secretary. DOT has a template for its performance agreements that generally dovetails its annual performance plans produced under the Government Performance and Results Act (GPRA). According to DOT officials, this helps ensure that the performance agreements are consistent with DOT's goals. The agreements include organization-specific activities that are collectively intended to achieve DOT's performance goals, as well as "corporate management strategies" that cut across organizational boundaries and set additional expectations for administrators, such as to use customer feedback to improve programs.

## Monitor Progress During the Year

DOT's approach to monitoring executives' progress during the year consists of formal reporting of progress towards the activities in the administrator's agreements, which is then followed by meetings to discuss performance. Each modal administration produces a performance report to prepare for regular meetings between the Deputy Secretary and the

[1] *Major Management Challenges and Program Risks: Department of Transportation* (GAO/OCG-99-13, Jan. 1999).

modal administrator. These meetings occur on at least a bimonthly basis. At these meetings, the Deputy Secretary uses the performance reports as the basis to discuss progress against the goals in the performance agreements. The Deputy Secretary and each administrator also discuss internal or external factors that may be affecting progress and actions that can be taken to improve performance.

DOT's Performance Agreement Tracking System (PATS) is used to produce each administration's monthly performance report. The PATS includes a database for each modal administrator and the other Assistant Secretaries and Directors who have an agreement with the Secretary. DOT officials indicated DOT is seeking to make PATS more widely accessible within each modal administration.

Other groups within DOT also monitor progress towards the goals in the agreements. For example, the Senior Leadership Team, which comprises modal administrators and assistant secretaries, meets each week to discuss, among other issues, progress towards activities in the administrator's agreements. The modal administrations also reported using the PATS reports for a number of meetings and discussions of their performance.

## Contribute to Performance Evaluations

Since 1998 the Deputy Secretary has "tallied" for each administration the percentage of activities listed in the administrator's performance agreement it accomplished. The tally also included completion rates for DOT's strategic goals and corporate management strategies. DOT's modal administrators are appointed by the President and confirmed by the Senate, thus they are not eligible for cash awards.

As part of an overall effort to evaluate and improve its accountability systems and its progress towards achieving strategic goals, DOT found in 1999 that its system of performance planning and performance agreements "do an excellent job of communicating one set of achievable goals for the organization … and holding the most senior managers accountable for achievement of those goals." Accordingly, the report recommended that DOT expand its use of performance agreements. On the basis of these findings, DOT intends to continue to implement performance agreements at lower levels and consider progress towards the goals in those agreements in performance evaluations. For fiscal year 2000, DOT instructed the heads of the modal administrations to enter into performance agreements with the highest level members of the Senior

Executive Service (SES) in their administrations. DOT envisions that the agreements will eventually cascade through the entire SES ranks, and then below.

# SFA's Implementation of Performance Agreements

The Office of Student Financial Assistance (SFA), which administered more than $48 billion in student financial aid to more than 8.5 million students in fiscal year 1998, has been on our high-risk list since 1992.[1] This has been due in part to the number of SFA's programs that have been vulnerable to waste, fraud, abuse, and/or mismanagement.

In response to longstanding management weaknesses, Congress chartered SFA as a Performance-Based Organization (PBO) in 1998. The newly created PBO—subject to the authority of the Secretary of Education—is responsible for administering the information and financial systems that support SFA programs, excluding the development of policy, and exercises independent control of its budget allocations and expenditures. In chartering SFA as a PBO, Congress gave SFA personnel authorities, such as the ability to appoint up to 25 technical and professional employees without regard to the provisions of title 5, United States Code, governing appointments in the competitive service. Congress also provided SFA with certain procurement authorities, such as the ability to procure property and services, subject to the authority of the Secretary of Education. To hold SFA accountable for addressing its management challenges and achieving results, Congress is requiring SFA's Chief Operating Officer (COO) to have a performance agreement with the Secretary of Education. SFA also is required to use performance agreements between the COO and its senior managers.

## Define Accountability for Specific Goals

The development of the performance agreement for SFA's COO is to be an annual exercise in which the COO and the Secretary of Education agree on measurable organizational and individual goals that the COO will be accountable for achieving. This agreement, once completed, is to be transmitted to Congress and made publicly available. According to the legislation, on the basis of progress towards the goals defined in his or her performance agreement, the COO can receive a performance bonus of up to 50 percent of his or her basic pay, or about $61,000 in 2000. The COO can also be removed or reappointed on the basis of progress towards the goals in his or her performance agreement. The legislation also requires the COO to enter into subsequent performance agreements with SFA's senior managers. The agreements are parallel to the agreement between the COO and the Secretary. A senior manager's salary and performance bonus

[1] *Major Management Challenges and Program Risks: Department of Education* (GAO/OCG-99-5, Jan. 1999).

cannot exceed 125 percent of the maximum rate of basic pay for the Senior Executive Service, or up to $153,000 in 2000. A senior manager can be removed at the discretion of the COO.

According to SFA, its performance plan serves as the performance agreement between the COO and the Secretary of Education. In 1999, SFA published its 5-year performance plan that sets three goals for SFA and, consequently, its COO: to improve customer satisfaction, improve employee satisfaction, and lower the unit cost of its operations. Appendix A of SFA's performance plan sets out the annual performance objectives and corresponding performance measures for each of SFA's five senior managers: General Managers for Students, Schools, and Financial Partners; the Chief Financial Officer (CFO); and the Chief Information Officer (CIO). According to SFA, this appendix also serves as the performance agreements between the COO and the senior managers.

## Monitor Progress During the Year

SFA's approach to monitoring progress during the year includes reporting of progress towards the goals in performance agreements and meetings to discuss performance. Progress towards the goals and the effects of internal or external factors on these goals are discussed weekly by two groups. The first, SFA's Management Council, comprises the COO; the Chief of Staff; the CIO; CFO; and the General Managers for Students, Financial Partners, and Schools. The second, the Senior Leadership Team, includes the Management Council as well as other managers. To inform these meetings, SFA produces a biweekly performance report, which details SFA's progress towards its performance goals and highlights goals about which SFA is concerned. SFA also produces quarterly progress reports, which show its progress in meeting organizational goals.

## Contribute to Performance Evaluations

SFA's PBO legislation requires it to prepare and submit to Congress an annual report on its performance, including the extent to which it met the goals in its performance plan. The report is also to include, among other things, the evaluation rating for the COO and senior managers, including the amounts of the bonuses they received. SFA reported that it met most of its interim goals for fiscal year 1999 relating to improving customer satisfaction, reducing the overall cost of student aid, and transforming itself to a PBO. For example, SFA reported that it completed its modernization blueprint and met its goal to attract 3 million electronic filings of student aid applications by the end of the fiscal year. On the basis of SFA's performance in fiscal year 1999, the COO received a performance bonus that was less than the maximum amount allowed under the PBO legislation. According to officials, SFA based the amount on the number of interim goals SFA met in 1999.

According to SFA officials, as the basis to evaluate the performance of its senior managers, SFA plans to emphasize that senior managers are responsible for helping SFA to accomplish its overall goals, as well as corresponding goals for their respective organizations, by weighting senior manager performance evaluations accordingly. Specifically, progress towards each senior manager's performance goals will account for 50 percent of his or her overall evaluation. The remaining 50 percent will be determined by the extent to which SFA reaches its three overall performance goals. According to agency officials, SFA managers will receive bonuses based on this evaluation.

Though SFA is in the early stages of implementing its performance agreements, officials told us they believe the concept is effective and worth replicating at lower levels of the agency. Consistent with these efforts, SFA's PBO legislation requires it to establish a performance management system that creates goals for employee, group, or organizational performance that are consistent with the PBO's performance plan. According to SFA officials, it has begun to take preliminary steps to develop a performance management system to meet its requirements.

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