Managing for
Results Series

August 2001

The Potential of the Government Performance and Results Act as a Tool to Manage Third-Party Government

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The PricewaterhouseCoopers Endowment for

The Business of Government

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Foreword

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On behalf of The PricewaterhouseCoopers Endowment for The Business of Government, we are pleased to present this report by David G. Frederickson, "The Potential of the Government Performance and Results Act as a Tool to Manage Third-Party Government."

The report by Mr. Frederickson, completed as part of his doctoral dissertation at Indiana University's School of Public and Environmental Affairs, addresses one of the major challenges facing federal executives in implementing GPRA. The challenge is the ability and capacity of the federal government to achieve program outcomes by using GPRA as a tool to effectively hold third parties accountable for performance. Third parties are those organizations outside of the federal government that have responsibility for implementing federally funded programs. Examples of third parties include state and local governments, nonprofit organizations, and universities.

This report is another in the Endowment's *Managing for Results* series, which addresses the major challenges facing government at all levels in moving to results-oriented management. A previous report by Peter Frumkin, "Managing for Outcomes: Milestone Contracting in Oklahoma," addressed the challenge of state governments holding third- party contractors accountable for performance. Another Endowment report by Patrick Murphy and John Carnevale, "The Challenge of Developing Cross-Agency Measures: A Case Study of the Office of National Drug Control Policy," addresses the challenge of developing government-wide and national performance measures to monitor and improve the performance of crosscutting programs.

We trust that this report, like others in the *Managing for Results* series, will prove both useful and helpful to government executives at all levels—federal, state, and local—in meeting the challenge of managing and improving the performance of public sector programs.

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Executive Summary

The Government Performance and Results Act of 1993 (GPRA, or the Results Act) seeks to improve federal agencies' efficiency and effectiveness. GPRA posits that federal performance shortcomings are primarily managerial, specifically attributable to poorly articulated missions and inadequate performance information. As a remedy for inefficiency and ineffectiveness and to produce the desired performance information, GPRA requires that federal agencies develop strategic plans, and measure and report on their performance. Performance planning and reporting are to be integrated with agency budgets, with the hope that this information will be useful for making budget decisions.

Previous large-scale federal management and budget reform efforts have not met with much success. The primary impediment to successful implementation of GPRA has widely been assumed to be the difficulties associated with measuring the results of government activities. Given the sophistication of program evaluation, organizational scorecards, and the like, this study instead points to third-party coordination, cooperation, and monitoring as the main challenge and most significant opportunity of GPRA implementation.

This report details how the performance measurement process required by GPRA has served to improve internal management within federal agencies. More specifically, in the agencies studied for this report, GPRA has resulted in new lines of results-oriented communication and improved cooperation with the third parties that agencies rely on to carry out their missions. Complicating these coordination efforts is the fact that the third parties with whom agencies partner to deliver public services are not uniform in either kind or responsibility.

The challenge resulting from third-party involvement is that GPRA requires agencies to set goals at the federal level for programs they only partially control. In many federal programs, third parties play significant roles. Depending on the program, third parties can control any combination of financing, administration, and goal-making responsibilities. These third parties include contractors, grant recipients (including state and local governments, nonprofits, and for-profits), and regulated industry.

While nearly all federal agencies rely on third parties to help carry out their work, there is no systematic approach to managing federal programs in which third parties play significant roles. Indirect or third-party management requires a different set of skills than does direct service delivery. Nonprofit management is a growing field of study in schools of public and business management. However, the perspective of course work and research in the field is usually from the point of view of those working in nonprofits, not from the point of view of the public managers who let, negotiate, and manage contracts with nonprofits.

One of the hallmarks of third-party government is difficulty in achieving accountability for performance and results (Milward, 1996). Accountability is one of GPRA's central objectives. It is likely that the primary form of accountability envisioned by GPRA's authors is federal agencies' accountability to Congress. This report finds, however, that improved management and accountability between federal agencies and third parties will be one of GPRA's most significant outcomes. The performance measurement process required by GPRA provides the unique opportunity for agencies to aim toward policy outcomes by coordinating and overseeing the efforts of the various third parties with which they partner to deliver public services.

Based on this report's findings the following recommendations about GPRA implementation are made:

- **For Agencies:** In developing their performance goals, each agency should make clear their role in the delivery of public services. Specifically, in addition to outcome measures, agencies that give grants to third parties should develop goals relating management and oversight of grantees' performance in achieving outcomes.
- **For Agencies:** Agencies should use GPRA not only as a means to communicate their performance, but also to communicate constraints that inhibit their performance.
- **For OMB:** The U.S. Office of Management and Budget's (OMB) Circular A-11, which includes a section on what information should be included in performance plans and reports, should require that agencies include information on third party collaboration in the development of performance goals and measures. Further, the A-11 Circular should require that agencies' strategic plans include sections on the strategies agencies have to manage third-party relationships to help achieve their performance goals.
- **For OPM:** The U.S. Office of Personnel Management should take the lead in developing strategies to help agencies engage in an extensive effort to train and hire employees to manage all activities relating to third parties.
- **For Congress:** Agencies should request and Congress should appropriate money for agencies to engage in the coordination necessary to include third parties extensively in the development of performance goals and the measures used to assess their attainment.

Introduction

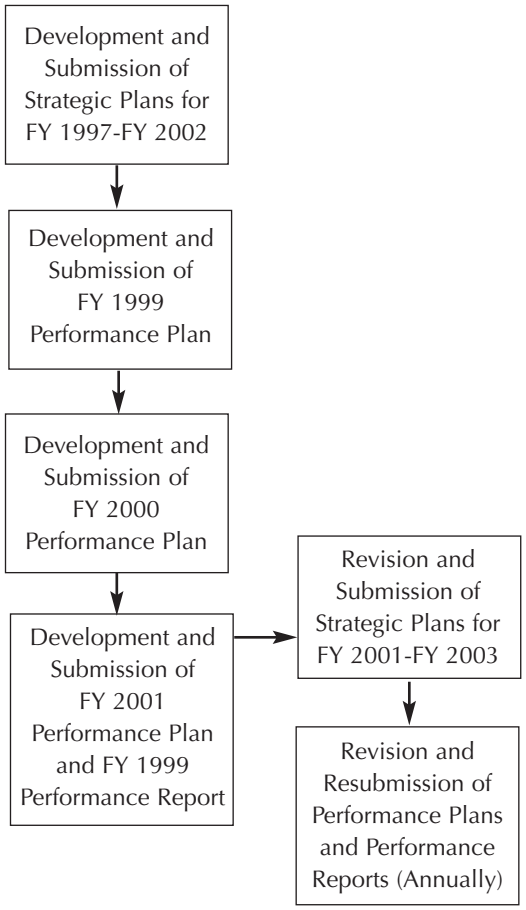
The Government Performance and Results Act of 1993 (GPRA, or the Results Act) seeks to address the inefficiency and ineffectiveness of federal agencies. GPRA posits that these shortcomings are primarily managerial, specifically attributable to poorly articulated missions and inadequate performance information. Not only do these conditions breed poor performance, but they also lead to the public's low confidence in the government and hamper congressional decision making.

As a remedy for inefficiency and ineffectiveness, GPRA requires that federal agencies:

1. Establish strategic plans that provide broad descriptions of agency goals and objectives covering a period of three to five years;
2. Develop annual performance plans containing preferably quantifiable measures from which agencies can determine to what extent the goals and objectives (derived from strategic plans) are met; and
3. Report annually on agency performance according to these measures.

Although GPRA became law in 1993, government-wide implementation did not begin until September 30, 1997, when the first round of strategic plans was due. Since that time two other major GPRA implementation milestones have passed. In 1998, agencies prepared and submitted to the President and Congress performance plans for FY 1999. The culmination of the first round of GPRA implementation occurred on March 31, 2000, when agencies submitted their FY 2001 performance plans supplemented with data reporting on their success at meeting the goals found in their FY 1999 performance plans. Figure 1 provides a time frame for GPRA's requirements.

Figure 1



The law requires that agencies submit these performance plans/reports annually. The second round of GPRA implementation began on September 30, 2000, when agencies were required to submit revised strategic plans covering the years 2001 to 2005. Table 1 is an example of how the Centers for Medicare and Medicaid Services (CMS, formerly the Health Care Financing Administration, or HCFA) of the U.S. Department of Health and Human Services (HHS) has decided to measure their performance goal of decreasing the number of uninsured children in the United States as it appeared in CMS's FY 2001 performance plan/ FY 1999 performance report.

Previous Federal Management Reforms

The history of large-scale efforts to reform the way the federal government conducts its business is much longer than it is distinguished. In most instances, the vehicle of reform has been changes in the process or format of the federal budget. Those who have worked for any length in the federal government will recognize the infamous acronyms and initials that have accompanied most of these reforms. They include performance budgeting, Planning-programming Budgeting System (PPBS or PPB), Zero-base Budgeting (ZBB), and Management by Objectives (MBO). The assumption that ties these budgetary reforms to each other is that if the federal budget were more logical and analytic, then the federal bureaucracy would in turn become more logical and analytic. The newest of these reform efforts, GPRA, shares not only the reformers' penchant for acronyms but also an intellectual heritage that ties bureaucratic reform to analysis.

There has been a considerable effort to examine previous attempts to implement performance measurement and performance budgeting in the public sector. A lengthy review of these efforts will not be provided here, as numerous such reviews are readily available. However, a summary of the recurring themes in this literature is helpful in framing the findings of this research.

These themes include:

- It is difficult to reach agreement on goals and to find adequate measures to determine the attainment of goals even if there is agreement on what those goals should be;
- Managers often turn to activity and output measures as proxies for outcome measures;
- Performance measurement and budgeting represent the superimposition of a managerial structure on a political process; and
- While performance information has not proven useful for appropriators, it has shown some promise for management decisions.

Given the previous attempts at reforms similar to GPRA, we might expect a similar fate. With the exception of the continued use of PPBS in the U.S. Department of Defense, each of these reforms lasted no more than a few years. There is one critical difference between GPRA and the previous efforts, however. While previous efforts originated from the executive branch, GPRA originated from

Table 1: CMS Performance Goal SCHIP1-01—Decrease the Number of Uninsured Children

Performance Goal	Targets
Decrease the number of uninsured children by working with states to implement SCHIP and by enrolling children in Medicaid.	FY 01: + 1 million over 2000. FY 00: + 1 million over 1999.
Increase the number of children enrolled in regular Medicaid or SCHIP.	FY 99: Develop goal; set baseline and targets.

Source: CMS's FY 2001 Performance Plan and FY 1999 Report

Congress. The branch of government charged with oversight responsibilities now has a tool that is perceived to have potential to increase accountability. Further, GPRA carries the force of law. Despite any skepticism agencies might have about GPRA's long-term prospects, they are legally bound to comply with its requirements.

GPRA's Potential for Impact on Internal Management

The possible link between funding and performance and the difficulty of measuring the outcomes of public programs are the aspects of GPRA that seem to get the most attention. Perhaps the most lasting positive impact of GPRA, however, will be its potential to improve the internal management of federal agencies. Specifically, GPRA can lead to improvements in the relationship between federal agencies and the third parties they oversee or with whom they collaborate to produce public services. This study of the steps federal agencies have taken to implement GPRA has revealed some of the positive, yet not entirely intended, consequences of GPRA. The results orientation of GPRA coupled with the development of performance indicators to measure agencies' success in achieving these results have required a level of communication and coordination with third parties that did not exist in most agencies prior to GPRA's passage. This study will detail how the performance measurement process required by GPRA has served to improve internal management within federal agencies. The agencies studied for this report have developed new lines of results-oriented communication and improved their cooperation with the third parties they rely on to carry out their missions.

GPRA's primary implementation activities—goal development and goal measurement—are not uniform for all agencies, because federal agencies represent a diversity of policy instruments and therefore represent a diversity of implementation relationships. The term "policy instrument" refers to the primary activities federal government agencies engage in to achieve their objectives. The most prevalent examples include grants to state and local governments, direct service provision, contracted service provision, and regulation.

According to the law's text, the primary objectives of GPRA include increasing citizens' confidence in government, improving budget making, improving accountability, and improving the internal management of federal agencies. As with most legislative language, the connection between GPRA's requirements—goal setting, goal measurement, and performance reporting—and its stated objectives is not made explicit. It is hoped that through this report the connection between GPRA's requirements and its objectives of improved internal management and accountability will become clearer.

Agencies Studied

The agencies studied for this report, for example, were selected specifically because they represent a diversity of policy instruments. All of the agencies studied have different challenges measuring and meeting performance objectives depending on the policy instrument they use to achieve their policy objectives. These agencies are within the United States Department of Health and Human Services. They are the Food and Drug Administration (FDA), which is primarily a regulatory agency; the Centers for Medicare and Medicaid Services, which heavily relies on both contracted services in the Medicare program and grants to states in the Medicaid program; the Health Resources and Services Administration (HRSA), which is primarily a grant-making agency; the Indian Health Service (IHS), which provides grants to tribes and engages in the direct provision of health care and dental services to American Indians and Alaskan natives; and the National Institutes of Health (NIH), which produces scientific health-care-related research both intramurally (performed by NIH scientists) and extramurally (performed by grant recipients at hospitals, universities, and research institutions. Table 2 identifies and briefly describes the responsibilities of the HHS agencies studied for this report.

While these agencies were selected to represent specific instruments, it should be noted they also use other policy instruments to achieve their objectives. CMS, for example, has a regulatory component in addition to its contracted services and grants, and HRSA uses loans and loan guarantees in addition to its extensive grant programs. The

logic of selecting agencies that represent a diversity of the most common instruments is that complying with the goal setting, performance measurement, and performance reporting requirements of GPRA will play out differently in agencies that utilize different policy instruments or a different mix of policy instruments. While this diversity provides flexibility to HHS's efforts to improve America's health, it also adds extraordinary complexity to the implementation of a uniform goal-setting and performance-measurement system, such as GPRA.

Table 2

Agency	Responsibilities
Food and Drug Administration (FDA)	Ensures that food, drugs, and medical devices on the market are safe and effective, and that these products reach the market in a timely way.
Centers for Medicare and Medicaid Services (CMS)*	Provides health insurance for over 74 million Americans through Medicare, Medicaid, and the State Children's Health Insurance Program (SCHIP).
Health Resources and Services Administration (HRSA)	Directs national health programs with the primary objective of assuring equitable access to health care services. These programs focus on providing primary health care to medically underserved people, including women, children, and persons with HIV/AIDS.
Indian Health Service (IHS)	Provides federal health services to American Indians and Alaska Natives who belong to approximately 550 federally recognized tribes in 35 states.
National Institutes of Health (NIH)	Oversees research and training aimed at acquiring new knowledge to help prevent, detect, diagnose, and treat disease and disability. The research and training funded by NIH is conducted intramurally (on the NIH campus) and extramurally (through grants and contracts to research institutes, universities, and hospitals).

** formerly the Health Care Financing Administration (HCFA)*

Third-Party Government

Lester Salamon (1989) has used the apt metaphor of government by remote control to describe third-party government. Third-party government is government by remote control because the government authorizes policies and programs, but relies on other entities to carry out some or all of the implementation responsibilities. While there is nothing new about this phenomenon—governments have contracted out their services for years — there has been an increasing reliance on third parties to exercise discretion in matters such as goal making, financing, determining eligibility requirements, and developing and implementing accountability structures.

The advantages of third-party government include flexibility, competition, and avoidance of one-size-fits all solutions. These advantages are accompanied by immense accountability and management challenges. A central problem of third-party government, therefore, is how to achieve its advantages without creating public programs that are so complex and unwieldy that accountability becomes impossible. Some argue that the federal government's heavy reliance on third parties allows it to mask its true size (Light, 1999). To the extent that government's size is measured by the number of its employees, third-party service delivery is often accompanied by smaller agencies. A comparison of the size of the Social Security Administration (SSA) and CMS, the two largest (in budgetary terms) federal health and welfare agencies, is instructive. SSA, which directly provides its services, has approximately 63,000 employees. CMS, which provides its services primarily through third parties, has approximately 4,600 employees. One should not assume, however, that the bureaucratic apparatus supporting the Medicare and Medicaid programs is significantly smaller than the bureaucratic apparatus supporting Social Security. The critical difference is not the size of the bureaucracy, but that CMS has externalized much of its bureaucracy to insurance companies (Medicare) and states (Medicaid) while the SSA has not.

Third-Party Cooperation Needed

In addition to the differences in policy instruments, each of these agencies relies on third parties to help them achieve their policy objectives. Third-party responsibilities can include service delivery, administration, financing, goal setting, or any combination of these. Table 3 lists the primary third parties and policy instruments related to the agencies studied for this report.

Upon reading the text of the GPRA legislation and the documents produced through agency compliance, one is struck by the uniformity of reporting requirements. This uniformity exists despite the diversity of policy instruments used within the federal government and the individual challenges faced by agencies attempting to measure their performance. The only exception to these requirements is the option some agencies have to develop qualitative measures and report their performance in narrative form. The diversity of agencies selected for this research reveals the weaknesses inherent in GPRA's mostly uniform requirements. Each of these

Table 3

Agency	Instrument*	Third Parties*
Food and Drug Administration	Regulation	Regulated Industries
Centers for Medicare and Medicaid Services	Grants, Contracted Services	States, Insurance Companies
Health Resources and Services Administration	Grants	State Governments, Local Governments
Indian Health Service	Grants, Direct Service	Tribes
National Institutes of Health	Grants, Intramural Research	Hospitals, Universities, Research Institutes

** Instruments and third parties listed in table represent the most significant (in terms of resources) activities of the agencies, but are by no means exhaustive.*

agencies represents a unique challenge to the goal setting, performance management, and performance budgeting required by GPRA. These challenges are not only related to what policy instrument an agency uses, but also the unique accountability relationships between agencies and the third parties they rely on to carry out their work.

Implementing GPRA

As is the case with much federal legislation, knowledge of GPRA's text provides only limited guidance for those who are required to implement it. Aside from the methodological challenges inherent in measuring the outcomes of public services, one of the greatest challenges of implementing GPRA is reconciling the law's outcome measurement requirements with agency missions that are not focused entirely on policy outcomes.

Most federal agencies find themselves one, two, or several steps removed from the actual provision of public services. This is due to several factors. In agencies where programs are carried out through grants to state and municipal governments, the intent never was for the federal government to be ultimately responsible for policy outcomes. These programs benefit from the flexibility provided the grant recipients to determine the kind and level of services provided in addition to eligibility requirements. This allows grant recipients to cater public services to local preferences. Accompanying this flexibility, however, is great complexity in establishing performance measures and reporting performance information.

The example of the Medicaid program illustrates the complex challenge to federal performance measurement. Medicaid, like many federal programs, provides states with considerable latitude in establishing different levels and kinds of services, as well as eligibility requirements. The federal government establishes certain minimum service and eligibility requirements. Once those requirements are met, states are free to structure their Medicaid programs how they wish. While this provides flexibility, the absence of program uniformity also means the absence of goal uniformity.

Simply put, different states have different Medicaid goals. GPRA, however, requires that CMS establish goals for the entire Medicaid program, covering the different goals and objectives for all Medicaid grant recipients. One of the goals CMS has established for the Medicaid program is to increase the percentage of poor children receiving the recommended immunizations, which is a complex data challenge. Gathering the data necessary to measure performance requires extensive negotiations with third parties to assure that all 56 Medicaid "subcontractors" (50 of these being the states) measure, collect, and store data in compatible and comparable ways.

Observers of public sector performance measurement have long argued that the task's complexity leads administrators to measure data that are easily available and close at hand. A preliminary review of the FY 2001 performance plans/FY 1999 performance reports, with their emphasis on activity measures, confirms this argument. Are these measures adequate to evaluate the achievement of program objectives? Hardly. However, given the methodological and logistical problems associated with measuring public programs' performance, it is not difficult to understand why the majority of agencies' measures reflect inputs and activities. Much of the work of the five aforementioned agencies is carried out by third-party administrative and financing arrangements. While observing only five federal agencies is by no means representative of the entire federal government, the diversity of policy instruments and the use of a broad array of third parties can provide insight into the challenges agencies throughout the federal government face as they attempt to implement GPRA.

Third-Party Performance Measurement and Accountability Challenges

The necessity to coordinate with third parties to implement GPRA is not limited to intergovernmental programs, such as Medicaid. Virtually all federal programs work with third parties to carry out their policy objectives. The universe of third parties includes but is not limited to contractors, regulated industries, and public and private sector grant recipients. While GPRA's requirements are uniform for all federal agencies, agencies' roles in the production and delivery of public services are highly varied. For most agencies a significant portion of their work entails the management and oversight of third-party activities. There are two important aspects of GPRA implementation challenges that relate to this variety of third parties:

1. Different third parties have various kinds and levels of responsibilities in the delivery of public services; and
2. Different third parties have various levels of autonomy.

While these differences are critical to implementing GPRA, they have gone virtually unnoticed in the extensive discussion surrounding GPRA, from scholars to consultants. Federal managers, however, have an important story to tell with regard to the third-party coordination required to accomplish policy and program objectives and to implement the mission clarification, performance measurement, and performance reporting requirements of GPRA.

Over the last 20 years, research on the challenges introduced by the inclusion of third parties in the delivery of public services has been a major focus of public management scholarship. The addition of third parties adds layers of complexity to policy implementation. The terms "hollow state," "government by proxy," and "shadow state" are all used to connote a separation between the financing of government services and the provision of services. Research indicates that the skills required to manage in multi-organizational network settings are different from those required to manage in a direct service provision environment (Agranoff & McGuire, 1998). These networked service provision arrangements fragment power, obscure who is doing what, and sever the lines of control (Salamon, 1987). The research on implementing performance measurement systems in an intergovernmental administrative environment is scant but growing. However, given the reality of increasingly devolved federal programs to state and local governments, the rapid increase in contracting out, and the passage of GPRA, such research should take on a tone of urgency.

The difficulties in establishing performance measures for public health care programs are similar to those found in all indirect management situations. Indirect management can be characterized by the following conditions: (1) fragmented accountability; (2) differing opinions on policy purposes and objectives; (3) ongoing management relationships; and (4) shared information across formal boundaries (Rosenthal, 1984). Each of these conditions adds complexity to the design of performance measures and the collection of performance data. Adding to the difficulty of measuring performance in the federal system is the fear of state and local governments that performance measurement will be used as another form of federal mandate. States, counties, and cities fear that they will be underrepresented in the development of these measures and

that they will be punished for not meeting the performance standards regardless of individual situations.

The heavy reliance on third parties has implications for two of GPRA's primary objectives: performance measurement and performance budgeting. The problems with performance measurement are discussed above. The implications for third-party government associated with performance budgeting relate to the connection between agency performance and appropriation. If agency appropriations are tied in any way to program performance, the added variable of third parties will complicate these decisions. This is not to suggest that federal agencies should not be accountable for failures of third parties, especially when contractors are used. In this new era of third-party government, managers in these agencies are as responsible for making "smart-buying" decisions (Kettl, 1993) and/or establishing thorough incentive structures and monitoring systems. Managers in previous eras, by comparison, were responsible for the competent administration of agencies with direct service provision responsibilities.

All Third Parties Are Not Alike

GPRA presents the opportunity to face the challenges of managing federal programs through a complex array of third-party partnerships. This complexity is not only a function of the numbers of those collaborating to deliver federal services, but also the diversity they represent in terms of their level of authority, their financial involvement, and the extent of their goal-making responsibility. Why is this a problem? It is a problem because GPRA requires agencies to set goals at the federal level for programs for which they do not have the final authority in many crucial areas.

When more authority is given to third parties it is accompanied by more complexity in the development of performance goals and measures. One example of this is the discrepancy between the number of goals for Medicaid compared to the number of goals for Medicare found in CMS's GPRA performance plan. Both programs are operated through third parties—Medicaid through the states, and Medicare through contractors. However, with Medicaid, the third parties share goal making and financing responsibilities with the federal government. Of CMS's performance plan goals specifically related to program performance, only three are intended to assess Medicaid program performance alone, while 20 of these goals are intended to assess Medicare performance alone.

This discrepancy is tied to the challenges associated with the vast differences among states' Medicaid services and the immense coordination and negotiation that would be required to establish even a rudimentary set of uniform Medicaid goals. Indeed, one of CMS' s FY 1999 developmental performance plan goals was to work with states to develop Medicaid performance goals for inclusion in subsequent performance plans. This goal was met with the inclusion of goals relating to childhood immunization and the number of uninsured children. There are differences not only in the number of goals between the Medicare and Medicaid programs, but also in the kinds of goals. Some of the Medicare goals reflect a desire on the part of CMS to increase the satisfaction of Medicare customers. These goals include:

1. Improve the effectiveness of the dissemination of Medicare information to beneficiaries;
2. Improve beneficiary telephone customer service;
3. Sustain Medicare payment timeliness; and
4. Improve the satisfaction of Medicare beneficiaries with the health care services they receive.

The fact that no such customer satisfaction goals exist for the Medicaid program is arguably due, in large part, to the limited control CMS can exert on states compared to the control it can exert on Medicare contractors.

Study Findings

The initial findings of this research are presented in the form of brief descriptions of the GPRA implementation challenges in the five selected health care agencies, with an accompanying discussion. This is followed by consideration of the theoretical and then the practical implications of these findings. Table 4 summarizes the study's findings.

Centers for Medicare and Medicaid Services (CMS): Using GPRA to Better Monitor Contractor Behavior

The GPRA implementation challenge that CMS's Medicare program has to overcome is coordination with and oversight of the work performed by contractors. Such contracts are widely used in both the private and public sector to infuse competition in the delivery of public services. However, the CMS case demonstrates that public entities that provide services through contractors are often confined in their efforts to monitor contractor behavior, calling into question the efficiency gains that are supposed to accompany contracting. This demonstrates that although CMS can establish Medicare performance goals, as GPRA requires, their ability to meet these goals is only partially under their control.

The contractor monitoring and enforcement mechanisms available to CMS are constrained by Medicare's authorizing legislation and its regulations. One major constraint is a provision within the authorizing legislation that does not allow CMS to contract with any intermediary it wishes. Instead, claims-processing intermediaries are selected by professional associations of hospitals and certain other institutional providers on behalf of their members. Another constraint is found in CMS's own regulations, which stipulate that the contractors who serve Medicare beneficiaries as carriers must be insurance companies, and that they must serve the full range of beneficiary needs. The regulations do not allow functional contracts for specific services—to respond to beneficiary questions, for example—even if other entities could provide the services more efficiently. Under the authorizing legislation, the final constraint is that CMS can contract only on a cost basis, which does not allow for fixed-price or performance-based contracts. Because these constraints limit the number of companies that qualify and want to contract with Medicare, the leverage that CMS is able to use to enforce contract terms is limited (GAO, 1999).

A recent example is found in CMS's attempts to assure that its Medicare contractors are Y2K compliant. One of CMS's performance goals was to "ensure millennium compliance (readiness) of CMS computer systems." Depending on how narrowly "CMS computer systems" is defined—taking into account only CMS's computer systems versus taking into account both CMS's and its contractor's computer systems—it could be argued that CMS met this goal well before December 1999. In practical terms, however, many "mission critical" Medicare computer systems are operated by contractors. Of Medicare's 99 mission critical computer systems, 24 are managed internally by CMS and the remaining 75 are managed by third parties

Table 4: Summary of Study Findings

Agency	Instrument	Third Parties	Implementation Challenges
Centers for Medicare and Medicaid Services	Grants, Contracted Services	States, Insurance Companies	When contractors are used to perform administrative responsibilities, performance goals should be used not only to measure outcomes, but also to strengthen contractor monitoring and compliance.
Indian Health Service	Grants, Direct Service	Tribes	Leadership and persuasion skills needed to encourage participation in performance measurement and reporting where federal agencies have limited authority and leverage over grant recipients.
Health Resources and Services Administration	Grants	State Governments, Local Governments	Grant programs' performance measurement challenges can be overcome by coordination, negotiation, flexibility, and resources. Disparate agency goals and limited resources constrain performance measurement efforts.
Food and Drug Administration	Regulation	Regulated Industries	Political climate dictates selection and priority of performance measures.
National Institutes of Health	Grants, Intramural Research	Hospitals Universities, Research Institutes	An agency's institutional, political, and cultural values can greatly impact their performance measurement efforts. Basic research agencies encounter unique and considerable challenges measuring and reporting performance.

(medical carriers and intermediaries). CMS's Y2K compliance difficulties stemmed not from their internally managed systems, but from the computer systems managed by their contracts. Many of CMS's Y2K compliance challenges resulted from constraints found in CMS's contracts with the medical carriers. As she attempted to find ways to address the agency's unique Y2K compliance challenges, Nancy-Ann Min DeParle, CMS's administrator during the second Clinton administration, looked to the contracts themselves. To her surprise, she found that the contracts' renewal were self-executing annually. Notwithstanding some debate about her ability to require contractors to be Y2K compliant, Min DeParle convened with many of the contractors' chief executive officers to encourage their compliance. She helped them to understand that the contractors could not afford system failure.

In the end, CMS's systems (those managed internally and externally) operated through January 1, 2000, without any major disruptions (National Academy of Public Administration, 2000).

The difficulty of achieving Y2K compliance is only one example of CMS's contract monitoring challenges. Medicare fraud has plagued CMS for years, costing the agency billions of dollars. Medicare contractors, who pay claims to beneficiaries and are charged with monitoring and reducing Medicare fraud, are the culprits of much of the fraud. Ironically, these contractors are hired to carry out CMS's fraud reduction monitoring responsibilities. The recent behavior of these monitors, however, raises the critical question: Who is monitoring the monitors? Since mid-1997, 44 of these contractors have pleaded guilty to schemes to defraud the Medicare program, and they have paid more than $275 million to settle charges filed against them (Pear, 1999; GAO, 1999).

CMS's inadequate capacity to monitor the compliance of their contractors results from the previously mentioned constraints in Medicare's authorizing legislation and the agency's inability to "regularly check contractors' internal management controls, management and financial data, and key program safeguards to prevent payment errors" (GAO, 5, 1999). CMS's inability to adequately monitor contractor activities is highlighted by the fact that the fraudulent behavior of contractors is almost never detected by CMS but by whistle-blowers. In these instances, contractor employees brought the illegal activities to CMS's attention (Pear, 1999).

CMS's extensive focus on contractors' customer service activities might come at the expense of fraud detection. When CMS discovered that Blue Cross and Blue Shield of Michigan was providing inadequate service to Michigan's Medicare beneficiaries (from a customer service standpoint), CMS hired Blue Cross and Blue Shield of Illinois, based on its solid customer service reputation, to replace Blue Cross and Blue Shield of Michigan. Last year Blue Cross and Blue Shield of Illinois was ordered to pay $4 million in criminal charges and $140 million in civil charges based on their fraudulent Medicare activities (ibid.). CMS's hands were tied because their regulations do not permit functional contracts. Functional contracts would have allowed Blue Cross and Blue Shield of Michigan to continue its sound performance with regard to fiscal obligations, and let a separate contract for customer service related services.

While it is important for CMS to have goals related to both customer service and health care outcomes, CMS's primary responsibilities with regard to Medicare are financial and fiduciary. It should come as no shock to anyone that CMS employees do not provide health care services nor do they process claims for Medicare beneficiaries. In every instance CMS employees are at least one step removed from customer service and several steps removed from patient care. Although CMS has struggled with this relationship in the past, goals relating to monitoring their third parties are found in the agency's current performance plan. In this way CMS's leaders can use GPRA to better manage these relationships. Until changes are made to Medicare regulations and its authorizing legislation, contractor-monitoring efforts will have only limited success.

Indian Health Service

The nature of the accountability relationship between the IHS and its primary third party presents an entirely different coordination problem. Traditionally, the IHS was a direct service provision agency that hired health care workers or directly contracted with health care workers to provide basic health care and dental services to American Indians and native Alaskans. These services were provided at IHS service units located in hospitals and clinics. The portion of the IHS budget still dedicated to direct service provision or direct contracting presents few logistical problems for GPRA implementation. However, the Indian Self-Determination and Education Assistance Act (ISDEA, P.L. 93-638) of 1975 and its subsequent amendments have sought to provide tribes with the resources needed to act as sovereign nations.

From a practical standpoint for IHS, this means that tribes receive IHS monies directly so that they can contract on their own with health care providers. While other federal agencies have some leverage in their coordination and information collection—whether state and local governments, contractors, nonprofits, or other federal entities—IHS cannot require tribal leaders to submit performance infor-

mation. In 1994, the year after GPRA was passed, an amendment to the ISDEA (P.L. 103-413) made it even less likely that tribal leaders will comply with GPRA's reporting requirements. The express purpose of these amendments was to allow tribal leaders to redesign IHS and other federal Indian programs and prioritize spending according to tribal discretion. They also provided tribes with the opportunity to get out from under the dominance of federal agencies and to transfer funds, including those intended to support federal oversight requirements, to the local tribal level.

The request for performance-related data to fulfill GPRA requirements is viewed by some tribal leaders as an unfunded mandate, or more accurately an unfunded request, as there is no obligation to provide this data. This reveals the lack of authority and weakness of IHS in their efforts to coordinate and gather performance information. Absent the ability to back incentives with threats and sanctions, IHS administrators have responded by explaining the details of GPRA to tribal leaders and demonstrating to them that faithful compliance allows tribes to speak in a more unified voice and could result in better information to support budget requests.

One innovative approach the IHS took was to hire a contractor to "sell" GPRA to tribal leaders. This contractor previously served in a prominent tribal leadership position in a self-governing tribe. He is a well-respected opinion leader among his peers. As a result of these efforts, and despite the absence of requirements, many tribal programs are not only participating (submitting the GPRA data needed by IHS), but also encouraging other tribal programs to participate. Some tribal leaders are concerned that funds spent on GPRA compliance are funds not spent directly on patient care. The respected contractor will continue working with tribal leaders to strengthen their support and encourage active participation in the development of performance goals and the submitting of necessary GPRA data.

Health Resources and Services Administration

HRSA provides an array of health care services that are targeted primarily to underserved, vulnerable, and special-needs populations. The majority of the programs operate through grants to states and localities. The Maternal and Child Health Bureau (MCHB) provides block grants to states to help improve the health of mothers, children, and adolescents, with an emphasis on those with low incomes. The response of MCHB administrators to the performance management problems inherent in block grant programs represents a unique and innovative approach to aligning third-party objectives and incentives.

One concern with block grant programs is that grant recipients might take advantage of the flexibility to aim resources and efforts at objectives different from those deemed important by Congress and the granting agency. The desire to avoid this must be balanced with the ability of state and local governments to design policies and programs their citizens need and demand. These are not easy values to balance. GPRA requires that federal agencies engage in a number of performance-related activities to increase accountability. By design, many of the programs these agencies oversee are under only limited federal control. Is there a way to implement GPRA in a manner that provides greater results accountability while not detracting from the flexibility of block grants? The MCHB has made a valiant effort to balance the competing values of results accountability and flexibility.

After GPRA became law, HRSA administrators met with representatives from all the states' Maternal and Child Health programs, interest groups, public health experts, and health data and data systems experts. After a 16-month process of input and negotiation, the Maternal and Child Health Performance Partnership developed a core of 18 measures to determine the overall performance of the state block grant program. Each state maternal and child health representative agreed to the core measures and agreed to report using such measures. To reduce the states' costs associated with monitoring states' performance on these GPRA goals, HRSA developed a uniform data collection and reporting format and provided an additional $100,000 annual grant to each state.

What about the flexibility that is supposed to accompany block grants? Were the MCHB's set of goals limited to the 18 agreed upon by all the states, the flexibility benefits of block grants would have been stymied. MCHB's implementation

accommodates the priorities of states' citizens by requiring that states establish an additional set of 10 individualized goals. To create efficiencies, where a state's individualized goals coincide with other states' goals MCHB has established a uniform measurement and reporting protocol. One final impediment to activating MCHB's goal measurement and reporting system was the Paperwork Reduction Act of 1995, which is intended to limit the paperwork burden imposed by the federal government on state and local governments. Ironically, the MCHB's efforts to meet the requirements of one law were frustrated by the requirements of another law. MCHB negotiated with the U.S. Office of Management and Budget to obtain waivers in order to achieve compliance with the Paperwork Reduction Act.

Another unit within HRSA, the Office of Rural Health Policy (ORHP), faces more daunting impediments to establishing goals and measuring performance. The ORHP promotes better health care service in rural America. In this capacity, the office works with third parties in both the public and private sectors, including associations, foundations, health care providers and community leaders. Much of ORHP's mission is carried out through five grant programs. These grant programs face a myriad of difficulties measuring performance, including:

- *Diversity of grants.* Grants fund such a diversity of rural health activities—from training Emergency Medical Technicians (EMTs) to providing primary and preventive care to migrant farm workers—that it is difficult to select a sample of performance measures that are representative of the program's activities. Unlike other units within HRSA, ORHP does not consist of one program, nor is it governed by a single act of legislation.
- *Limited resources.* Most ORHP grants are awarded specifically to rural areas that lack crucial medical resources. Many of these health care facilities are staffed by one doctor, one nurse, and a part-time clerk. In these facilities, all available resources are directed toward patient care. There are few resources to devote to GPRA-related reporting. Indeed, many ORHP grants go to help rural health care clinics meet the quality assurance reporting demands of Medicare.
- *Misdirected resources.* One of ORHP's programs, the Rural Healthcare Network Development grant program, provides $80 million annually to support the establishment of managed care networks in rural areas. Because lack of funds is not the primary impediment to having managed care networks function in rural areas, recipients of these grants spend the monies on other health care activities.

GPRA's uniformity seems ill suited for programs such as those funded by ORHP. Further, OHRP will unlikely be able to take advantage of GPRA's requirements to further their coordination efforts with third parties, or grant recipients. The purposes of these grants are too diverse and the resources of the grant recipients are too limited to make complying with GPRA requirements anything but a waste of resources.

Food and Drug Administration

The FDA provides an interesting case study of the unique challenges faced by regulatory agencies in measuring performance and of the role national political dynamics play in the difficulties of implementing GPRA. With the passage of the Food and Drug Administration Modernization Act of 1997 (FDAMA), the FDA fundamentally altered its obligations with regard to the public's health. The act includes a congressionally mandated mission statement that adds to the FDA's traditional role of protecting consumer health by dictating that the agency will also promote consumer health. In practical terms, the promotion of consumer health translates into prompt review of clinical research and timely, appropriate action on the marketing of regulated products. As a symbol of the importance Congress places on prompt clinical reviews and action, the promotion of the public health component of the mission statement is put first, ahead of the protection of public health component. The consequences of the emphasis on health promotion are more than symbolic, however, as the allocation of FDA's budget has been directed toward pre-approval drug inspections (to get drugs on the market quickly) and away from post-approval inspections and other consumer protection activities.

In accordance with the Prescription Drug User Fee Act (PDUFA) of 1992, FDA collects user fees from

the pharmaceutical industry. The law dictates that these funds may be used only to expedite the premarket review of new drugs and biologics. As the revenues have increased they have accounted for a greater proportion of FDA's budget. As a result, the proportion and number of FDA employees dedicated to meeting FDA's other goals and objectives have decreased. Since PDUFA passed, these user fees have paid for 840 FDA employees who work exclusively to bring pharmaceuticals to the market more rapidly. During the same period, however, the number of FDA employees increased from 8,868 to 8,908 full-time equivalents (FTEs), an increase of only .5 percent. In the seven years since PDUFA's passage, employees whose salaries were paid from these user fees went from zero to just under 10 percent of the agency's workforce. In other words, given the slight increase of 40 FTEs during the same period, the PDUFA-purchased employees do not represent new FTEs, but resources redirected from other FDA activities, namely consumer protection.

An interesting challenge associated with GPRA implementation at FDA is the transition of responsibility for seafood inspection from the FDA to the industry itself. The program is called the Hazard Analysis Critical Control Point System, or HACCP, which is a system of process controls to ensure food safety. The implementation of HACCP represents a move away from traditional FDA inspection as a means of detecting food-borne hazards and toward industry self-regulation coupled with a system of FDA audits for monitoring purposes. The problem, however, is that the HACCP auditing portion of the FDA budget is chronically underfunded.

While Congress demands greater accountability on the one hand, on the other it is pressuring the FDA to radically reduce its ability to monitor and assure industry compliance with FDA standards. With HACCP, the monitoring activities traditionally performed by FDA have been entrusted to the industry. What was a delicate relationship to begin with is now rife with conflicts of interest. The auditing would serve as a check to these interest conflicts, but only if funded adequately. It is unclear whether politics or mixed messages have led to low funding for HACCP auditing. What is clear is that the combination of shifting from FDA inspections to industry self-regulation and a chronically underfunded auditing system invites industry noncompliance with FDA regulations.

The FDA case also points to the inconsistencies between GPRA and Congress's demand for outcome accountability and statutory requirements that mandate certain output levels, with no specific attention to eventual outcomes. Such is the case for the FDA's statutory site inspection requirements. Congressional mandates direct FDA efforts explicitly toward attention to immediate outputs rather than long-term outcomes. To meet Food Safety Assurance statutory requirements, for example, the FDA has to inspect 80 percent of sites semiannually. Alternatively, the agency's strategy puts an emphasis on visits to the most risky sites rather than on broader site coverage stipulated by statutory requirements. Because the risky sites take longer to inspect, attention to them comes at the expense of broader site coverage. Indeed, the FDA would certainly meet its statutory requirements for the Food Safety Assurance program only if it were to ignore the more risky, time-consuming sites. This puts agency leadership in a dilemma that pits congressional requirements against actual outcome performance.

Despite the unique challenges of implementing GPRA in a regulatory agency with intense political pressures, the FDA has done an admirable job both implementing GPRA and meeting the performance requirements established by Congress. For example, under an accelerated approval program, the FDA took only 5.8 months to approve Ziagen, a drug used in the treatment of HIV-1 infection in adults and children. Additionally, the median approval time for generic drugs has been reduced from an average of 19.6 months in 1997 to 17.3 months in 1999. Finally, the FDA set a goal to review 90 percent of priority new drug applications within six months.

National Institutes of Health

Of the five agencies studied, NIH's task to implement GPRA is the most daunting. The fundamental challenge that confronts NIH is its primary mission of basic research. Basic research activities do not lend themselves to easy quantitative measurement, nor is it easy to identify specific scientific advances taking place over as brief a period as a year. For five of the seven NIH performance plan goals that

relate to its research program, NIH has selected qualitative measurements to assess their performance. The first of these goals is representative of the difficulties associated with the measurement of basic science research. This goal is to "add to the body of knowledge about normal and abnormal biological functions."

There are institutional, political, and cultural values within NIH that make performance measurement and the possibility of performance budgeting difficult to implement and analyze. The first thing to remember while considering NIH's implementation of GPRA is the notion of performance budgeting—some link between productivity, or even mere GPRA compliance, and appropriations. Even those who do not feel performance budgeting is unrealistic would find it difficult to create a rational link between performance and appropriations for NIH. NIH is popular with members of Congress on both sides of the aisle. This support is based on a number of considerations of which annually measured performance would likely rank low. First, it is a distributive agency. In FY 1999 NIH grants were awarded in all 50 states and many more congressional districts. Many members of Congress have been personally affected by some disease for which NIH is seen to have a critical role in its research. It is not unusual for the most fiscally conservative members of Congress to support NIH research.

A second factor complicating GPRA implementation at NIH is the great respect NIH has for its grant recipients. The solid reputation NIH enjoys results, in large part, from the stature and accomplishments of its grant recipients. This makes attempts to achieve accountability more delicate than in other grant situations. One NIH employee I interviewed indicated that if any of the grant recipients are aware of the goals within NIH's performance plan, it is by accident rather than design. NIH officials do not share agency goals with grant recipients, nor do they intend to do so. The justification for not sharing GPRA goals with grant recipients is straightforward: NIH wants to avoid even the suggestion that its grant-supported research could be biased so as to satisfy performance expectations. While other agencies can exploit GPRA's requirements to coordinate with third parties and orient all activities toward outcomes, NIH is unable to use GPRA in this way.

A third factor complicating GPRA implementation is that the NIH is actually many semi-autonomous institutions. The plural "Institutes" in the agency's name refers to the numerous (about 25) subunits comprising the NIH, most of which are research institutes and centers. Further, the institutes do not conduct most of the research themselves; it is done extramurally through grants to hospitals and universities. This makes for an extremely decentralized agency, complicating monitoring and oversight of the grants. Finally, the basic research mission of NIH provides all the classic methodological concerns of many public sector activities, only worse. Many advances from current research will not be realized in practical applications for many years. This minimizes the usefulness of annual performance reporting.

Given these constraints, the NIH had to develop a series of goals that 1) would allow for a valid assessment of outcomes that are inherently difficult to measure, 2) would not be intrusive or create an environment that might bias grant recipient research, and 3) would be simple enough to allow compilation of data from all 25 centers and institutes. To meet these criteria, NIH devised an assessment system highlighting the research supported by NIH grants that appears in peer-reviewed science journals; the role NIH-supported research has played in advancements in specific fields of health such as cancer, spinal chord injuries, and diabetes; and the science awards and honors received by NIH grant recipients for their grant-supported research. Once the data were collected, a group of distinguished scientists and science advocates reviewed the materials to determine if NIH met their research-related performance plan goals.

A central concern of NIH leadership is to avoid the impression that the assessment working group serves merely as a rubber stamp instead of honestly and thoroughly reviewing NIH's success in achieving its goals. It is hard to imagine that such a combination of science expertise and advocacy can divorce itself from self-interest to the extent that it could provide an honest assessment of NIH's success in achieving its GPRA goals.

Conclusion

A recent GAO report (2001) based on interviews with nearly 4,000 federal managers reveals that managers in only four of the largest 28 federal agencies, did at least two-thirds of managers interviewed perceive a strong commitment to achieving results from their agencies' executives. In 11 of these 28 agencies, less that half of the managers interviewed perceived such a commitment for achieving results. This report also revealed that in only one of these 28 agencies did the managers interviewed feel that they have, to a "great" or "very great" extent, the decision-making authority they need to help their agency accomplish its strategic goals. It is unlikely that the poor support for achieving results in these agencies reflects negligence on the part of the agencies' leaders. Rather, it is likely a reflection of the reality that federal agencies have only partial control over the results for which they are held accountable. HRSA does not provide health care to underserved populations; it provides grants to states, counties, and private sector entities to provide health care to underserved populations. It is this disjunct that likely frustrates agency leaders' attempts to manage for results in a way that GPRA requires, focusing on goals and objectives.

This frustration will be reduced and GPRA will become a more useful tool for developing agency strategies and managing performance when it is used to assist agency executives in managing and monitoring their relationships with third parties. Whether GPRA compliance efforts are located within agencies' budget offices—which they often are—or with substantive policy experts, the skills that are required for contract monitoring and/or negotiation and coordination are seriously lacking. GPRA should be exploited by agencies to pay greater attention to contract bidding and monitoring. Monitoring activities should not be limited to agency relationships with contractors. Instead, GPRA can be the vehicle through which federal agencies expand their monitoring activities to include the universe of third-party relationships.

With the sophistication of program evaluation and organizational scorecards, the absence of a bottom line or the methodological and measurement difficulties should no longer be seen as the primary impediment to performance management at the federal level. If there is one lesson from the long history of management and budget reforms, it is that the information produced by these reforms was ultimately more useful for program managers than for legislators. This will likely be the case for GPRA, too. In this vein, as agencies attempt to implement GPRA, attention should turn to overcoming the logistical challenges and managing the wide range of accountability relationships with the various third parties that partner with federal agencies to deliver public services. To accomplish this, as agencies implement GPRA, greater attention needs to be paid to agencies' immediate responsibilities.

Even the names of some agencies connote their primary role as the delivery of public services. It is no coincidence that the Centers for Medicare and Medicaid Services is given that name. As mentioned

previously, CMS's primary responsibilities with regard to the programs it oversees, Medicare and Medicaid, are financial and fiduciary. Some of this attention will come at the expense of the attention currently given to broad programmatic and policy objectives. While many of these agencies are one, two, or several steps removed from actual service provision, they are still ultimately responsible for meeting policy goals and objectives. To meet these responsibilities, agencies should have goals in their performance plans that pertain to their monitoring and supervisory obligations over third parties.

These goals should be guided by the nature of the relationship between the agency and the third parties. On one end of the spectrum are contractual relationships, such as those between CMS and the companies hired to handle Medicare claims. In this example CMS has substantial leverage, as it can terminate contracts when there is inadequate performance. In a pure contractual situation there is much to be learned from private sector experience in the area of contractor oversight. On the other end of the spectrum, the Indian Health Service has little to no leverage over tribal health care programs. In this instance the only instrument available to agency managers is persuasion. Somewhere between these two extremes exist federal agencies whose primary responsibilities are to provide grants to state and local governments. It is in these agencies where GPRA implementation presents the greatest frustration and the greatest opportunity for federal agencies to strengthen their capacity to manage intergovernmental programs. The challenge is to discover the appropriate combination of leverage and persuasion to exercise in their performance management. These accountability relationships are highlighted in Table 5.

What the appropriate combination of leverage and persuasion is should ultimately be determined by the extent to which grant recipients are charged with program financing and goal-making responsibilities versus the extent to which these responsibilities are retained by the federal agency. In each of these instances, agencies should develop performance plan goals that reflect the agencies' actual function in the provision or production of public services. Discovering the right combination of leverage and persuasion is difficult in light of the many and sometimes contradictory messages sent by Congress to federal agencies. On one hand, through GPRA, federal agencies are to be held accountable for their results or for demonstrating the impact of their programs. On the other hand, there is a constant push to devolve more responsibilities to lower levels of government or administer them through private entities. It is just this sort of arrangement for which GPRA is well suited—helping federal agencies manage accountability relationships with third parties, while keeping their eye continually focused on achieving the objectives for which the federal programs were created.

Table 5

Instrument	Third Party	Obligations	Nature of Relationship
Categorical Grants	State and Local Governments	Varied: Financing, Very Limited Goal Making, Administrative	Persuasion, Authoritative
Block Grants	State and Local Governments	Varied: Financing, Goal Making, Administrative	Cooperation, Persuasion, Midly Authoritative
Regulation	Regulated Industries	Financing, Administrative	Coercion, Some Collaboration
Contracts	Contractors	Administrative	Coercion

Finally, an important practical lesson from the five agencies studied is that their GPRA-driven reform efforts can accomplish reform only to the extent that they do not conflict with authorizing law and all other existing laws. All of the case agencies have been impeded in their efforts to achieve their goals and collect data to determine the level of goal achievement by existing law. Sound policy implementation is hindered by contradictory sets of rules and constrained by authorizing legislation. Because the GPRA law does not have language that would allow its provisions to supercede any existing laws pertaining to the departments, agencies, and programs it intends to reform, GPRA's reach can extend only so far. There are many instances in the agencies studied here that illustrate how existing law either prevented thorough implementation of GPRA or had to be amended to accommodate its implementation. Some of the main impediments that inhibit agencies' GPRA implementation include the Paperwork Reduction Act of 1995, agency authorizing legislation, and an agency's own regulations. Although Congress's role is generally assumed to enabling and delegation legislation, the power of the purse, and oversight, laws that either constrain or increase agencies' ability to engage in monitoring activities make Congress a de facto partner in the management of federal programs (Gilmour & Halley, 1994).

Recommendations

Based on this report's findings the following recommendations about GPRA implementation are made:

Recommendations for Agencies

- In developing their performance goals, each agency should make clear their role in the delivery of public services. Specifically, in addition to outcome measures, agencies that give grants to third parties should develop goals relating management and oversight of grantees' performance in achieving outcomes.

This report has identified the discrepancy between the demand for outcome performance measures and the actual work of many federal agencies. Direction in the development of these goals and their alignment with the actual work of agencies should come from the agencies' senior management. This is the only way that agencies will be able to use their performance plans and reports as a tool to devise management strategies that reflect their position, function, and capacity in the implementation of federal programs.

As the number of third parties that agencies must work with to implement federal programs increases, so too does the complexity of service delivery. As a general rule, more third parties in a given program means less leverage for the agency charged with its implementation. This fact is not an excuse for agency executives to shirk responsibility for results of programs for which they have only limited control. Whenever third parties are involved in service delivery, agencies become players in a partnership for delivering services. Agencies should use their GPRA strategic and performance plans to coordinate, measure, and oversee the activities of third parties to assure that all are working toward the goals established in GPRA strategic and performance plans.

- Agencies should use GPRA not only as a means to communicate their performance, but also to communicate constraints that inhibit their performance.

GPRA provides critical information to decision makers within the agencies and in Congress. The release of the first two performance reports and the subsequent congressional and public response to each indicate that an agency's performance report will be judged on its own merits and not based on public or congressional perception of the agency. One agency that has received much praise for the quality of its performance report has been the U.S. Agency for International Development (USAID). What is particularly praiseworthy about USAID's report? According to the Mercatus Center at George Mason University, USAID's report "contains thorough discussion of management challenges." Additionally, the Mercatus analysts found that the "agency does not hesitate to criticize its own initiatives and discuss failures."

Some agencies have expressed concern that the performance information in GPRA reports will serve as additional ammunition for members of

Congress to use during appropriations and oversight hearings. Aggressive congressional scrutiny existed prior to GPRA and will continue regardless of GPRA's ultimate fate. Agency executives can strengthen their hand in these discussions by using GPRA as a tool to systematically discuss agencies' management challenges. In many instances, members of Congress will discover or be reminded that many of the factors inhibiting performance are not under agencies' immediate control. In addition to the extensive use of third parties in the delivery of federal services, the rules set forth in authorizing legislation impede performance. In this way, agencies can frame the debate about their performance and even make recommendations to Congress about what it can do to help agencies meet their performance targets.

Recommendation for OMB

- The U.S. Office of Management and Budget's Circular A-11, which includes a section on what information should be included in performance plans and reports, should require that agencies include information on third party collaboration in the development of performance goals and measures. Further, the A-11 should require that agencies' strategic plans include sections on the strategies that agencies have to manage third-party relationships to help achieve their performance goals.

As a general rule, agencies should collaborate with third parties in the development of performance goals. Because third parties play such a crucial role in the delivery of public services, it is a serious error to exclude their participation in the development of performance goals and the measurements used to assess their attainment. Complicating this effort is the fact that federal agencies' leverage over third parties ranges from very strong to very weak. Leadership—the ability to persuade, encourage, influence, and obtain commitment—plays a crucial role in gaining third-party cooperation in the development and achievement of performance goals.

Agency executives should take the lead in assuring that third parties participate in the GPRA performance management process. Evidence of third party participation in GPRA should appear throughout the strategic and performance plans required by GPRA. Particularly, the narrative section that accompanies each performance goal should clearly discuss the role third parties play in the goal's attainment and specific actions the agency is taking to work with the third parties to improve performance related to the goal.

The agencies studied for this report used leadership skills to persuade third party participation in GPRA. The IHS gained the cooperation of tribal leaders to participate in performance reporting even when tribes were under no legal obligation to do so. MCHB achieved consensus from state maternal and child health representatives from all 50 states to report on a set of 18 core measures. CMS was able to assure Y2K compliance from its contractors, even when its ability to legally require contractors to do so was in question. The lesson learned from these examples is that agency executives used leadership and creativity to align third-party interests with agency interests to help reach agreement on broad outcomes. Additionally, agency executives in these instances have helped third parties realize that the development and achievement of performance goals can hold advantages for them, too.

Recommendation for OPM

- The U.S. Office of Personnel Management should take the lead in developing strategies to help agencies engage in an extensive effort to train and hire employees to manage all activities relating to third parties.

The federal workforce is ill-prepared to operate in the complex environment that results from managing programs and policies through third parties. There is much talk of the looming human capital crisis facing the federal government. Most of the attention of this discussion focuses on the large number of soon-to-be retiring federal managers and hiring, motivating, and training highly skilled employees to replace them. Much less attention, however, is given to the unique and specific skill mix required to manage and provide oversight to the third parties currently providing the bulk of federal services. There is much talk of the need to align employee skills with agency needs.

Unfortunately, talk of skill alignment often remains in the abstract. Even tools designed to analyze workforce skills needs (OPM, 2001a) and models to plan workforce needs (OPM, 2001b) deal mostly

with generic skills. Neither of them include, nor do they discuss, skills related to managing third parties through grants or contracts.

The Department of Defense (DoD) recognized its own shortcomings in this area more than a decade ago. DoD leaders had the foresight to establish the Defense Acquisition University (DAU) in 1990. Through 12 DoD educational institutions and contractors, DAU trains the DoD acquisition workforce to work competently in the various fields of acquisition. Many of the courses provided through DAU relate specifically to achieving accountability when programs are delivered through third parties. Courses such as Contract Auditing, Contracting Basics, Management for Contracting Supervisors, and Grants Management prepare DoD managers to operate in the complex network of agencies and third parties that epitomizes contemporary federal management.

GPRA provides a means through which agencies can aim toward policy outcomes by coordinating and overseeing the efforts of the various third parties with whom they partner to deliver public services. Many agencies do not currently have the expertise or the capacity to manage these accountability relationships. OPM should take the lead in helping agencies recognize the importance of specific expertise in achieving results through third parties. There is a little known and widely ignored section of the GPRA legislation that provides for flexibility in personnel and staffing restrictions, limitations on compensation, and restrictions on funding transfers among budget classifications. Agencies should explore the possibility of using this flexibility to hire and train employees who have skills that more closely match the contemporary federal management environment.

Recommendation for Congress

- Agencies should request and Congress should appropriate money for agencies to engage in the coordination necessary to include third parties extensively in the development of performance goals and the measures used to assess their attainment.

Of the agencies studied for this report, the MCHB provided the best example of direct cooperation with third parties in the development of performance goals and measures. To secure the states' cooperation required $5 million. The states used this money to collect and report data in the agreed-upon, uniform method. While the $5 million figure appears minimal, it represents the costs required to adequately measure performance for only one program within a single bureau. There are dozens of such bureaus (or similar entities) within the U.S. Department of Health and Human Services alone. Despite the costs associated with third-party cooperation in performance goal and measurement development, it is an essential investment.

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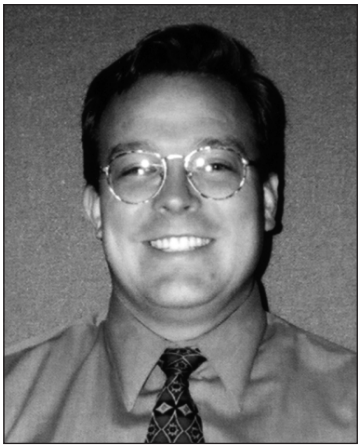

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